Institute of International Bankers

Advancing the Interests of the International Banking Community in the United States

Global Survey 2014

Regulatory and Market Developments

Banking - Securities - Insurance
Covering 28 Countries and the EU

October 2014

OVERVIEW

The Institute of International Bankers represents internationally headquartered banking/financial institutions from over 35 countries in connection with U.S. legislative, regulatory, compliance and tax issues that affect their banking, securities, insurance and other financial activities in the United States. In the aggregate, IIB members' U.S. operations have more than $5 trillion in assets, fund 25% of all commercial and industrial bank loans made in the U.S. and contribute to the depth and liquidity of U.S. financial markets. IIB members also contribute more than $50 billion each year to the economies of major cities across the country in the form of employee compensation, tax payments to local, state and federal authorities, and other operating and capital expenditures.

This 27th annual *Global Survey of Regulatory and Market Developments in Banking, Securities and Insurance* is part of the IIB's ongoing efforts to contribute to the understanding of the trends toward globalization of financial markets and convergence of regulatory systems around the world. This year's Global Survey covers developments during the period from July 1, 2013 to June 30, 2014 in 28 countries and the European Union (EU). We are very grateful to the banking associations and financial services supervisory authorities from those countries and the EU that have contributed to this year's Survey and without whose participation this publication would not be possible.

A matter selected for special attention in this year's Global Survey is the ongoing implementation of regulatory reforms by various countries to address the causes and consequences of the financial crisis. In this regard, contributors were asked to report on relevant developments relating to the following:

- regulatory/supervisory structures, including changes in the organization and/or responsibilities and powers of regulatory, central bank and other governmental authorities in the financial sector;

- imposition of enhanced capital requirements, including stress testing and contingent capital requirements;

- resolution planning/ "living will" requirements;

- other prudential or regulatory limitations on financial institutions' activities, including limitations on incentive compensation arrangements;

- regulation of over-the-counter (OTC) derivatives, including registration of derivatives dealers and the imposition of execution, clearing and reporting requirements on OTC derivatives transactions;

- risk restraints similar to the proprietary trading restrictions contained in the U.S. "Volcker Rule";

- the establishment of special resolution regimes; and

- as applicable with respect to any of the foregoing, efforts undertaken by home country authorities to consult and coordinate with their counterparts in other countries.

In describing the diversity of initiatives undertaken in these areas by countries around the world, the Global Survey provides a useful point of reference for assessing these developments and their impact on the international financial community.

As in past years, the Survey includes an updated table on permissible securities, insurance and real estate activities of banking organizations in various countries.

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PERMISSIBLE ACTIVITIES FOR BANKING ORGANIZATIONS IN VARIOUS FINANCIAL CENTERS[1]

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Argentina	Permitted	Permitted to act as broker	Limited; based on bank capital and investment	Limited	Permitted but subject to prior approval of authorities
Australia	Permitted	Permitted through subsidiaries or sister companies, subject to controls under the insurance laws	Limited	Permitted; a bank (and banking group) is required to deduct equity investments and other capital investments in non-subsidiary entities that exceed (i) 0.15% of the bank's (banking group's) capital base before deductions for an individual investment; and (ii) 5% in aggregate for all such investments.	Shareholdings of more than 15% in a bank need the approval of the Treasurer. The Treasurer has signaled a willingness to consider an association between a bank and a non-financial company where a sound case can be presented. This policy will be applied conservatively.
Austria	Permitted	Permitted through subsidiaries	Permitted	Permitted, subject to capital deduction rules relating to equity investments in non-financial entities.	Permitted, but subject to notification and prohibition under certain circumstances

[1] With respect to the activities described, the chart indicates which types of financial activities are permitted. The chart is not intended to summarize the complete range of prudential restrictions which may apply to any such activities.
[2] Securities activities include underwriting, dealing and brokering all kinds of securities and all aspects of the mutual fund business.
[3] Insurance activities include underwriting and selling insurance as principal and agent.
[4] Real estate activities include real estate investment, development and management.
[5] Including investments through holding company structures, where applicable.

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Belgium	Permitted	Permitted through subsidiaries	Generally limited to holding bank premises	Single qualifying holding may not exceed 15% of bank's own funds and such holdings on an aggregate basis may not exceed 45% of own funds	Permitted, but subject to prior approval of authorities
Bermuda	Permitted	Permitted	Permitted	Permitted, subject to regulatory consent	Permitted, subject to regulatory vetting of business
Brazil	Permitted through subsidiaries	Permitted through subsidiaries	Generally limited to holding bank premises	Limited to suppliers to the bank	Permitted

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Canada	Permitted through subsidiaries	Permitted through subsidiaries	Permitted	Permitted up to 10% interest in industrial firm	Permitted up to the following limits: a 20% voting share limit in banks with equity of C$8 billion or more; a 65% voting share limit in banks with equity of C$2 billion to C$8 billion; and a 100% voting share limit in banks with equity of up to C$2 billion.
Cayman Islands	Permitted, upon issuance of a securities business license or exemption	Permitted upon issuance of an insurance license	Permitted, subject to an exposure limit of 20% of net worth, or otherwise with approval of the Authority	Permitted, subject to an exposure limit of 20% of net worth, or otherwise with approval of the Authority	Approval of the Monetary Authority is required. The Authority may grant exemption when the shares are publicly traded on a recognized stock exchange and the Authority is notified of any change in control or the acquisition of 10% of the shares or voting rights

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Chile	Permitted	Insurance brokerage permitted	Not permitted	Permitted up to 10% of a bank's shares after which the Superintendent's prior approval is required	Not permitted
China	Not permitted	Not Permitted	Not permitted	Not permitted	Permitted; acquisitions of 5% or more require approval of the banking regulatory authority
Denmark	Permitted	Permitted through subsidiaries	Permitted up to 20% of the bank's capital	Permitted with restrictions; permanent controlling holdings in industrial companies are prohibited	Permitted, but acquisitions of 10% or more in a financial institution are subject to regulatory prior fit and proper approval by the Danish FSA.

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
European Union[1]	Not applicable; permissibility is subject to home country authorization and limited to host country regulation	Not applicable; permissibility is subject to home country and host country regulation	Not applicable; permissibility is subject to home country and host country regulation	Each 10% or more share-holding may not exceed 15% of the bank's own funds and such shareholdings on an aggregate basis may not exceed 60% of own funds	No general restrictions; does not allow investments of 10% or more if home country supervisor is not satisfied with the suitability of the shareholder
Finland	Permitted	Only selling of insurance policies as an agent is permitted	Permitted to hold real estate and shares in real estate companies up to 13% of the bank's total assets	Permitted, subject to the EU directive on qualified companies	Permitted

[1] The Second Banking Directive contains a long list of securities and commercial banking activities that EU "credit institutions" (i.e., entities engaged in deposit-taking and lending) may conduct directly or through branches throughout the EU so long as their home countries authorize the activities. Subsidiaries of credit institutions governed by the law of the same member state may also conduct activities on the list throughout the EU, subject to conditions which include 90% ownership and a guarantee of commitments by the parent credit institutions. Insurance and real estate activities are not on the list and are therefore determined by home country and host country regulations.

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
France	Permitted	Permitted; usually through subsidiaries	Permitted	Permitted, but limited to 15% of the bank's capital; in the aggregate limited to 60% of the bank's capital	Not prohibited
Germany	Permitted	Permitted, but only through insurance subsidiaries	Permitted	Permitted, but limited to 15% of the bank's capital; in the aggregate limited to 60% of the bank's capital	Permitted, subject to regulatory consent based on the suitability of the shareholder
Hong Kong	Permitted, through registration with the Securities and Futures Commission and subject to limits based on the capital of the bank	Agency permitted through registration with the Hong Kong Federation of Insurers, subject to regulatory requirements. Underwriting permitted through subsidiaries authorized by the Office of the Commissioner of Insurance.	Permitted, subject to limits based on the capital of the bank	Permitted, subject to limits based on the capital of the bank	Permitted, subject to regulatory consent based on suitability of the shareholder with a 10% or more controlling interest.
India	Underwriting permitted; trading activities through subsidiaries	Permitted through joint ventures and agency business only	Generally limited to holding bank premises	Limited to 30% of the capital funds of the bank	Permitted up to 30% of the capital and reserve of the investing company subject to approval of RBI of the transfer of 1% or more of the bank's capital

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Ireland	Permitted; usually conducted through a subsidiary	Permitted to engage in agency and certain life assurance activities through a subsidiary, which must be separate and independent	Permitted	Acquisition of more than 10% of voting rights of a firm requires Central Bank approval	Permitted, but subject to prior notification to the Central Bank for acquisition of more than 5% of total bank shares
Israel	Permitted; brokerage and investment advice by banks directly, underwriting and portfolio management activities through subsidiaries	Permitted in an advisory capacity but not in underwriting	Permitted on a limited basis	Permitted on a limited basis	Permitted, but subject to prior approval of the Bank of Israel
Italy	Permitted	Limited to 10% of own funds for each insurance company and 20% aggregate investment in insurance companies	Generally limited to holding bank premises	Permitted, up to 15% of the bank's capital, subject to approval of the Bank of Italy	Permitted, up to 5% of shares of the bank, subject to the approval of the Bank of Italy

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Japan	Some services (e.g., selling of government bonds, investment trusts and securities brokerage services) permitted to banks, others permitted through subsidiaries.	Some services (only selling insurance products) permitted to banks, others permitted through subsidiaries	Generally limited to holding bank premises	Limited to holding 5% interest	Permitted – acquisitions of shares in excess of 5% must be filed and shares equal or in excess of 20% subject to regulatory approval
Latvia	Permitted	Permitted through subsidiaries	Permitted	Permitted, but limited to 15% of bank's capital; in the aggregate limited to 60% of the bank's capital	Subject to regulatory approval for acquisitions of voting shares equal to or in excess of 10, 20, 33 and 50%

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Luxembourg	Permitted	Permitted through subsidiaries	Permitted	Permitted, but limited according to EU Directives	Permitted, but majority shareholdings are very restricted
Netherlands	Permitted	Permitted through subsidiaries	Permitted	Subject to regulatory approval for voting shares in excess of 10%	Subject to regulatory approval for voting shares in excess of 5%
Norway	Permitted; the activities need no longer be conducted in separate subsidiaries; mutual fund management permitted through dedicated subsidiaries	Permitted through subsidiaries	Permitted, only 4 % of total bank assets permitted to be invested in real estate	Investments of up to 49% in single companies permitted; only 4% of total bank assets permitted to be invested in shares	Any person who intends to acquire a "qualified holding" (10% or more) in a financial institution must notify the authorities and get prior authorization
Panama	Permitted through subsidiaries	Not permitted	Not permitted	Permitted up to 25% of the bank's capital	Permitted

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Philippines	Permitted; universal banks may engage in securities activities directly or through a subsidiary with limitations; regular commercial banks may engage in securities activities only through the investment house where they have a minority interest	Insurance companies/ insurance agency and brokerage permitted for universal banks through subsidiaries with limitations; insurance agency and brokerage permitted for regular commercial banks through subsidiaries with limitations	Permitted for universal banks through subsidiaries with limitations	Permitted for universal banks through subsidiaries with limitations	Permitted with limitations on foreign and/or corporate ownership
Poland	Permitted	Limited only to acting as agent	Permitted through subsidiaries or sister companies	Permitted subject to bank exposure limits established in the Banking Act	Permitted but subject to prior approval of the FSA
Portugal	Permitted; can manage closed ended mutual funds directly, but open ended mutual funds can only be managed through subsidiaries	Permitted through subsidiaries. Can be an agent of insurance contracts underwritten by insurance companies	Generally limited to holding bank premises. However, they can carry out real estate investment, development and management activities through subsidiaries (essentially, mutual fund management companies)	Permitted up to 15% of bank's own funds (but not to exceed 25% of the voting rights of the company) and such investments may not exceed 60% of the bank's own funds	Subject to regulatory approval for acquisitions equal to or in excess of 10, 20, 33 and 50% of capital or voting shares

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Romania	Banks allowed to engage in underwriting, dealing and brokering; with regard to mutual fund business, only carrying on the function of depositary institution is permitted	Not permitted; however investments in insurance companies are not limited, but are subject to notification to the NBR or in certain circumstances, to prior approval	Permitted only for carrying out banking activity in compliance with the Banking Law, for employees' use, and the enforced collection of claims	Permitted up to 15% of the bank's own funds; such investments in the aggregate may not exceed 60% of the bank's own funds.	Permitted, but acquisition of 10% or more requires prior notification of the National Bank of Romania and no objection from it
Singapore	Permitted	Banks can act as a distributor but not as a manufacturer of insurance products unless they are licensed to conduct insurance business under the Insurance Act administered by MAS	Investment in real estate is limited in the aggregate to 20% of bank's capital funds. Banks are generally not allowed to engage in property development or management	Major stake in company (defined essentially as a stake exceeding 10% of the share capital of/voting power in a company or any interest which gives the bank significant influence over the management of a company) requires regulatory approval. In addition, a bank may not invest more than 2% of its capital funds in any individual firm	Acquisitions of 5%, 12% and 20% or more by any single shareholder, or being an indirect controller of a bank, requires regulatory approval

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
South Africa	Generally permitted, usually conducted through separately capitalized subsidiaries (particularly in the case of mutual fund business)	Banks and associates of banks may not without prior written approval of the Registrar hold more than 49% of a registered insurer	A bank may not invest money in immovable property, taken at the book value thereof, where the aggregate amount exceeds its qualifying amount of common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds, without the written approval of the Minister of Finance	Generally permitted, but require regulatory approval in specified cases. A capital requirement equivalent to a deduction against capital and reserve funds is imposed in respect of significant minority and majority investments in commercial entities that exceed specified materiality levels (15% of capital for individual significant investments and 60% of capital for the aggregate of such investments)	Only a bank or bank controlling company may control (hold more than 50% of the nominal value of the issued shares of the bank) a bank. Permission is required from the Registrar for holdings in excess of 15% of the nominal value and from the Minister of Finance for holdings in excess of 49%
Spain	Permitted; banks themselves allowed to become members of the stock exchange; mutual funds managed through separate affiliate	Marketing permitted directly and through subsidiaries	Permitted	Permitted, subject to capital-based limits under EU Directives	Acquisitions of 5% or more require the approval of the Bank of Spain
Sweden	Permitted	Permitted	Generally limited to holding banking premises	Limited	Not prohibited, but such investments are generally not made

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Switzerland	Permitted through specific license as securities dealer	Permitted through subsidiaries	Permitted	Permitted	Not prohibited
Turkey	Permitted	Permitted to act as agent but not permitted to act as principal	Not permitted unless specifically authorized by bank's charter	Limited to 15% of bank's own funds and in the aggregate limited to 60% of bank's own funds	Not prohibited
United Kingdom	Permitted; sometimes conducted through subsidiaries (recent legislation will require large banks to conduct retail and SME deposit-taking activity in separate, ring-fenced banks, which will be subject to restrictions on securities and derivatives business and investments in other companies)	Permitted through subsidiaries	Permitted	Permitted, subject to supervisory consultations	No statutory prohibition
United States	Permitted, but underwriting and dealing in corporate securities must be done through (1) a nonbank subsidiary of a bank holding company (subject to revenue limits), (2) a nonbank subsidiary of a financial holding company (no revenue limits) or (3) a financial sub of a national bank (no revenue limits)	Insurance underwriting and sales are permissible for nonbank subsidiaries of financial holding companies. National banks and their subsidiaries are generally restricted to agency sales activities.	Generally limited to holding bank premises	Permitted to hold up to 5% of voting shares through a BHC (bank holding company), but a BHC that is designated as a financial holding company and has a securities affiliate may exercise merchant banking powers to make controlling investments, subject to certain regulatory restrictions	Permitted to make noncontrolling investments up to 25% of the voting shares, subject to restrictions to ensure noncontrol; acquisition of a 10% or greater voting interest subject to prior regulatory review

ARGENTINA

During the period under review, the Central Bank of Argentina made the following changes to financial system regulations:

Productive Investment Credit Line

The Productive Investment Credit Line that began in July 2012 was extended in 2013 and 2014. It is compulsory for financial institutions with a market share higher than 1% of domestic currency private sector deposits and institutions that act as public sector financial agents. They must lend an amount equivalent to 5% of peso-denominated private sector deposits to finance investment projects. At least half of this amount must be lent to small and medium size enterprises (SME). Since 2014, the whole quota should be assigned to SME but this requirement can be complied with partially with loans granted to non SMEs if those loans were assigned to investment projects to increase production capacity, direct employment creation, imports substitution, export capacity expansion, capital goods investment, infrastructure or capital assets exports. In these cases, the interest rate will be agreed upon by both parties without a maximum limit.

Minimum Reserve Requirements

In August 2013, minimum reserve requirements were reduced for deposits in branches located in zones with relative scarce access to financial services. Also, as SME loans share in assets increase, the average reserve requirement is reduced up to 3 percentage points. There is an additional reduction equivalent to 16% of loans granted according to the Productive Investment Credit Line directives with maturities longer than 5 years.

Furthermore, the requirement is reduced by the amount withdrawn from ATMs weighted according to their location, where those areas with relative scarce access to financial services have a higher weight.

Foreign currency reserve requirements were increased by 20 percentage points during the first semester of 2014.

Maximum Interest Rates

The Central Bank established maximum interest rates for loans to individuals including consumers loans and pledge loans granted to any person (excluding those considered as SME). The maximum interest rate is determined through a reference interest rate multiplied by a coefficient which depends on the loan and the type of institution. The published reference interest rate is linked to the 90-days maturity Central Bank Bills.

Financial Services Users Protection Regulations

Since June 2014, financial institutions must ask for permission to increase prices of basic services. For non-basic services, banks only need to inform the Central Bank 30 days before the change.

International Financial Reporting Standard (IFRS) for Institutions Regulated by the Central Bank of Argentina

Argentina, as a member of G20 and the Financial Stability Board, assumed the commitment to meet international financial information standards. Beginning in 2014, the Central Bank will issue the set of reporting rules according to IFRS. From 2014 to 2017, financial institutions will progressively adjust their financial statements. From 2018, their operations and capital variations will be accounted according to these rules.

International Fiscal Cooperation

The Argentine Republic subscribed the "Declaration on Automatic Exchange of Information in Tax Matters" as early adopter of the standard developed at the OECD and endorsed by G20 finance ministers, which commits countries to implement a new single global standard on automatic exchange of information and obliges countries to obtain all financial information from their financial institutions and exchange that information automatically with other jurisdictions on an annual basis. The Central Bank established that financial institutions should meet the "Standard for Automatic Exchange of Financial Account Information-Common Reporting Standard" document and store the required information of their customers. That information will be submitted to the Federal Administration of Public Revenue. Financial institutions should identify their clients also according to the U.S. Foreign Account Tax Compliance Act (FATCA) related directives.

New Capital Market Law

A new law that rules capital markets is in force since 2013. Basically, it improves transparency through an interconnection of different markets so agents could see bids and offers in every stock, futures and options markets.

AUSTRALIA

Introduction

Australia's position in the global economy remains strong. Australia is set to continue its two decades of uninterrupted economic growth with the economy expected to grow at 2.5 per cent in 2014-15 and 3 per cent in 2015-16.[1] Despite this growth, inflation remains subdued and is expected to be within the target band of 2-3 per cent over the medium term.[2] Unemployment is expected to rise slightly in 2014-15 to 6.25 per cent, remaining among the lowest in the developed world.[3]

The Australian Government has forecast a balanced budget in 2015-16 and surplus by 2016-17.[4]

1 http://www.budget.gov.au/2013-14/content/myefo/html/03_part_3.htm
2 http://www.imf.org/external/pubs/cat/longres.aspx?sk=40107.0
3 http://www.budget.gov.au/2013-14/content/myefo/html/03_part_3.htm
4 http://www.budget.gov.au/2013-14/content/myefo/html/03_part_3.htm

Australia's uninterrupted economic growth, healthy financial system, and strong regulatory framework have underpinned continued sound performance by the Australian banks, which have a largely domestic focus and limited exposure to exotic derivatives.

Australian banks' business models are typically lending focused with strong asset performance, as evidenced by a low 1.2% ratio of non-performing loans to total loans on domestic portfolios,[5] driving strong profit growth via declining bad and doubtful debt charges. The other key profit growth driver is a continued focus on cost containment resulting in a cost-to-income ratio for the major domestic banks of *"about 43% … [which] is currently at the bottom end of the range of the major banks' peers internationally."* [6] The net result is an annual return on equity for the major domestic banks in 2013 of 15%, which is *"well above the returns being recorded in many other advanced economy banking systems."*[7]

The last year has seen a significant growth in domestic real property prices driven by relatively low interest rates, by Australian standards, pent up demand and increasing consumer confidence as the GFC recedes. This has prompted concerns about possible declining lending standards as domestic banks seek opportunities to grow profits. As yet, this has not been evidenced in the residential loan market where *"low-doc lending continues to represent less than 1 per cent of loan approvals, while the share of loan approvals with loan-to-valuation ratios greater than or equal to 90 per cent has been fairly steady at about 13 per cent."*[8]

Financial Sector Regulation and Reforms

The regulatory structure of the Australian financial system continues to be relatively stable. In Australia the 'twin peaks' model is followed, where there is a dedicated prudential supervisor, Australian Prudential Regulatory Authority (APRA), and a dedicated supervisor for wider market integrity, Australian Securities and Investments Commission (ASIC). APRA uses the assessment and supervisory response tools known as the Probability and Impact Rating System (PAIRS) and the Supervisory Oversight and Response System (SOARS).[9] These systems ensure that supervisory interventions are targeted and timely.

Basel III Implementation

Australia continues to implement the new Basel III rules at, or ahead of, the agreed international timetable. On 1 January 2013, the Basel III capital rules were formally applied to Australian banks. Along with a small number of other jurisdictions, Australia is implementing the capital rules on an accelerated timetable. While the Basel rules allow for a staged implementation, the strength of the Australian banks' balance sheets has allowed APRA to bring forward full implementation of the higher capital requirements, by three years, to 1 January 2016.[10]

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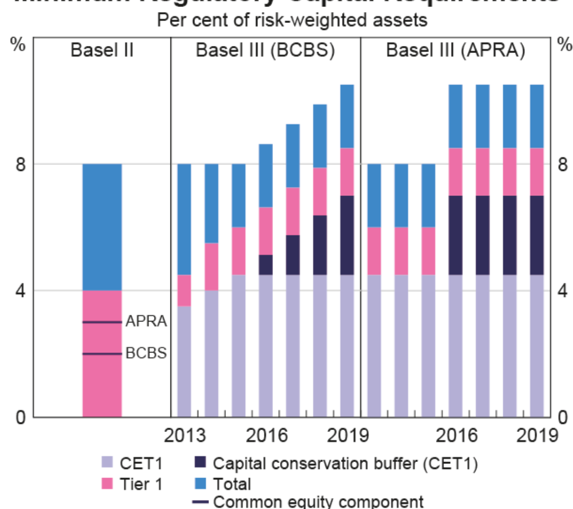
5 http://www.rba.gov.au/publications/fsr/2014/mar/html/aus-fin-sys.html
6 http://www.rba.gov.au/publications/fsr/2014/mar/html/aus-fin-sys.html
7 http://www.rba.gov.au/publications/fsr/2014/mar/html/aus-fin-sys.html
8 http://www.rba.gov.au/publications/fsr/2014/mar/html/aus-fin-sys.html
9 http://www.apra.gov.au/AboutAPRA/Pages/Supervision.aspx
10 Reserve Bank of Australia Financial Stability Report, September 2013, Box B



The main elements of APRA's implementation of the Basel III liquidity reforms were finalised in December 2013 and implemented on 1 January 2014. The 30-day Liquidity Coverage Ratio (LCR) to address an acute stress scenario and a Net Stable Funding Ratio (NSFR) come into effect on 1 January 2015 and 2018 respectively. As expected, APRA has implemented stricter rules than the Basel minimum requirements. For example, APRA has elected not to allow the expanded definition of High Quality Liquid Assets.

Other Regulatory Developments

A revised prudential framework for conglomerate groups (referred to as 'Level 3 groups' in Australia) is currently being developed. This framework will apply to "*groups that have material operations in more than one APRA-regulated industry and/or have one or more material entities operating in non-APRA-regulated industries. The proposed Level 3 framework consists of four components: requirements for group governance, risk exposures, risk management and capital adequacy.*"[11] The finalised framework is expected to be released in the second half of 2014, with implementation in 2015.

As part of the ongoing review of its regulatory standards, APRA is consulting on the review of its securitisation standard. The new standard is expected to be a simpler and more straightforward framework for ADIs to engage in securitisation. Consultation is ongoing, with a discussion paper released in April 2014. A new standard is expected to be released in 2015.

While no Australian banks have been identified as Globally Systemically Important Financial Institutions, four Australian banks have been identified as Domestic Systemically Important Financial Institutions. These four banks will be required to hold a one per cent higher loss absorbency requirement, to be met by Common Equity Tier 1 capital. The D-SIB framework will come into effect from 1 January 2016. APRA, through its PAIRS and SOARS systems, already implement a risk assessment model, which incorporates both the probability and the

[11] http://www.apra.gov.au/Speeches/Documents/Finsia%20Leadership%20Luncheon%20Series%2022%20March%202013.pdf

impact of a failure. The result of the risk assessment influences the intensity of supervision of the relevant institution.

AUSTRIA

EUROPEAN BANKING UNION

Single Supervisory Mechanism (SSM)

The Regulation on the Single Supervisory Mechanism (SSM) entered into force in early November 2013. Under this Regulation, the ECB will take over direct supervision of major credit institutions (roughly 130) and will have ultimate supervisory responsibility for all other credit institutions as of 4 November 2014. This means that, basically, the ECB is responsible for all credit institutions of the euro area (on a consolidated and sub-consolidated basis) and for branches established in a participating Member State by a credit institution established in a non-participating Member State (host authority). However, the ECB carries out its supervisory tasks within a single supervisory mechanism, the degree of decentralisation depending on whether a credit institution is deemed 'significant' (i.e. if the total value of its assets exceeds EUR 30 billion – assessment at the highest level of consolidation) or 'less significant'.

ECB Supervisory Powers for Less Significant Credit Institutions

The supervisory tasks conferred on the ECB include both the micro-prudential and the macro-prudential level. As far as this is required for the performance of its tasks under the SSM Regulation, the ECB has supervisory powers also for less significant credit institutions (requests for information, general investigations, on-site inspections). In particular, the ECB may issue guidelines or general instructions concerning less significant credit institutions and instruct the national competent authorities to exercise powers under national legislation (e.g. require additional own funds, introduce arrangements to mitigate risks of business activities, remove members of a management body).

The functioning of the SSM – especially cooperation with the national competent authorities (NCA) – is defined in a framework regulation of the ECB published for consultation in January 2014 and in force as of mid-May 2014.

Single Resolution Mechanism (SRM)

In July 2013, the European Commission proposed a Single Resolution Mechanism to complement the Single Supervisory Mechanism. Basically, it will be used to apply the material requirements of the Bank Recovery and Resolution Directive in order to ensure coherent decisions on the resolution of banks thanks to a Single Resolution Board and common rules on resolution funding, including a Single Bank Resolution Fund.

The Single Resolution Mechanism (SRM) is to ensure that if a bank subject to the SSM faces serious difficulties, its resolution can be managed efficiently.

The European Parliament and Council reached a trilogue agreement on 20 March 2014. The related Regulation is scheduled to enter into force on 1 January 2015, while the bail-in rules are expected to apply as of 1 January 2016.

The SRM is based on two texts: the SRM Regulation defining the most important aspects of the mechanism and an Intergovernmental Agreement (IGA) on specific aspects of the Single Resolution Fund (SRF).

CRD IV / CRR

The CRD (Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms) and CRR (Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms) were adopted in spring 2013. The texts were published in the Official Journal of the European Union at the end of June 2013 so that both legislations could enter into force on 1 January 2014.

In order to complete the Austrian process of CRD implementation in due time, the proposal for a revision of the Austrian Banking Act (BWG) was drafted before knowing the final version of the CRD. The legislative procedure was concluded as early as mid-July 2013. With the aim of ensuring legal certainty the Federal Ministry of Finance (BMF) explicitly repealed in this government bill any provisions that would be derogated by directly applicable CRR rules.

2013 Amendment to the Austrian Banking Act

With the finalisation of the CRD and CRR the Austrian Banking Act (BWG) and a number of other acts related to the financial market were revised. This comprehensive amendment was published in the Federal Law Gazette on 7 August 2013, while most of the new provisions of the amended BWG entered into force on 1 January 2014.

The numerous new details of the legal framework primarily concern supervisory issues and rules on the banks' internal governance, including:

Limitation of the number of mandates: the CRD imposes limits on the number of mandates which may be held by directors. They are two non-executive directorships for executive directors and four non-executive directorships for non-executive directors, with directorships within one's own group (including qualified holdings of 10% or more) counting as a single directorship and the two admissible non-executive directorships being available for external companies. Transitional rules have been introduced for existing mandates, i.e. the limitation of the number of mandates does not apply to non-executive directorships already held on 31 December 2013. Moreover, only directorships in organisations of a primarily commercial nature are caught by the rules (see also corporate governance).

Accompanying acts to company law: the amendment to the BWG introduces a non-voting financial instrument with a dividend multiple which may be counted towards CET1 subject to a number of criteria. The related rules are only provided in the BWG, as has been the case for the previous participation capital. The Federal Ministry of Justice (BMJ) denies the necessity of adjustments to the Stock Corporation Act (AktG) or to similar acts applicable to other

legal forms. During the consultation phase the Austrian Bankers' Association repeatedly stressed that the situation is less clear than one might wish. There is the danger that shareholders might object to the issue of such instruments, thus creating an unclear capital situation for the bank over a longer period of time. Since other provisions, in particular those on the future resolution regime, may have company law implications as well, the Federal Ministry of Finance has been asked to deliberate these questions in great detail.

Corporate Governance

The 2013 amendment to the BWG introduced a great number of new corporate governance rules for credit institutions applicable as of 1 January 2014. They are intended to ensure effective and prudent management, separation of functions within the organisation and prevention of conflicts of interest, and address the so-called 'management body', meaning chief executives and supervisory boards in Austria. Internal control by the supervisory board is to be improved. Therefore the tasks of the supervisory board are widened – nomination and audit committees – while its members are required to meet higher standards of qualification. The current changes to the BWG in respect of corporate governance address the following issues: limits on mandates, committees, 'fit and proper' criteria for the management body and remuneration policies.

Limits on mandates: the related rules are set forth in Article 92 of CRD IV as well as in §§ 5 (1) item 9a and 28a (5) item 5 of the BWG. To ensure that members of the management body commit sufficient time to performing their duties, limits are imposed on the number of mandates held by directors of credit institutions reporting total assets of more than EUR 1 billion or of publicly traded credit institutions, these limits being one executive directorship with two non-executive directorships, or four non-executive directorships. However, several directorships within the same group, within an IPS or for qualified holdings of 10% or more are deemed to be one directorship only (executive or non-executive). Directorships in primarily non-commercial organisations are not included in the number of mandates.

Committees: banks with total assets of EUR 1 billion or publicly traded banks are now required to establish a nomination committee (Article 88 (2) of CRD IV and §29 of the BWG) and a risk committee (Article 76 (3) of CRD IV and §39d of the BWG) in addition to the audit and remuneration committees already required under existing legislation.
The nomination committee is responsible, inter alia, for recommending candidates for management and for evaluating the structure, size, composition, performance, knowledge, skills and experience of management and supervisory board; as well as for deciding on a target for the representation of the underrepresented gender on the management and supervisory board and for developing a strategy on how to meet this target.

The duties of the risk committee include providing advice to the management board concerning the bank's risk taking and risk strategy as well as supervising the implementation of the risk strategy in the context of managing, supervising and limiting risks according to the BWG, as well as in the context of capital requirements and liquidity.

Fit and proper: CRD IV aims to ensure that members of the management body are suitable and reliable and receive appropriate induction and continuous training. Therefore they need to be of good repute and possess sufficient knowledge, skills and experience. These

requirements for members of supervisory boards originally only applied to the chairpersons of supervisory boards of credit institutions with total assets of more than EUR 750 million, whereas according to §28a (5) item 3 of the BWG (applicable as of 1 January 2014) all members of supervisory boards must now possess sufficient knowledge, skills and experience in order to have the necessary joint understanding of all of the bank's activities, including the related risks, so that they can supervise and monitor decisions of the management board. This signifies that members of the supervisory board do not necessarily need the same kind of expertise. Rather, financial expertise will (only) be required to the extent that the person concerned is able to participate in collective decision-making of the whole body.

Establishment of Whistleblower Systems

Under the 2013 amendment to the BWG all credit institutions are obliged to establish whistleblowing schemes as of 1 January 2014. They involve the implementation of procedures and mechanisms which enable employees to report under conditions of confidentiality – if required, anonymously – any non-compliance with regulatory requirements within the entity. It is up to the bank to define the unit responsible for such a system (for example within the compliance office). However, credit institutions may also outsource the whistleblowing scheme to other providers (such as telephone hotlines in law firms).

Remuneration Policies

In the year under review, numerous acts of European law on remuneration policies were adopted. They include CRD IV rules on limiting the variable components of remuneration to a maximum of 100% (under certain conditions 200%) of the fixed component of total remuneration, on supplementary rules concerning the remuneration committee as well as on disclosure requirements for the remuneration policy of credit institutions (statement on their websites). This was transposed into national law under the 2013 amendment to the Austrian Banking Act (BWG).In this context mention must also be made of the directly applicable CRR rules on the disclosure of remuneration practices.

In addition, the European supervisor EBA submitted a number of draft regulatory technical standards for consultation in 2013. They include draft regulatory technical standards on the identification of material risk takers and on classes of instruments, which were published in the Official Journal of the European Union in spring 2014, thus becoming legally binding without transposition into national law. They introduce various qualitative and quantitative criteria to identify categories of staff having a material influence on the risk profile of an institution and define classes of instruments that may be used as variable components of remuneration.

Austrian FATCA Agreement

As reported in the previous year, Austria decided as early as December 2012 to enter into negotiations with the USA on an intergovernmental FATCA agreement based on model 2. The negotiations, which had commenced in April 2013 continued over the course of the summer of 2013 to be finally concluded in autumn 2013. As the changes to the model agreements in late autumn 2013 still required a few adjustments to be made, the US authorities were not able to start verification of the German translation of the Austrian FATCA agreement before January 2014,

completing the process at the end of March 2014. The agreement was finally signed on 29 April 2014 and is expected to be ratified by the Austrian Parliament by summer 2014. The Austrian FATCA agreement now provides that Austrian financial institutions have to register with the IRS by 1 July 2014 and comply with the FFI agreement.

European Market Infrastructure Regulation – EMIR

Once EMIR had been published in the Official Journal of the European Union and entered into force in mid-2012, this did not mean initially that specific requirements applied immediately, in particular not the core provisions in respect of the counterparties in derivative transactions, i.e. the obligations for central clearing via CCPs and those for reporting to trade repositories (TRs).

In spring 2013, most of the technical standards relating to EMIR were released; without these specific technical standards, most provisions of EMIR could not have been applied at all. While three implementing standards had been published already at the end of 2012, the majority of the required technical standards entered into force with immediate effect as of 15 March 2013. This date marked the start of key deadlines, and first obligations under EMIR had to be met. As of 15 March 2013, it became possible to register TRs with ESMA so they can take up operations. There had been uncertainties regarding the coming into force of the reporting obligation under EMIR, which was contingent on the first TRs being registered, but on 7 November 2013 the first trade repositories were finally registered, which set the date for the reporting obligation under EMIR to become applicable as at 12 February 2014.

On 15 March 2013, the obligation for timely confirmation of non-centrally cleared OTC derivatives concluded between counterparties subject to mandatory central clearing as well as the obligation for daily marking-to-market of outstanding non-centrally cleared OTC derivatives became applicable.

Other obligations, such as portfolio reconciliation, portfolio compression and the introduction of dispute resolution mechanisms took effect six months after the entry into force of the technical standards, on 15 September 2013. This is why the Austrian credit sector commissioned the preparation of an 'EMIR Schedule' to the Austrian Master Agreement on Financial Derivatives Transactions, which would permit agreeing on such measures in a document amending the Master Agreement on Financial Derivatives Transactions. In this context, it is important to draw attention to new expert opinions on contractual netting which may become relevant in particular with regard to the CRR provisions on capital requirements for derivatives. Other key issues where CRR and EMIR overlap include the treatment of exposures to CCPs with respect to capital requirements, and the question of when to apply the large exposure regime under the CRR.

Under EMIR, clearing services may be provided only if the CCP in question has been approved by the national competent authorities. The deadline for registration of CCPs that had already provided clearing services in the past expired on 15 September 2013. The actual entry into force of the clearing obligation is contingent on CCP registration and the relevant analyses conducted by ESMA in this context. Depending on the classes of derivatives registered for central clearing, ESMA will have to decide whether or not to introduce a clearing obligation. Then, ESMA has to issue specific technical standards including detailed specifications for each class of

derivative subject to this obligation.

Revision of the Stock Corporation Act (AktG)

The Act Amending Company Law (GesRÄG) 2011 aimed to take into account the criticism of Austrian legal provisions on bearer shares voiced by the Financial Action Task Force (FATF), an inter-governmental body established for the purpose of combating money laundering and terrorist financing. In an effort to prevent non-transparent holding constructs, this type of share has now been barred for all companies except listed stock corporations. If used at all, it may only take the form of a global certificate. All other types of companies may only issue registered shares. As for the changeover to registered shares, which had thus become necessary for numerous stock corporations, the legislator elected to give companies sufficient time to voluntarily switch share types (by amending their articles of association and exchanging or invalidating previously issued share certificates).

After the end of the transitional period, i.e. as of the start of 2014, companies having kept their bearer shares were then subjected to an automatic changeover, with inadmissible bearer shares now being deemed registered shares.

However, an evaluation of the new legal situation carried out by OECD sub-organisations (Global Forum on Transparency and Exchange of Information for Tax Purposes) revealed that the system of voluntary changeover and, failing that, automatically enforced changeover was deemed inadequate. Criticism was directed, inter alia, at the lack of direct sanctions for companies that had not opted for voluntary changeover. The argument that automatic changeover was more effective than sanctions, which had only an indirect impact on achieving changeover, was rejected.

In order to remedy this problem, an amendment to the Stock Corporation Act (AktG) was submitted for consultation in March 2014, which included sanctions to be imposed on corporate bodies and on shareholders if they do not comply with their obligations to act and to cooperate respectively. The sanction to be imposed on a management board failing to comply with its statutory obligation to duly keep a share register pursuant to §61(1) of the AktG is a fine as set out in §258(1) of the AktG. The proposed consequences for shareholders who are in default in exchanging their shares is to invalidate the certificates of their bearer shares by virtue of the law and to waive their right to claim a dividend unless they have their registered shares entered in the share register in time. Claims for dividends arising from registered shares for which no shareholder has been entered in the share register are to be forfeited upon the end of the fiscal year in which the relevant resolution on distribution of profits was taken. This amendment to the AktG is to come into force as of 1 October 2014.

SEPA

SEPA stands for Single Euro Payments Area and aims for the use of identical procedures and standards in Euro payment transactions. At present, 33 European countries participate in the SEPA initiative. The SEPA Regulation introduced the account and bank identifiers IBAN (International Bank Account Number) and BIC (Business Identifier Code, SWIFT code).

For reasons of efficiency it does not make sense to use national and SEPA procedures in

parallel. The goal of SEPA is thus to completely replace the national payment procedures used so far. To make this possible, the EU adopted a Regulation in March 2012 which defined what is called the 'SEPA migration end-date'. Pursuant to this Regulation, the euro area countries should have replaced all national procedures for credit transfers and direct debits with the new SEPA procedures by 1 February 2014. At the end of January 2014, the European Commission announced that the deadline set out in Regulation 216/2012 for accepting non-SEPA-conforming payments (1 February 2014) is to be extended until 1 August 2014.

Along with the euro system, OeNB (Austrian Central Bank) underlined that all stakeholders – companies, public administrations and banks – had put in a lot of effort prior to 1 February 2014 to migrate the national payment systems for credit transfers and direct debits in time to conform to the SEPA standards, thus making the original deadline for timely migration to SEPA a viable option for payment transactions in Austria. The extension of the transitional period by a further six months as proposed by the Commission will above all give latecomers more time to do so.

CANADA

Executive Summary

The banking system in Canada is exclusively under federal jurisdiction and was one of the most successful in dealing with the recent global financial crisis. In "*The Global Competitiveness Report 2013 - 2014*", the World Economic Forum again ranked Canada's banking system as the soundest in the world for the sixth consecutive year. Canada's banks are capitalized significantly above the standards set by the Bank of International Settlements and regulated by a number of federal agencies. Prudential regulation is done by the Office of the Superintendent of Financial Institutions (OSFI), while market conduct is regulated by the Financial Consumer Agency of Canada (FCAC). Deposit insurance is provided by the Canada Deposit Insurance Corporation (CDIC).

The Bank of Canada and OSFI are active members of the Basel Committee on Banking Supervision (i.e. Basel Committee). To be consistent with the international G20 initiatives, Canadian regulators have been active in taking steps to adopt standards set at the global level.

Federal financial services legislation, including the *Bank Act* which governs the activities of banks in Canada, is reviewed every five years, and the most recent review was in 2012. The next review will be due by 2017. The 2012 revisions to the Bank Act were mainly technical, with no substantive amendments (partly since the federal government had enacted a number of new measures in the last few years, especially with respect to consumer-related products and services).

In May 2010, the Federal Government initiated a reference to the Supreme Court of Canada (SCC). A single question was asked: does the Federal Government of Canada have legislative authority to enact the proposed *Canadian Securities Act* (the "Act"). The Act would have created a single national securities regulator ultimately overseeing a unified national securities regulation system for Canada (currently, securities activities are regulated by the provinces). In its December, 2011 decision, the SCC stated that the proposed Act, "as presently

drafted", was unconstitutional. In particular, the SCC, while accepting that the aspects of the Act concerning the management of systemic risk and national data collection are beyond provincial competence and appear to be related to the general trade and commerce power, found that the proposed Act, for the most part, dealt with matters that are under provincial jurisdiction. The SCC concluded, therefore, that the constitutionally valid aspects of the Act with respect to systemic risks were insufficient to allow the Act as a whole to pass constitutional muster. However, the federal government has continued to work with some of the provinces, notably Ontario and British Columbia, to develop a cooperative capital markets regulator to address some aspects of the regulation of securities, especially "systemic risk" issues.

Federal Financial Legislation and Regulations

2012 Bank Act

The latest changes to federal financial legislation, including the *Bank Act*, were passed in 2012. The next revision of federal financial institutions legislation is due in 2017. The changes to the *Bank Act* were mainly technical and included measures to:

- Update financial institutions legislation to promote financial stability and ensure Canada's financial institutions continue to operate in a competitive, efficient and stable environment;
- Fine-tune the consumer protection framework, including enhancing the supervisory powers of the Financial Consumer Agency of Canada;
- Improve efficiency by reducing the administrative burden on financial institutions and adding regulatory flexibility;
- Allow the creation of "federal credit unions"; and
- Increase the limit for the "widely-held" rule from C$8 billion to C$12 billion so that banks can now have as much as $12 billion in equity and still have a controlling shareholder.

2014 Federal Budget Measures

The February 11, 2014 federal budget contained few regulatory measures that were significant for the banking industry. However, it did contain a commitment to amend the Bank Act to give the federal government explicit regulation-making authority for OTC Derivatives. It also stated that there is a need to develop a comprehensive risk-based approach to the oversight of the Canadian payments system, citing the necessity to provide adequate consumer protection for the evolving system, including new unregulated entrants.

It was also announced that the federal government intended to pursue a number of initiatives to improve consumer protection. For example, the government has committed to requiring enhanced disclosure for collateral charge mortgages "to better equip consumers to understand the costs and consequences of a collateral charge mortgage relative to traditional mortgages". The government also intends to require enhanced disclosure by banks on the costs and benefits of Powers of Attorney and more robust bank processes and staff training.

AML Measures

Amendments to the Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations were published in the Canada Gazette Part II on February 13, 2013, and came into force on February 1, 2014. The main changes introduced by the Amended Regulations are the following:

- The definition of "business relationship" has been amended by clarifying the particular activities and transactions that are exempt from or included in the definition of "business relationship," in particular:
- Accounts opened by mutual fund dealers are exempt from the definition of "business relationship" where there are reasonable grounds to believe that the identity of the account holder has previously been ascertained by a securities dealer; and
- Existing accounts are subject to the definition of "business relationship."
- The definition of "ongoing monitoring" has been amended to clarify that information pertaining to the purpose and nature of a business relationship must also be kept up to date, in accordance with the risk-based approach.
- New provisions have been added, to provide that financial entities are exempt from beneficial ownership and ongoing monitoring obligations in respect of members of designated group plan accounts held within dividend reinvestment plans and distribution reinvestment plans. This amendment was made in order to minimize the application of the PCMLTFR to accounts that are at lower risk of AML/ATF.

Basel III in Canada

On February 1, 2011, OSFI issued its action plan for implementation of the Basel III Capital Adequacy and Liquidity Requirements in Canada, and subsequently issued the Capital Adequacy Requirements (CAR) Guideline in December 2012, which required Canadian banks to meet the Basel III capital requirements early in the transition period (i.e. January 1, 2013). Most recently, OSFI issued an amended version of the CAR Guideline in April 2014 that incorporates a number of clarifications to facilitate the interpretation of guidance. In addition, OSFI expects to issue a liquidity risk framework to include both qualitative and quantitative liquidity risk requirements.

Finance Canada Payments Advisory Committee (FinPay)

In June 2010, the federal government formed an independent Task Force to review the payments system and make recommendations where appropriate on reform. With the release of the Task Force's Final report in March 2012, the government acknowledged the importance of continued dialogue on payments system issues by establishing a consultative committee made up of senior-level public and private sector stakeholders. The Finance Canada Payments Advisory Committee (FInPay) continues to meet regularly and serves as a discussion forum that helps advise the government on policy issues such as competition, innovation, safety, user needs and consumer protection. The banking industry has two seats: one that is represented by the President of the CBA and one that is assigned to a member bank. FinPay is in discussion with the government on a number of important payments files. This includes a review of how the payments system in Canada is governed, and implementing enhancements to a Code of Conduct that applies to the

Credit and Debit Card Industry to ensure it dovetails with mobile payments and to promote transparency for merchants regarding the cost of accepting credit cards.

Summary of Financial Crisis Regulatory Actions

Imposition of Enhanced Capital and Other Requirements

As part of sound capital management and in response to the continuing uncertainty caused by regulatory reform, Canadian banks must be able to demonstrate to OSFI (both continually and prior to any transaction that may negatively impact their capital levels) that they have prudent internal capital targets and that they would have sufficient capital to meet their internal capital targets at all times. Canadian banks implemented the Basel III regulatory capital requirements on an "all-in" basis as of January 1, 2013, which is early in the Basel Committee's transition period.

The six Canadian domestic systemically important banks (i.e. D-SIBs, Royal Bank of Canada, TD Bank Financial Group, The Bank of Nova Scotia, Bank of Montreal, CIBC, and National Bank of Canada) will be subject to enhanced capital requirements (1% common equity Tier 1 or CET 1) starting in 2016. They are also subject to more intensive supervision and are required to comply with the Basel Committee's risk data aggregation and risk reporting principles, as well as the Enhanced Disclosure Task Force's (EDTF) disclosure recommendations.

Non-Viability Contingent Capital (NVCC)

As of January 1, 2013, OSFI required Canadian capital instruments (other than common shares) to contain a contractual feature providing for automatic conversion to common shares upon the occurrence of a 'trigger event'. Some Canadian banks have now issued NVCC preferred shares.

Potential Bail-in Debt Framework

A consultation document on "bail-in" that will require debt instruments to convert into capital upon the occurrence of a 'trigger event' is expected shortly in Canada.

Recovery and Resolution Plans (RRPs)

The Canadian D-SIBs have for several years now been developing RRPs in conjunction with OSFI and the CDIC. The recovery plan process is being led by OSFI, while the resolution plan process is being led by CDIC. Work on these RRPs continues into 2014 as OSFI, CDIC, and the Canadian D-SIBs continue to address challenges related to large bank resolution. There has been increased attention on whether Canadian D-SIBs should adopt the bank holding company structure to better facilitate a potential resolution.

Disclosure Requirements

In August 2013, the Enhanced Disclosure Task Force (EDTF) published a second report with the results of a self-assessed survey by internationally active banks on EDTF implementation. The report also included findings from a review of a subset of EDTF disclosures by a group of

investor and analyst members of the EDTF. The report noted that the rapid uptake of the EDTF recommendations in the UK and Canada was due partially to expectations set by the local regulators.

In April 2014, OSFI revised its Advisory *Public Capital Disclosure Requirements related to Basel III* for disclosures beginning in Q3 2014. This was done to provide guidance on the disclosure modification required as a result of the Credit Valuation Adjustment (CVA) phase in, and to provide minor clarification edits to address queries received since the initial issuance of the Advisory.

Following the January 2015 in-force date, Canadian banks will begin public quarterly disclosures of the leverage ratio as of January 31, 2015, and the LCR as of April 30, 2015.

Leverage Ratio

Following the release of the Basel III final leverage ratio rules, OSFI indicated that the leverage ratio will replace their existing Asset-to-Capital Multiple (ACM). OSFI is preparing a guideline to help institutions transition from one measure to the other. Under the new guideline, federally regulated deposit-taking institutions will be expected to operate with leverage ratios that have a reasonable margin above the international minimum once it is finalized (currently set at 3%) and their individual targets communicated bilaterally.

Liquidity Risk Framework

Following the Basel Committee's release of the final LCR rules and disclosure requirements, and draft updated NSFR rules, OSFI has issued a draft new domestic liquidity framework (including policy, regulatory reporting and disclosure requirements), which includes the Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR, which is subject to change), and the domestic Net Cumulative Cash Flow (NCCF) measure. The domestic version of the LCR and NSFR rules largely follow the Basel final rules text, but clarify any areas of national discretion. While OSFI has positioned the NCCF rules to capture the maturity spectrum between the LCR and NSFR (i.e. between the 30-day LCR and 1-year NSFR), it assumes a business-as-usual, non-stressed scenario. The NCCF and the LCR will both come into force in 2015 and the NSFR in 2018. The OSFI guidance on these quantitative measures will be complimentary to the 2012 *Liquidity B6 Guideline*, which is focused on qualitative liquidity principles.

Regulation of Over-the-Counter (OTC) Derivatives

As noted above, the 2014 Federal Budget announced a proposed amendment to the *Bank Act* to create an explicit regulation-making authority for banks regarding over-the-counter derivatives. In addition, the Budget expressly notes that Canada's major banks are subject to prudential supervision by OSFI on their over-the-counter derivatives transactions. The Budget notes that this proposal will facilitate the eventual integration and consolidation of over-the-counter derivatives regulation with the Cooperative Capital Markets Regulator when the latter is in place, and will make it easier for foreign regulators to recognize the Canadian regulatory framework for OTC derivatives as being equivalent to their own frameworks.

Canada Mortgage and Housing Corporation (CMHC)

During the last year, the federal government announced further measures to address Canada's housing finance system. With respect to government-sponsored mortgage insurance, it increased CMHC premium rates and discontinued mortgage insurance coverage on second homes and for self-employed borrowers without third party validation income.

The government also announced that CMHC will be subject to a risk fee payable to the Government of Canada of 3.25% of premiums written in addition to a fee of 10 basis points on new portfolio insurance written. Furthermore, the annual limit on portfolio insurance was reduced to $9 billion.

With respect to securitization, the government imposed limits on the amount of new issuances of NHA MBS and CMB to a combined total of $120 billion. The CMHC introduced a new allocation methodology for market NHA MBS issuance in order to ensure both large and small lenders have access to mortgage funding.

Lastly, several covered bond programs were registered for the first time under CMHC's newly implemented legal framework.

Home Country Authority Coordination with Other Jurisdictions

The global regulatory agenda is changing rapidly. A clear understanding of developments ensures that appropriate actions are undertaken by OSFI to maintain an effective Canadian regulatory framework that continues to be responsive to international reforms. OSFI continues to participate actively in international and domestic discussions to identify and respond to key issues arising from global financial events and adopt new proposals that strengthen Canada's financial system. It will pay particular attention to the implementation of banking and pension-related reforms as well as the effects from changing international accounting and auditing standards. It will actively monitor and participate in attempts by the International Accounting Standards Board to achieve convergence with the Financial Accounting Standards Board. Given the lack of convergence for the financial instruments standard in particular, OSFI will assess and recommend any actions that need to be taken with respect to OSFI's prudential standards. It will ensure that major federally regulated financial institutions (FRFIs) continue to be among the leaders in publicly disclosing information on their financial condition and risk management practices.

OSFI will implement the suite of domestic reforms set out in the Life Insurance Regulatory Framework publication, as well as proposed changes to capital requirements for property and casualty insurers. It will actively participate in the development of capital standards for global insurers. In addition, OSFI will monitor the implementation of prudential insurance reforms in other jurisdictions and consider appropriate Canadian responses. It will develop a separate capital guideline and update the methodology for determining additional capital requirements for private sector mortgage insurance companies.

In 2013 and early 2014, OSFI participated in a detailed assessment under the International Monetary Fund's (IMF) Financial Sector Assessment Program for Canada, as well as peer review

conducted by the Basel Committee on the implementation of Basel III capital standards. OSFI expects to monitor and advocate for comparable and timely implementation of Basel III rules in peer jurisdictions. It is an active participant in the Basel Committee and its Basel III subcommittees. OSFI also participates in supervisory colleges, and has ongoing bilateral discussions with its counterparts in other countries. OSFI will monitor the banking reforms in other jurisdictions, especially the extent to which they exceed agreed minima, and consider appropriate responses for Canada. It will also monitor bank responses to global regulatory reforms and adjust, as appropriate, supervisory or regulatory requirements.

The Bank of Canada has helped advance reforms in a number of areas in Canada, including over-the-counter (OTC) derivatives and central counterparty clearing facilities. This work was done in key international forums, including the FSB, the Committee on the Global Financial System, the Basel Committee, and the Committee on Payment and Settlement Systems. Domestically, new tools developed and implemented for monitoring systemic risk included an early-warning model for assessing financial sector vulnerabilities, a projection model for household credit, and a policy model to analyze the interaction between monetary and system-wide financial policies.

As the resolution authority for its member institutions within Canada, the Canada Deposit Insurance Corporation (CDIC) is putting in place a robust large bank resolution framework and is developing resolution plans for the Canadian D-SIBs.

CHILE

AML National Strategy

An AML/CFT National Strategy has been launched. In a novel effort, twenty public institutions have agreed on a plan to protect Chile, its economy and its citizens from the damages both crimes trigger on social, financial and reputational stability. This is an executive, technical answer to the national challenges in AML/CFT, within three years.

From this perspective, this National Strategy integrates, organizes and coordinates the efforts in prevention, detection and penal prosecution of each related institution within its own area, and it takes into account the approaches from the private sector for a more effective effort to combat organized crime.

Maximum Interest Rate

After more than two years of legislative process, on December 13, 2013, a law was published approving a new formula to established a maximum interest rate (Tasa Máxima Convencional or TMC) for credit operations.

The reduction will be gradual, but considerable in magnitude, since it considers the reduction within the publication of the law from the maximum rate of 54% to 48% for loans that are placed in the range UF 0 to 50 and to 46% for those in the range UF 50 to 200, respectively.

The TMC will subsequently decrease 200bps each quarter, until the rate determined reaches the ceiling established by law: the average of the respective credit cluster plus 21 percentage points. At the end of this process, it is estimate that should be around 37%.

Regulations on Corporate Governance

The Superintendency of Banks has taken into account that excellent corporate governance is a necessary condition for banks' proper management and has decided to include this in the evaluation of financial institutions.

Tax Reform Bill

Chile's Government has submitted a significant tax reform bill to the Congress. The bill's primary aim is to increase tax revenues in order to finance public education. The bill also intends to simplify the tax regime and correct perceived deficiencies in the existing tax rules. There has been an enormous discussion on technical aspects of the proposal.

Liquidity Standards

On May 9th, 2014 the Central Bank of Chile put into public consultation, for 120 days, a new liquidity regulation for Chilean banks.

The main objectives pursued are: (i) strengthen the management policies of liquidity risk in banking, in line with international best practices, (ii) incorporate quantitative measures such as Basel III monitoring tools, and (iii) increasing the quantity and quality of information available to the supervisor and the market.

Regulation on Housing Loan Provisions

The Superintendency of Banks put into public consultation a stricter credit risk provision regulation for "Internal Models", defining minimum standards.

The new regulation for the Standard Models has the following objectives:
credit risk provisions based in the expected loss distribution; credit risk management procedures to differentiate borrower's depend on its inherent risk or its residual risk guarantees; credit risk's provisions integrated with the end-to-end loan granting process; and use of standard model when "internal models" possess deficiencies.

It is expected that some banks will migrate to the "Standard Model", at least in the short-medium run. This may create an increase in provisions.

ComDer

During 2014 Chile will count with a new clearinghouse, ComDer. Its purpose is to manage clearing and settlement of financial instruments as a Central Counterparty and Clearing House for OTC Derivatives Markets

CHINA

Significant Developments in the Banking Industry

- In 2013, the People's Bank of China (PBOC), China's central bank, issued new anti-money laundering rules that require financial institutions to rate clients' risks based on their location and the nature of their business, including their levels of transparency. The financial institutions in China are required to submit new anti-money laundering solutions before the year end, which should be fully operational by 2016.

- In December 2013, the Ministry of Commerce (MOC) announced that it will further loosen control on cross-border *yuan* direct investment. Under the new MOC regulation that took effect on January 1, 2014, approval procedures for *yuan*-denominated direct investment from overseas investors will be further simplified. Overseas investors also include those from Hong Kong, Macao, and Taiwan.

- In December 2013, the PBOC published a guideline on deposit certificates in the interbank market, another step towards fully floating interest rates. Financial institutions are required to report their annual plans for the issuance of deposit certificates to the PBOC before entering the market, with one-time minimum volume at 50 million *yuan* (8.2 million U.S. dollars). The issuance will be priced in reference to the Shanghai Interbank Offered Rates (Shibor), with the maturities of fixed-rate certificates ranging from one month to a year while that of floating-rate certificates at one year to three years, according to the PBOC's statement.

- In February 19, 2014, the China Banking Regulatory Commission (CBRC) announced new measures on liquidity risk in commercial banks, targeting 100% Liquidity Coverage Ratio (LCR) by the end of 2018. The CBRC urged commercial banks to identify measure, monitor and control liquidity risk in all business, and to assure 60% LCR by the end of 2014.

- In February 2014, the PBOC announced that China will continue to expand the cross-border use of the *yuan*. China will gradually upgrade the *yuan* formation mechanism and expand the exchange rate's floating range in an orderly way, according to the PBOC.

- In March 27, 2014, the PBOC announced it had issued a guideline to step up a credit system for small companies and farmers. The credit system is an important part of China's social credit system.

- In March 2014, a Shanghai bureau of the State Administration of Foreign Exchange (SAFE) issued a statement stating that more e-commerce companies will be allowed to offer cross-border payment services in Shanghai's pilot free trade zone (FTZ). The local SAFE will also support banks in the FTZ to offer *yuan* and foreign currency wealth-management services and allow more eligible companies to participate in a centralized operation and management of foreign exchange capital.

- In April 2014, the CBRC released a guideline to instruct trust companies to strengthen risk management in product design, risk control and information disclosure. The guideline also ruled out non-standardized investment business related to shadow banking, such as cash pooling.

- On May 16, 2014, the PBOC, the CBRC, the China Securities Regulatory Commission (CSRC), the China Insurance Regulatory Commission (CIRC), and the SAFE jointly issued rules to enhance and improve regulation of interbank business. The 18 rules cover lending, deposits, payments and other financing transactions between banks and other financial institutions. Under the new rules, there would be stricter accounting standards and risk control measures for interbank businesses.

Significant Developments in the Securities Industry

- In November 2013, the China Securities Regulatory Commission (CSRC) unveiled a reform plan for the initial public offering (IPO) system. It is a major step towards a market-oriented IPO registration system.

- In January 2014, the CSRC announced new measures to tighten the supervision of IPO process. According to the announcement, CSRC will launch spot checks on the enquiry and IPO road shows of new shares. The issuers and major underwriters that apply undisclosed information during the road shows will be subject to the suspension of their share issuance and to supervision measures, even punishment if illegal deeds are found.

  Issuers and major underwriters must publish timely investment risk reports, at least once a week, during the three weeks before online subscription, if the price-earnings ratio (PE ratio) of proposed offering price, or the price ceiling, exceeds the average PE ratio of the peer listed companies in the secondary market, according the CSRC.

Significant Developments in the Insurance Industry

- In August 2013, a new version of China's management code took effect, which is to manage overseas-invested insurers operating in China. Joint-venture insurers and overseas solely-owned insurers must have a minimum registered capital of 200 million *yuan* (32.47 million U.S. dollars) or freely convertible currencies of equivalent value.

- The insurance sector in China had accumulated 8.05 trillion *yuan* (1.31 trillion U.S. dollars) in gross assets by the end of September 2013, according to the CIRC. China is the fourth-largest insurance market in the world.

- In February 2014, the China Insurance Regulatory Commission (CIRC) raised the ceiling for insurance firms to invest in property and listed companies. Insurers can now invest up to 30% of their total assets into properties, up from 20% previously. The move is part of liberal investment measures the regulator has taken since last year to boost insurers' profits amid showing market demand and low investment returns.

Denmark

Danish Banks

The number of banks in Denmark is decreasing. In May 2014, the Danish banking sector comprised a total of 86 banking institutions. The decrease is due to the fact that several banks have merged and a smaller number have become distressed and taken over by the winding up company, Financial Stability A/S. Since May last year 8 Danish banks have closed by mergers between banks.

The downward trend in the number of banks is expected to continue due to new regulation, efficiency gains etc. and the incentives for sound banks to take over the activities of distressed banks are greater.

Earnings in the Danish banks increased in 2013, although it is still low compared to historical figures. The Danish banks had a total equity of DKK 282.9 billion, which generated a profit after tax of DKK 13.4 billion. This corresponds to a return on equity of 4.7 per cent.

The increase of the profit is mainly driven by lower losses on loans. Also, the total costs have been cut through the last couple of years and that have been contributing to the increased return on equity.

In spite of the low results in 2013 the Danish banks are looking robust and overall the liquidity situation is good.

Banks all across the sector have narrowed their customer funding gap since 2008 or even turned it into a surplus. This has been driven both by lower loans and higher deposits. The gap has decreased significantly from a deficit of 38 billion by the end of 2012 to a surplus of 61 billion at the end of 2013. Adjusted for repo transactions – thereby disregarding deposits and loans, which are secured by a high degree of collateral – there was a deposit surplus of 231 billion by the end of 2013.

The level of lending from Danish banks to households has begun to stagnate during the last couple of years. The lending to Danish corporations is still at a very low level, and seems to be very influenced by the fact that the demand for credit still is not back on its normal level.

However, the level of lending from both banks and mortgage credit institutions as a ratio of GDP is the same as it was in 2007, when the economy was still booming. Furthermore, the Danish government estimates that the level of lending as a rate of GDP currently is still above the trend based on the past 30 years.

As a result of the expansive monetary policy led by the ECB, the rates on the government bonds in Denmark have been kept on a very low level by the Danish central bank. Since the policy rate has been kept on such a low level it has also been possible for the Danish banks to keep their lending rates low.

Thus the lending rates to large corporations have been kept equivalently low while the lending rates to small- and medium sized corporations have been on a slightly higher level, reflecting differences in e.g. credit risks and size of the engagement.

Capital Requirements

As of 31 March 2014 an amendment of the Danish Financial Business Act came into force that transposed Directive 2013/36/EU of respectively the European Parliament and the Council of 26 June 2013 (CRD IV) into Danish law and facilitated the application of Regulation (EU) No 575/2013 of respectively the European Parliament and the Council of 26 June 2013 (CRR) by Danish credit institutions and investment firms.

Systemically Important Financial Institutions – SIFIs

The amended Financial Business Act also contains new provisions regulating Danish SIFIs as well as the CRD IV provisions on Global SIFIs (GSIIs), though no Danish institutions presently qualify as a Global SIFI. Pursuant to act, the Danish FSA shall identify an institution or group as a SIFI if the institution or group in two successive years has exceeded one or more of the following limits:

- The institution's (group's) total assets amount to or exceed 6.5 percent of the Danish GDP
- The institution's (group's) loans amount to or exceed 5 percent of total loans by Danish credit institutions
- The institution's (group's) deposits amount to or exceed 5 percent of total deposits in Danish credit institutions

On the basis of the average of these metrics the Danish FSA shall calculate a quantitative measure of how systemic a SIFI is and place the SIFI in one of five categories of systemic importance. Danish SIFIs shall be identified according to this process on a yearly basis, the first time by 30 June 2014. The following Danish banks and mortgage banks are expected to be identified as SIFIs: Danske Bank, Nykredit, Nordea Bank Denmark, Jyske Bank (including BFR after merger), Sydbank and DLR.

The SIFI capital requirements will be set as a Common Equity Tier 1 capital buffer in accordance with the provisions on the Systemic Risk Buffer in CRD IV, ranging from 1.0 percent to 3.0 percent of risk weighted assets with 0.5 intervals. The SIFI capital requirements will be phased in according to the table below.

Danish SIFI buffer requirements

Year/Systemic importance	2015	2016	2017	2018	2019
Category 1	0.2	0.4	0.6	0.8	1.0
Category 2	0.3	0.6	0.9	1.2	1.5
Category 3	0.4	0.8	1.2	1.6	2.0
Category 4	0.5	1.0	1.5	2.0	2.5
Category 5	0.6	1.2	1.8	2.4	3.0

Following a political agreement the fully phased in SIFI buffer requirements shall be reviewed by 2017, at the latest. Should the Danish SIFI capital requirements be out of line with the SIFI capital requirements in comparable European member states (Sweden, Norway, UK, Germany; France, Holland, Austria and Switzerland) the Danish SIFI capital requirement will be adjusted accordingly.

The Capital Conservation Buffer and the Countercyclical Buffer

Following the amended Financial Business Act the capital conservation buffer and the countercyclical buffer of the CRD IV will be phased in gradually. In 2016 the capital conservation buffer is set at 0.625 percent of risk weighted assets, in 2017 at 1.25 percent, in 2018 at 1.865 percent and from 2019 and onwards at 2.5 percent. The possibility of setting an additional countercyclical buffer in Denmark is introduced from 2015. It can be set up to 0.5 percent in 2015, up to 1.0 percent in 2016, up to 1.5 percent in 2017, up to 2.0 percent in 2018 and up to 2.5 percent in 2019.

The amended Financial Business Act sets no upper limit for the countercyclical buffer after 2019.

The Liquidity Coverage Requirement (LCR)

Following the amended Financial Business Act and a political agreement the Danish SIFIs will have to fulfill the full LCR measurement by the first of January 2015 given that Danish covered bonds are recognized as level 1 assets. If Danish covered bonds are not recognized as level 1 assets the LCR measurement for Danish SIFIs will be gradually phased in according to the minimum requirements in CRR.

Remuneration

The CRD IV and CRR contain provisions regarding remuneration which have been implemented in the Danish legislation with effect from 31 March 2014. Furthermore, the Danish Parliament has adopted legislation that prohibits staff employed by securities dealers from receiving variable remuneration which is dependent on reaching sales targets relating to non-professional clients or approved counterparties. The prohibition covers all sales staff and client advisors provided that they have direct contact with clients. The prohibition entered into force on 15 May 2014 and is an implementation of a recommendation from The Committee on the causes of the financial crisis that issued its report in September 2013.

Structural Reforms of the Banking Sector

The European Commission published a proposal for a regulation on structural measures improving the resilience of EU credit institutions on 29 January 2014. Amongst other things the proposal contains a prohibition on proprietary trading and provisions regarding separation of certain trading activities. In its current form three banks in Denmark are likely to fall within the scope of the proposal.

Contrary to some other European countries there is no national legislation on the way regarding structural reforms.

New Danish Financial Supervisory Authority Board

The Financial Council of the Danish Financial Supervisory Authority will be replaced by a new Board from the first of July 2014. The Board will take over the Financial Council tasks and will in addition to that grant technical, organisational and managerial sparring to the FSA management. Furthermore, the Supervisory Board will be monitoring the FSA organisation, determine the strategic objectives of supervisory activities and approve the annual report of the FSA.

The board shall also approve the FSA's issue of regulations and guidelines in the areas where the FSA is authorized to issue them. This also applies where the FSA is authorized to impose additional or more detailed rules in
according to CRR/CRD IV etc.

EUROPEAN UNION

Banking Supervision and Regulation

Structural Reform of the Banking Sector

On 29 January 2014, the European Commission published a proposal for a Regulation on structural measures to improve the resilience of EU credit institutions. The proposal builds on the 2012 recommendations of the Liikanen High-level Expert Group and mixes various features of existing bank separation laws, notably in the UK with the Vickers report calling for a ring-fence of banks' retail activities, and in the USA with the Volcker Rule proposing a ban for commercial banks to engage in proprietary trading. It includes a ban on proprietary trading by European banks of global systemic importance or those exceeding specified thresholds.

At the occasion of the ECOFIN meeting of 2 April, several Member States expressed their concerns regarding the proprietary trading ban proposal included in the structural reform's proposal. Most countries support the proposal's objective but there are clearly some dissensions between them. Main concerns relate to the scope of banks involved, the type of legislative instrument (Regulation or Directive) and potential derogations.

Capital Requirements

The Capital Requirements IV package entered into force on 28 June 2013 (Regulation) and 17 July 2013 (Directive). The package provided for the adoption of approximately 50 delegated and implementing acts are scheduled for adoption during the course of 2014 in order to give full effect to the Single Banking Rulebook.

In addition, the Basel Committee published its Supervisory framework for measuring and controlling large exposures on 15 April 2014. The new rules will take effect from 1 January 2019.

The Basel Committee also published its capital requirements for bank exposures to central counterparties on 10 April 2014, to be implemented as of 1 January 2017.
The European Banking Authority (EBA) published an addendum to its 2014 work plan.

Banking Ratios

- Liquidity Coverage Ratio (LCR)
  The Capital Requirements Regulation tasked the European Banking Authority to report to the European Commission on the definition of assets eligible to the liquidity buffer and LCR impacts on the economy and on some LCR parameters. The EBA published these reports late 2013 to inform the Commission's delegated act. The Liquidity Coverage Ratio will be gradually implemented from January 2015.
- Net Stable Funding Ratio (NSFR)
  The Basel Committee launched a Consultation on 12 January 2014 on a revised proposal for NSFR. The proposed revision includes reducing cliff effects within the measurement of funding stability, improving the alignment of the NSFR with the Liquidity Coverage Ratio (LCR), and altering the calibration of the NSFR to focus greater attention on short term, potential volatile funding sources.
- Leverage Ratio (LR)
  The Basel Committee released its final text on the Basel III leverage ratio framework and disclosure requirements on 12 January 2014.

Single Supervisory Mechanism (SSM)

The SSM Framework Regulation which was adopted by the ECB on 25 April 2014 sets out the practical arrangements for the cooperation between the ECB and the National Competent Authorities within the SSM. Under the SSM Regulation, the ECB will levy annual fees on credit institutions established in the participating Member States and on branches established in a participating Member State by a credit institution established in a non-participating Member State. These fees should cover, but not exceed, the expenditure that the ECB incurs in relation to its supervisory tasks.

In addition, the ECB is currently undertaking a comprehensive assessment before assuming full responsibility for supervision under the Single Supervisory Mechanism (SSM) in November 2014. It started with a Supervisory Risk Assessment of banks' balance sheets analysing quantitatively and qualitatively a bank's position relative to peers. The second phase, the Asset Quality Review, started in February. This broad and inclusive assessment covers credit and market exposures, on- and off-balance sheet positions, domestic and non-domestic exposures. The ECB and the EBA have now started to perform an EU-wide stress test. The EBA published the methodology and the macroeconomic scenarios for its 2014 EU-wide stress test on 29 April 2014. The macroeconomic scenarios include the baseline, adverse, market risk and securitisation scenarios. The outcome of this comprehensive exercise is expected to be published in October.

Single Resolution Mechanism (SRM)

The SRM is intended to ensure the orderly and efficient resolution under central supervision of failing banks and other financial institutions that are established in participating

Member States. This mechanism will apply to banks and other financial institutions in the euro area and also in other EU participating Member States in the Single Supervisory Mechanism. Institutions established in other EU Member States will be covered by the EU Bank Recovery and Resolution Directive (BRRD).

On 21 May, 26 EU Member States signed the Agreement on the transfer and mutualisation of contributions to the Single Resolution Fund (SRF), the pre-requisite to the application of certain provisions in the SRM Regulation. The €55 billion SRF will be gradually capitalised throughout an eight-year period (starting in January 2016), but 70% of the full capacity will be reached within three years. Member States will now have to ratify the agreement before January 2016.

Bank Recovery and Resolution Directive (BRRD)

The BRRD was designed to put an end to bank bail-outs, as it provides authorities with more complete and effective tools to deal with failing banks at national level, as well as cooperation arrangements to tackle cross-border banking failures. After the meeting of the Economic and Financial Affairs Council (ECOFIN) on 6 May, the Council announced that it had adopted the BRRD proposed by the Commission on June 2012. The new resolution system will be phased in beginning in January 2015, with the bail-in tool entering into application as of 1 January 2016.

Deposit Guarantee Scheme Directive

On 15 April 2014, the European Parliament adopted the Commission's proposal for a revision of the Directive on Deposit Guarantee schemes (DGS). It requires all banks to join a DGS so that all their covered deposits, i.e. eligible deposits of up to €100 000, are protected. It also requires DGSs to be supervised on an ongoing basis and to perform regular stress tests of their systems. Depositors will no longer have to submit an application for repayment if their deposits become unavailable

Financial Markets and Securities

Credit Rating Agencies (CRAs)

On 24 June, the European Securities and Markets Authority the final draft of Regulatory Technical Standards on disclosure requirements, to be approved within 3 months. The CRA III Regulation which came into force on 20 June 2013, offers the opportunity to amend legislation if a feasibility report revealed that a network would increase competition. It follows the European Commission's report addressed to the European Parliament and the Council on the feasibility of a network of smaller credit rating agencies in the EU.

Markets in Financial Instruments Review (MiFID II/MiFIR)

On 12 June, the new MIFID/R II rules were published in the Official journal of the EU, to be applicable as of January 2017. The MiFID II reform intends to shift Over-the-Counter trading to multilateral and better regulated trading platforms. It will notably consist of enhanced transparency rules aimed at avoiding that dark trading of shares and other equity instruments. For

equities, a double volume cap mechanism limits the use of reference price waivers and negotiated price waivers (4% per venue cap and 8% global cap) together with a requirement for price improvement. On 22 May, the European Securities and Markets Authority (ESMA) launched the consultation process for the implementation of MiFID/R II, and published two documents: i) a consultation paper on MiFID/R II Technical Advice by December 2014; ii) a discussion paper on MiFID/R II draft Regulatory Technical Standards / Implementing Technical Standards which is expected to be issued in late 2014. The main issues covered in the two documents address the structure, transparency and regulation of financial markets, as well as measures aimed at strengthening investor protection.

Market Abuse Review (MAD II/MAR)

On 12 June 2014, the Directive and Regulation on criminal sanctions for market abuse and investor protection were published in the Official Journal. The review notably extends the scope of the existing legislation to include all financial instruments which are traded on organised platforms and over-the-counter (OTC), and adapting rules to new technology. It is aimed at reinforcing the fight against market abuse across commodity and related derivative markets, and more particularly at banning the manipulation of benchmarks, and enhancing the cooperation between financial and commodity regulators.

Packaged Retail Investment Products (PRIIPS)

The European Parliament and the Council of the EU adopted the Regulation on key information documents (KID) for packaged retail investment and insurance based investment products (PRIIPs) on 15 April 2014. The Regulation will introduce a harmonised pre-contractual disclosure document for packaged retail products and insurance based investment products, which is one component of a wider package of reforms on the regulation of PRIIPs, complementing those in MiFID2 and IMD2. The KID’s objective is to help retail investors understand, compare and use information that is made available to them about different investment products. It could be already implemented by the end of 2015.

Securities Financing Transactions (SFT)

In the context of the global work on shadow banking and the European Commission’s proposal for new rules on money market funds (MMFs), the European Commission launched in January 2014 a proposal for a Regulation on Securities Financing Transactions. This proposal sets up measures to increase transparency in the use of these instruments (i.e. securities lending and repurchase transactions) by establishing reporting obligations to counterparties taking part in SFT’s transactions. This regulation is based on three pillars, focusing on transparency.

Undertakings for Collective Investments in Transferable Securities (UCITS V & VI)

The final approval of the UCITS V took place in the European Parliament on 15 April and is expected to take place in the Council in the coming months. It was designed to amend the existing Directive as regards depositary functions as well as management remuneration policies and sanctions. At the same time, legislators are already working on UCITS VI. However, they

decided to delay the proposal which is therefore likely to be adopted under the next Commission's mandate (2015).

Indices and Benchmarks

On 18 September 2013, the European Commission published a proposal for a Regulation on indices used as benchmarks in financial instruments. In line with the principles recently agreed at international level, the proposal covers a broad variety of benchmarks and seeks to address possible shortcomings at every stage in the production and use of benchmarks. More particularly, it is aimed at ensuring the integrity of benchmarks by avoiding any potential conflict of interest.

Financial attachés from EU Member States' Permanent Representations to the EU discussed the proposal on 12 June. The dossier is listed among the Italian Presidency's priorities of the EU for the coming months.

Central Securities Depositories Regulation

The European Commission proposal has been formally adopted by the European Parliament on 15 April 2014. Its main objective is to increase the safety and efficiency of securities settlement and settlement infrastructures (CSDs) in the EU by providing namely: i) shorter settlement periods; ii) deterrent settlement discipline measures; and iii) stricter prudential and supervisory requirements for CSDs and other institutions providing banking services ancillary to securities settlement.

Financial Reporting and Taxation

Enhanced cooperation for a Financial Transaction Tax

Following the ECOFIN meeting on 6 May 2014, the 11 Member States participating in the FTT enhanced cooperation procedure announced that they reached a political consensus on a gradual approach whose first step would consist in implementing a limited tax on shares and some derivatives. The agreement only reflects political aspects but does not address technical ones. A final agreement should be reached by the end of this year with an implementation phase starting in 2015 and entry into force on 1 January 2016.

On 28 May, the Greek Presidency discussed with Member States two papers on defining the scope of "some derivatives" from the ECOFIN statement –including tax methodology for derivatives; and defining the "step by step" approach parameters.

Tax Evasion and Avoidance

The EU-G5 (DE/ES/FR/IT/UK) have seen the US FATCA project as an opportunity to boost Automatic Exchange of Information (AEOI) at the European level. In April 2013, the EU-G5 announced their intention to work on a pilot AEOI and obtained the support of additional Member States. This resulted in the Commission presenting a draft Directive in June 2013 to amend the Directive on Administrative Cooperation.

Under Lithuanian Presidency, the European Union and OECD agreed to, however, move ahead in developing global standard of automatic exchange of tax information. In February 2014, the OECD published its Standard for Automatic Exchange of Financial Account Information, which provides the key elements for establishing a single, common global standard for the automatic exchange of financial account information thereby affording tax administrations around the world with a very powerful new tool to tackle cross-border tax evasion and non-compliance.

Savings Tax Directive

The revised Directive was adopted on 24 March 2014 and published in the Official Journal of 15 April 2014 with a view to closing existing limitations and better fight tax evasion. It applies to interest paid to individuals resident in an EU Member State other than the one where the interest is paid. Member States have to transpose its provisions into national legislation.

Retail Financial Services and Payments

Directive on Credit Agreements Relating to Residential Property (Mortgage Credit Directive)

The Council adopted on 28 January 2014 the Directive aimed at creating a single market for mortgage credits in the EU, with a high degree of consumer protection. It entered into force on the 21 March 2014.

The Directive includes new disclosure requirements, principle-based rules and criteria for the efficiency and quality of services. More specifically, it creates a consumer creditworthiness assessment obligation on creditors, provisions on early repayment, provisions on foreign currency loans, provisions on tying practices, and a new admissions regime for credit intermediaries.

Payment Services Directive (PSD2)

In July 2013, the European Commission issued the so-called "payment package" including a proposal to revise the Payment Services Directive (PSD2) and a proposal for a Regulation on interchange fees for card-based payment transactions (IF Regulation). The European Parliament voted on the PSD2 report on 3 April 2014. The main modifications introduced by the revision proposal include the access to payment accounts by third-party providers (TPPs), called Payment Initiation Services. An extension of its scope, as well as a re-examination of the refund rules and the liability rules that apply in case something goes wrong with a payment transaction.

Interchange Fees Regulation (IFR)

The Commission's proposal to cap interchange fees is expected to increase price competition between payment services providers and inflate the basis on which the acquirers set their charges to merchants. The European Parliament voted on the IFR report on 3 April 2014 and amended slightly the Commission's proposal. According to the Parliament text, the regulation would be equally applicable to cross-border and national card-payments as of one year after its entry into force. However, the rules would still allow Member States to introduce lower caps or further regulation on the national level. The Regulation is expected to enter into force as of 2016.

Payment Accounts Directive

The European Parliament adopted on 15 April the Directive on the transparency and comparability of payment account fees, payment account switching and access to a basic payment account. The Directive lists a number of requirements with respect to using standardised terminology and facilitating account switching for all payment services providers. It also provides a regime, applicable to credit-institutions only, to ensure the proper provision of basic bank accounts in Member States. Member States will now have two years to implement the Directive into national legislation.

Insurance Mediation Directive (IMD 2)

On 26 February 2014, the European Parliament voted its report on the Commission's proposal for a revised Insurance Mediation Directive (IMD 2). The proposal aims at achieving greater consumer protection in the insurance sector through enhanced supervisory, information and professional requirements for distributors of insurance products. On 13 May, the Council of the EU published its first compromise text.

Single Euro Payments Area (SEPA)

The SEPA Regulation, adopted on 28 February 2012 establishes requirements for credit transfers and direct debits in euro and defines the deadlines for the migration to the new SEPA instruments (1 February 2014 for the euro area and 31 October 2016 for non-euro area Member States). However, a proposal amending the SEPA end-date regulation was voted on 4 February 2014 and introduces a further transition period of six months that can be applied in euro area countries.

Corporate Governance and Financial Crime

4th Anti-Money Laundering Directive

The proposal for a 4th EU Anti-Money Laundering (AML) Directive whose report at the plenary of the European Parliament was voted last April is currently under discussion at the level of the Council working group under the Greek Presidency. The European Council and the European Parliament are expected to engage in trilogue negotiations in October 2014, aiming to reach an agreement on the text before the end of 2014.

Economy, Business and Trade

Long-Term Financing of the European economy

On 27 March 2014, the European Commission published a Communication on Long-Term Financing of the European economy which lists a set of specific actions to undertake in order to improve long-term financing of the European economy. This includes notably a proposal to revise the rules for occupational pension funds to support the further development of an important type of long-term investor in the EU as well as a communication on crowdfunding to offer alternative financing options for SMEs.

FRANCE

Banking Law

The French reform of the banking sector aims in particular at separating activities that contribute to funding the economy from "speculative" activities. The Banking Law was published the 26th of July, 2013. The legal separation would be compulsory starting July 1, 2015 at the latest.

An implementing decree (*décret*) published on July 10st, 2014 requires banking entities whose trading activities in financial instruments represent 7.5 % or more of the total balance sheet to carry out proprietary trading activities -subject to some exemptions referred to hereafter - and unsecured financing to hedge funds or other leveraged vehicles within a separated trading entity.

An implementing order (*arrêté*), nearly finalized and to be published by the end of August, 2014 at the latest, will specify some provisions of the Law on market activities, hedge funds and risk management (see hereafter).

The objective is the separation between market activities which are considered as "useful to the economy" and those which are not.

Market activities which are "useful to the economy" do not have to be ring-fenced. These market activities are defined as follows:

- provision of investment services to clients;
- clearing activities related to financial instruments;
- hedging of the institution's own risks (market and credit risks);
- market-making : after consulting the banking supervisor (ACPR[12]), the Minister of Economy may decide a threshold of market-making activities as percentage of the total net banking income for a single institution or for all, beyond which market-making activities have to be ring-fenced;
- sound and prudent group treasury management; and
- group investment operations (securities acquisitions with the intention of holding them on a long-term basis).

According to the implementing order, banks are required to build and disclose to the ACPR a mapping of their market activities which do not have to be ring-fenced. This mapping includes a specification of the "internal units" dedicated to such activities, the assignments given to these internal units as well as the rules of conduct imposed on them. The internal control of the banks will have to ensure that the activities carried out by such internal units comply with the assignment given to them.

The order provides for a list of various indicators to distinguish market-making activities from other activities and which must be provided by the banks to the ACPR and the AMF[13], on an annual or a quarterly basis (as the case may be). Examples of indicators:

[12] ACPR : Autorité de Contrôle Prudentiel et de Résolution
[13] AMF : Autorité des Marchés Financiers

- list of execution venues on which the bank is admitted to trading;
- list of financial instruments for which the bank acts as a market-maker;
- number of market-making transactions / total number of transactions;
- volume (%) of market-making transactions / total number of transactions; and
- revenues / risks

Speculative market activities which are not considered useful to the economy include proprietary trading and unsecured operations with hedge funds or UCITS investing in hedge funds or other leveraged vehicles.

Funds included in the scope of the implementing order are those whose leverage contributes to an increase of systemic risk. Various types of funds are out of scope of this order, notably UCITS (unless for those investing in hedge funds or other leveraged vehicles beyond a threshold of 20 %) and employee collective investment schemes. “Secured” operations with hedge funds are transactions pursuant to which banks benefit from collateral complying with eligibility, availability and quantity criteria (the two latter criteria being analyzed with respect to the quality of collateral and to the risk level linked to the transactions contemplated).

The ring fenced entity must be capitalized and financed on a stand-alone basis, and cannot receive deposits.

High frequency trading and agricultural commodity derivatives trading are subject to a complete ban within the ring-fenced subsidiary (such proprietary activities are forbidden).

Legal separation will be compulsory starting July 1st, 2015 at the latest.

Supervision and Resolution

The Supervisory Authority *(“Autorité de Contrôle Prudentiel”)* becomes the Supervisory and Resolution Authority (“*ACPR: Autorité de Contrôle Prudentiel et de Résolution*”), with a resolution college chaired by the Bank of France and extended resolution powers.

The ACPR will be in charge of defining what is “useful to the economy” and to control the risks associated. It will control the distinction between market activities and other activities based on indicators specified in the order mentioned above. It will control the link with customers based on the frequency of operations and on the internal organization of the bank.

The Deposit Guarantee Fund *(“Fonds de Garantie des Dépots*”) becomes the Deposit Guarantee and Resolution Fund (FGDR). Following a decision by the ACPR, it may intervene in a bank under resolution to: buy shares or “*parts sociales*” of the institution under resolution; subscribe to the bridge bank capital; participate in a capital increase of the institution under resolution or the bridge bank; provide financing to the institution under resolution or the bridge bank; assume some of the costs of the measures necessary to guarantee the solvency of an institution affiliated to a central institution.

The law does not specify the level or calculation basis of banks' contributions to the FGDR (to be specified by decree).

Concept of Group Action

After 40 years of debate, a law of the 17th of March 2014 introduced group action in France. The law provides an opt-in system in which individual who wants to be a part of the "group" must "opt in" to participate and be bound by a judgment. The law has a limited scope and clearly identified actors.

First, group action can only be brought by consumer protection associations recognized as representative at the national level, that is, association that have received an approval both by the minister in charge of consumption and the minister for justice.

Second, the consumers must be in the same or a similar situation and the damages must have been caused by the breach, by the same or several professionals, of their legal or contractual obligations in connection (i) with the sale of goods or the delivery of services, or (ii) when the damage results from anti-competitive behavior (abuse of a dominant position, agreements with other players in the market). Consequently, health and environmental damages are excluded from the scope of the law.

Finally, group action can only be brought in order to compensate damages resulting from material damages. Therefore, any form of personal injuries or moral damages is excluded from the scope of the law.

In the field of competition law, the action can only follow on from a decision by the French or European competition authority which has become final after all the appeal channels have been exhausted.

A "simplified" procedure may be implemented when consumers are identified and their number known. The judge after ruling on the professional(s) liability may order the professional(s) to compensate directly and individually the consumers. The opt-in process is applied when the compensation is proposed to consumers.

GERMANY

Major EU regulatory reforms have been implemented concerning banks' capital, liquidity, as well as OTC derivatives transactions. In addition, German legislation has addressed perceived high-risk bank activities by introducing certain restrictions on banks' organizational structure. In order to strengthen IT security in Germany, draft legislation envisages minimum standards and reporting requirements for critical infrastructures, which would include the financial sector. The introduction of a financial transaction tax is still under discussion.

Regulatory Reforms to Address the Causes of the Financial Crisis

Implementation of Basel III

Legislation implementing CRD IV was passed in Germany in July 2013. It implements the requisite provisions of the CRD IV package putting Basel III into effect in Europe on 1 January 2014. This means that the new international rules to strengthen banks' capital and liquidity have come into force in Germany. The Basel III rules are the centerpiece of the reforms to address the financial crisis.

Legislation on Protection Against Risks and on Planning the Recovery and Resolution of Banks and Financial Groups (so-called Ringfencing Act)

The above-mentioned legislation was passed on 17 May 2013. It stipulates that recovery and resolution plans must be drawn up in future for banks and financial groups classified as systemically important. By setting requirements for such plans, also referred to as "living wills", Germany partly pre-empted the EU directive establishing a framework for the recovery and resolution of credit institutions and investment firms (the so-called Bank Resolution and Recovery Directive [BRRD]), which was adopted at European level in April 2014. Classification as "systemically important" will be carried out by the German financial regulator BaFin, in consultation with the Bundesbank, by means of a quantitative and qualitative analysis taking into account particularly the size of an institution, its business activities, its interconnectedness with the rest of the financial system and its substitutability. The banks and financial groups identified as systemically important will be requested by BaFin to present a recovery plan that has to be updated annually. Furthermore, in line with the European rules, a resolution agency set up at BaFin will prepare a resolution plan or group resolution plan for every systemically important bank or financial group.

In addition, the new law is aimed at protecting retail activities better against risks arising from activities deemed to be speculative. If, in the case of a deposit-taking institution or a group to which a deposit-taking institution belongs, activities in the "held for trading" and "available for sale" categories exceed an absolute threshold of €100 billion or if these activities account for over 20% of the balance sheet total and amount to more than €90 billion (relative threshold), the activities classified under the law as particularly risky must be discontinued or spun off to a legally, economically and organizationally independent company (financial trading institution, which can be part of the same financial group) within twelve months. The financial trading institution must refinance itself independently without relying on any guarantees from the superordinated enterprise; the waiver under Section 2a of the German Banking Act may not be applied: the financial trading institution is not allowed to provide any payment services or conduct any e-money business. Transactions with group entities are allowed, though the financial trading institution must be treated as a third party. "Banned" activities include (i) proprietary trading, (ii) lending and guarantees to hedge funds, EU and foreign alternative investment funds which use leverage on a substantial scale, or their respective management companies and (iii) proprietary trading within the meaning of the High-Frequency Trading Act using a high-frequency algorithmic trading strategy, with the exception of market making. Not covered by the ban are service-type activities and activities which are designed to protect an institution, serve long-term investment purposes or are non-speculative. The ban must be applied as of 1 July 2015. If a

threshold is exceeded on this date, the activities concerned must be discontinued or spun off within twelve months. From 1 July 2016, BaFin can, moreover, make use of its newly created authority to order in individual cases particularly the separation of market-making activities or of activities covered by the aforementioned ban, irrespective of whether a threshold is exceeded. The condition for this is supervisory concern that the activities concerned threaten to endanger the solvency of a deposit-taking institution or a group to which a deposit-taking institution belongs.

Finally, the new law punishes violations of key statutory risk management duties by members of a bank's senior management. This presupposes failure to comply with an enforceable BaFin order (content: removal of shortcomings in risk management within a reasonable period), thereby threatening the continued operation of an institution, superordinated enterprise or group institution as a going concern. The penalties are up to five years in prison or a fine (not exceeding €10.8 million). Similar penalties apply to the insurance sector.

Recovery Planning: BaFin Publishes a Circular on Minimum Requirements

In May 2014, BaFin published a circular on minimum requirements for the contents of recovery plans for credit institutions. The circular further specifies the legislative requirements for recovery plans as laid down in the so-called Ringfencing Act of 2013.

Act Implementing the EU Bank Recovery and Resolution Directive (BRRD)

The July 2014 government bill implementing the EU Bank Recovery and Resolution Directive (BRRD) is designed to transpose the provisions of the BRRD into national law by 1 January 2015. The sections of the BRRD implemented in Germany by means of the so-called Ringfencing Act of 2013 have been integrated into this bill. In addition to setting requirements for recovery and resolution planning and assessment of an institution's resolvability, the bill provides for bailing in creditors in the event that an institution is wound up. The current bank levy, which flows into the German Restructuring Fund, is to be replaced by a new bank levy in line with the BRRD. Starting in 2016, national restructuring funds in the eurozone countries will be replaced by the Single Resolution Fund.

The BRRD Implementing Act also includes an amendment of the German Banking Act aligning it with the Single Supervisory Mechanism (SSM) requirements. As a consequence, BaFin will be designated a "national competent authority" (NCA). This means that, while the existing division of responsibilities between BaFin and the Bundesbank in the supervision of banks will remain in place, only BaFin will be allowed to communicate with the European Central Bank (ECB).

New Developments in Securities Law

The German Investment Code (Kapitalanlagegesetzbuch), which came into force at the end of July 2013, created for the first time a comprehensive unified body of law governing collective investment. It regulates both the management of investment funds (licensing criteria, equity) and the products that may be offered by fund managers. Its scope is broad, ranging from hedge funds and classical investment assets to investment in, for example, aircraft or ships. Distribution rules protecting customers are included as well. The Investment Code also further defines the role of

depositaries and tightens the relevant requirements. It serves at the same time to implement the EU Alternative Investment Fund Managers (AIFM) Directive, although it goes much further than the latter.

New Developments in Company Law

The upcoming law amending the Stock Corporation Act is designed by the government to further develop and bring specific changes to current stock corporation law. One main change is that banks operating in the legal form of a stock corporation (Aktiengesellschaft) will be allowed for the first time to generate Tier 1 capital by issuing non-voting preference shares that do not give entitlement to deferred dividend payments. In addition, reversible convertible bonds providing for a conversion right of the issuer, i.e. the company, are to be introduced. The proposed amendment to the Stock Corporation Act will also introduce a record date for registered shares. Like the record date for bearer shares, it will be 21 days before the day of the shareholders' meeting. This will enable the ownership of all shares worldwide to be determined on a uniform cut-off date in line with international standards. The usual current practice of determining shareholdings ahead of a meeting (by suspending the recording of transfers of ownership in the shareholders' ledger) will then be superfluous. Foreign shareholders often mistakenly understood this to be a type of share blocking.

Legislation on IT Security

In March 2013, the Federal Ministry of the Interior published a bill on IT security which is to be signed into law in the course of 2014.

The main features of the bill are:

- a requirement for critical infrastructure operators to meet minimum IT security standards: operators of key critical infrastructures must take state-of-the-art IT security measures and ensure compliance with these. Business sectors may develop sector-specific standards that are recognized by the Federal Office for Information Security (BSI) as fleshing out the statutory requirement;
- a requirement for critical infrastructure operators to report serious IT security breaches: operators of key critical infrastructures must immediately report to the BIS – through channels established specifically for this purpose – IT security breaches that would cause sustained supply shortages or significant disruptions of public safety or security. The aim is to allow the BSI to compile an overview of the situation in Germany.

Both requirements apply to all critical sectors, such as energy, telecommunications, transport and traffic, finance (insurance and banking) and food, for example. Further provisions specifically affect the telecommunications sector.

For banks, the main features of the new legislation pose two challenges on top of the high IT system security standards already in force. Firstly, they have to develop, implement and demonstrate compliance with minimum security standards. Secondly, an incident reporting set-up – ideally, establishing a single point of contact (SPOC) – needs to be put in place via the regulator.

The Fight against Money Laundering and the Financing of Terrorism

As the law-enforcement authorities in Germany believe that legal online gambling operators also pose a money laundering threat, the Money Laundering Act was amended in 2013 at the recommendation of the Federal Ministry of Finance to include obligations for such online gambling operators under Sections 9a – 9d. At the same time, close monitoring of all gambling-related payments was introduced for all payment service providers.

Tax Developments

In light of the pressing need for fiscal consolidation resulting from the global economic and financial crisis, the European Commission already issued at the end of September 2011 a proposal for a directive on an EU-wide financial transaction tax. The ensuing discussion by member states within the Council led to the conclusion at the end of June 2012 that the proposed directive had no chance of success at EU-wide level. Therefore, the German and French government, as well as some other member states, supported introducing a financial transaction tax by way of the enhanced cooperation procedure. On 14 February 2013, the European Commission adopted a proposal for an FTT directive involving Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain. The Commission proposed introducing the tax on 1 January 2014, but this plan is still being discussed within the Council. Many legal and technical issues need to be resolved, although basic questions regarding the scope of application are also under discussion in the meantime. The participating member states are now in favor of a gradual approach whose first step would consist in implementing a limited tax on shares and some derivatives. Nevertheless, solutions have to be found to overcome remaining technical problems. The aim is to reach final agreement by the end of 2014, with an implementation phase starting in 2015 and entry into force on 1 January 2016. While Germany is still one of the strongest supporters of the financial transaction tax under the enhanced cooperation procedure, it does not intend to introduce a national FTT within Germany only.

In April 2014, the Federal Finance Ministry provided the long-awaited clarification on the tax treatment of additional tier 1 (AT1) capital as defined in Article 51 et seq. of the Capital Requirements Regulation. It confirms that AT1 instruments may be recognized as debt items in the issuer's tax balance sheet and that coupon payments for these are tax-deductible for the issuer. Foreign investors will not be required to pay tax in Germany on coupon payments. The paying agent will therefore not need to deduct any German withholding tax for them.

This clarification now creates the required legal certainty for the German financial marketplace as well and prevents any distortion of competition that domestic banks would otherwise suffer from when raising capital.

HONG KONG

Banking Industry Overview

During the period between July 2013 and June 2014, the capitalisation of the banking sector remained well above the minimum international standards. The consolidated capital adequacy ratio (CAR) of locally incorporated Authorized Institutions (AIs) increased from 15.7% at the end of 2012 to 15.9% at the end of 2013, well above the minimum CAR of 8% required by the Basel capital standard. The tier-one capital adequacy ratio was also maintained at a comfortable level of 13.3% at the end of 2013.

Renminbi (RMB) Banking Business

During the same period, Hong Kong has maintained its position as the premier offshore RMB business centre with sizeable growth in a number of areas highlighted below:

Offshore RMB banking statistics	As of end-2013 (RMB billion)	Growth against end-2012
RMB deposits and certificates of deposit	1,053.0	+46%
RMB trade settlement transactions	3,841.0	+46%
Outstanding RMB loans	115.6	+46%
Outstanding dim sum bonds	310.0	+30%

The industry welcomed the following developments in expanding RMB business:

- With effect from 26 July 2013, the RMB liquidity facility operated by the Hong Kong Monetary Authority (HKMA) has provided AIs with access to one-day funds on T+1 basis and overnight funds on T+0 basis, in addition to one-week tenor on T+1 basis introduced in 2012.

- On 10 July 2013, the People's Bank of China (PBOC) clarified through circular no. 168 that funds may be transferred between accounts maintained with the Mainland Clearing Bank and the Clearing Bank in Hong Kong by a participating bank in Hong Kong for "settlement purposes" including liquidity management.

- On 10 April 2014, the China Securities Regulatory Commission in Beijing and the Securities and Futures Commission in Hong Kong jointly announced the introduction of a pilot programme for establishing mutual stock market access between Mainland China and Hong Kong which would be implemented in approximately 6 months. This pilot programme, based on existing rules and regulations and operational models governing trading and clearing in each market, will, inter alia, expand cross-boundary investment channels and promote the internationalization of the RMB and development of Hong Kong as an offshore RMB business centre.

Implementation of Basel III in Hong Kong

The HKMA continues to implement the Basel III reform package in Hong Kong in accordance with the timetable set by the Basel Committee on Banking Supervision ("BCBS").

Following the first phase of Basel III implementation in 2013 (covering the three risk-weighted capital ratios, computed under the enhanced definition of capital and the revised counterparty credit risk framework, as well as the associated disclosure requirements), the HKMA has consulted the industry on policy proposals for (i) implementing the countercyclical capital buffer (CCyB) in Hong Kong, based on an assessment of indicators (in addition to the BCBS's baseline credit-to-GDP ratio gap) considered useful locally to signal excessive credit growth with systemic implications (the condition for buffer build-up) or materialization of systemic risk (the condition for buffer release); and (ii) a framework for systemically important banks in Hong Kong, which includes policy proposals for identifying domestic systemically important banks ("D-SIBs") and assessing the "higher loss absorbency" requirement (i.e. an additional capital buffer in the form of CET1 capital) to be applied to them. The proposed D-SIB framework also includes provision for more intensive supervision of, and recovery and resolution planning for, D-SIBs.

With regard to the liquidity standards, the HKMA finalised its policy proposals for the local implementation of the liquidity coverage ratio (LCR) in December 2013 after completing a series of industry consultations during 2012 and 2013. Having regard to local circumstances, the HKMA will adopt a two-tiered approach to implementing liquidity standards, whereby AIs which are internationally active or maintain large, sophisticated operations in Hong Kong (category 1 institutions) will apply the LCR, whereas other AIs having relatively small, simple and localised operations (category 2 institutions) will be subject to an enhanced version of the existing liquidity ratio.

The HKMA is proposing to amend the existing Banking (Capital) Rules and the Banking (Disclosure) Rules, and to issue a new set of Banking (Liquidity) Rules to begin the implementation of the relevant standards from January 2015 in line with the BCBS timeline.

Stable Funding Requirement (SFR)

The HKMA introduced Stable Funding Requirement in October 2013 to ensure that AIs' loan growth is supported by adequate long-term funding and would therefore be more sustainable against possible future deterioration in liquidity situation. The SFR is designed to enhance liquidity risk management by banks and thereby safeguard the sustainability of credits flowing through the system in the longer term. While the overall liquidity of Hong Kong's banking system remains stable, the HKMA believes that it is necessary to take precautionary steps to reduce the impact of potential risks arising from possible significant fund outflows. The SFR, similar to other risk management measures, underpins the sustainable and healthy business development of the banking sector.

Recovery and Resolution Planning (RRP) in Hong Kong

In January 2014, a first-stage, 3-month public consultation on "An Effective Resolution Regime for Financial Institutions in Hong Kong" was launched by the Financial Services and the

Treasury Bureau (FSTB) jointly with the HKMA, the Securities and Futures Commission (SFC) and the Insurance Authority (IA). Although the statutory and regulatory framework for dealing with distressed financial institutions in Hong Kong was relatively well developed before the global financial crisis, the consultation paper discussed the gaps identified against those powers now considered necessary to effect the orderly resolution of systemically important financial institutions as set out in the Financial Stability Board's November 2011 Key Attributes of Effective Resolution Regimes for Financial Institutions and how these may be addressed. The Government expects to undertake a second-stage consultation exercise covering some more detailed aspects of the resolution regime proposals later in 2014 with a view to introducing draft legislation into the Legislative Council during 2015.

In parallel, the HKMA has developed a new Supervisory Policy Manual (SPM) Module, following industry consultation, on recovery planning in Hong Kong. Under the SPM module issued on 20 June 2014, a first wave of AIs (selected largely by reference to their systemic importance domestically) will be required to develop and submit their respective recovery plans to the HKMA within a period of six months.

Regulatory Framework for the Over-the-Counter Derivatives (OTC) Market in Hong Kong

A Securities and Futures (Amendment) Ordinance 2014 was passed on 26 March 2014 to provide a regulatory framework for the OTC market in Hong Kong as part of Hong Kong's effort to reduce systemic risk and enhance transparency in that market. Detailed rules will be introduced into the Legislative Council in phases to bring the regulatory framework into effect. A first batch of rules covering trade reporting and central clearing is expected to be introduced by the end of 2014. In the interim, licensed banks have, since August 2013, been observing a set of interim reporting requirements specified by the HKMA covering specific types of derivative transactions where both counterparties are licensed banks.

Establishment of Independent Insurance Authority

To provide a legal framework for the establishment of an independent Insurance Authority (IIA) and a statutory licensing regime for insurance intermediaries, the Insurance Companies (Amendment) Bill 2014 was gazetted and introduced into the Legislative Council in April 2014 after four years of intensive industry and public engagement. The policy objectives of establishing the IIA are to modernise the regulatory infrastructure of the insurance industry, provide better protection for policyholders and facilitate the sustainable development of the industry.

Open-ended Fund Companies

The FSTB launched a 3-month public consultation in March 2014 on the proposal to introduce a new open-ended fund company structure to expand Hong Kong's legal structure for investment fund vehicles. The consultation paper puts forth proposals to enhance Hong Kong's legal infrastructure for investment fund vehicles by introducing a new open-ended fund company structure to complement the existing unit trust structure. It is hoped that the additional option, which will provide market participants more flexibility in establishing and operating funds in Hong Kong, would attract more funds to domicile in Hong Kong.

Development of Innovative Payment Products and Channels

The following enhancements were made to improve Hong Kong's payment infrastructure through concerted efforts by the HKMA, the banking industry and other stakeholders:

- Banks started to launch the Electronic Bill Presentment and Payment service in December 2013 as a one-stop platform enabling customers to receive, manage and schedule payments for electronic bills via their internet banking accounts.

- The Best Practice for Near Field Communication Mobile Payments (Best Practice) was issued by the Hong Kong Association of Banks (HKAB) on 25 November 2013 to facilitate and promote the development of convenient, interoperable and safe payment solutions by both bank and non-bank payment service providers in Hong Kong using NFC technology. The HKMA will take into account the security requirements in the Best Practice when assessing the NFC mobile payment services offered by banks.

- Banks have started preparations for implementing the electronic cheque (e-cheque) system which allows bank customers to issue and deposit e-cheques through their internet banking accounts. The initiative aims to reduce the expenses and enhance the efficiency of cheque processing. To ensure good user experience, all banks will be expected to facilitate presentment of e-cheques for their customers. The pilot run and the commercial launch of this new service are tentatively scheduled for launch in December 2015 and March 2016 respectively.

- To further strengthen the security of ATM services, all the ATMs in Hong Kong have been upgraded to support chip-based authentication. The corresponding ATM card replacement process for debit cards and credit cards which are linked to customers' bank accounts has also been completed. The card replacement programme for the remaining credit cards will be completed by the end of 2015.

Development of Private Wealth Management Industry in Hong Kong

To support the development of Hong Kong as the private wealth management hub in the region, the Private Wealth Management Association (PWMA) was established in Hong Kong in September 2013. The PWMA has 27 members providing private wealth management services and is a conduit for dialogue between industry participants with regulators, other trade bodies and stakeholders. An Enhanced Competency Framework was launched in June 2014 to raise the professional competence and ethics of private wealth management practitioners who undertake customer-facing roles.

Investor Protection Measures Initiated by the HKMA and SFC

During the period under review, the following measures have been initiated by the regulators to enhance investor protection:

- Professional Investor (PI) regime and client agreement requirements – To further enhance the existing PI regime, the SFC has proposed to revise the regime and introduce additional

requirements on client agreement by revising the SFC Code of Conduct which applied to intermediaries engaged in regulated activities.

- The HKMA issued a circular in August 2013 highlighting a number of key principles to provide further guidance to Registered Institutions (RIs) regarding the product risk rating of high-yield bonds, high-yield bond funds and related products to assist compliance with the new requirements by February 2014. The HKMA expected the RIs to adopt robust methodologies and a prudent approach in assessing product risk and assigning risk ratings to such products.

Prevention of Money Laundering and Terrorist Financing

The HKMA has been progressively strengthening the resources of its anti-money laundering (AML) specialist teams to ensure that the AML/CFT systems and controls of banks are effective and meet the legal requirements. As well as examining banks' AML/CFT controls, the HKMA also provides guidance on the effective implementation of those controls. In particular, in December 2013 the HKMA issued a guidance paper on transaction screening, monitoring and suspicious transaction reporting that was developed in collaboration with both the industry and the Joint Financial Intelligence Unit. The HKMA also issued circulars on other topical issues, such as the importance of putting in place effective controls against tax evasion and managing risks associated with virtual commodities, and providing guidance to AIs on some of these issues during the annual AML/CFT seminars.

Strengthening the Governance and Fixing of the Hong Kong Dollar Interest Settlement Rates (Hong Kong Interbank Offered Rates or HIBOR)

The following enhancement measures have been successfully implemented during the period under review:

- Since the beginning of September 2013, the Treasury Markets Association (TMA), the independent HIBOR administrator, has been conducting day-to-day surveillance of the rate setting process and is subject to periodic external audits commissioned by HKAB.

- From April 2014, a total of 7, instead of 15, tenors with strong market demand (i.e. overnight, 1-week, 1-month, 2-month, 3-month, 6-month and 12-month) have been published. The TMA has also proposed a set of criteria and relevant arrangement for selecting HIBOR contributing banks going forward.

Deposit Protection Scheme

The Deposit Protection Scheme (DPS) continued to offer protection to deposits up to HKD500,000 per depositor per bank. A review was conducted to study and evaluate ways to make the DPS more efficient and effective, including improvements to its infrastructure and capacity, as well as mechanisms to handle a payout in the event of a bank failure. Amendments were made to the Information System Guideline to improve the availability and quality of information to be provided by members of the DPS (i.e. licensed banks unless exempted) to facilitate prompt compensation payments to depositors in a payout. An early warning system was also established

between the HKMA and the Hong Kong Deposit Protection Board to facilitate timely notification to the deposit insurer of a possible bank failure.

Code of Practice on Person-to-Person Marketing Calls

As requested by the HKMA, and in line with the industry's support for the continuous self-regulatory approach towards telemarketing activities conducted by AIs, HKAB and the DTC Association have jointly revised their Code of Practice for Person-to-Person Marketing Calls (Code of Practice) which was issued on 30 May 2014 to provide guidance to AIs in making person-to-person telephone calls for marketing activities. The revised Code of Practice aims to provide information to customers on how to differentiate a genuine telemarketing call made by an AI, whether by its staff or its authorised agent, from a bogus one and how to make any necessary enquiries with the AI concerned.

INDIA

General Economic Review

After achieving unprecedented growth of over 9.0 per cent for three successive years between 2005-08 and recovering swiftly from the global financial crisis of 2008-09, the Indian economy is poised to overcome the sub-5.0 per cent growth of gross domestic product (GDP) witnessed over the last two years. The growth slowdown in the last two years was broad based, affecting in particular the industry sector at 0.4 per cent in 2013-14, and significantly lower growth in the ‘trade, hotels, transport and communications’ segment of the services sector. On the other hand sectors, viz. agriculture, electricity, gas & water supply, financial, insurance, real estate & business services have grown at faster rates in 2013-14 vis-à-vis 2012-13. With expectation of better performance in manufacturing, improved balance of payments situation and modest global growth revival, the economy is expected to grow in the range of 5.4 - 5.9 per cent in 2014-15.

Inflation

Inflation continued to pose significant challenges. Although average wholesale price index (WPI) inflation declined in 2013-14 to 6.0 per cent vis-à-vis 8.9 per cent in 2011-12 and 7.4 per cent in 2012-13, it is still above comfort levels of the Reserve Bank of India and Government of India. Inflation showed signs of receding with average wholesale price index inflation falling to a three-year low of 5.98 per cent during 2013-14 due to lower international commodity prices and sharp correction in vegetable prices in December 2013 and January 2014. Overall WPI food inflation (comprising primary food articles and manufactured food products) remained elevated and averaged 9.43 per cent in 2013-14 as compared to 9.28 per cent in 2012-13. Core (non-food manufactured products) inflation remained mostly benign, and declined to 2.94 per cent during 2013-14. Fortunately, the upward trend of inflation that played a part in slowdown in growth, savings, investment, and consumption, appears to have subsided.

Inflation in terms of the new series of consumer price index (CPI) (combined) remained fairly sticky at around 9.0 to 10.0 per cent owing to higher food inflation in the last couple of years. However, the headline CPI inflation started moderating after December 2013 and declined to 7.02

per cent in May, 2014. On the other hand, CPI inflation excluding food and fuel, remained sticky due to higher inflation in services-led components such as medical, education, household requisites, etc.

As inflation remained above the comfort level, the tight monetary policy stance was maintained by the Reserve Bank of India. The depreciation of the rupee, following the taper indication by the Federal Open Market Committee (FOMC) in May 2013, also impacted the inflation situation. The rupee went into a free fall and touched a low of ₹ 68 to a dollar in August end. However, the government and the RBI were quick to respond and announced immediate measures to arrest volatility and quell speculation. The RBI has since stuck to its commitment to bringing down inflation levels and maintained high rates in Q4 2013-14. Going forward, both wholesale and consumer price inflation in India is expected to inch downwards, paving the way for monetary easing, although, there are risks to the outlook for inflation from a possible deficiency in monsoon and possible step up in the pass-through of international crude oil prices, exchange rate volatility and worsening geo-political situations.

External Sector

The external sector witnessed a remarkable turnaround after the first quarter of 2013-14, and the year ended with a Current Account Deficit (CAD) of 1.7 per cent of GDP as against 4.7 per cent in 2012-13. After plummeting to ₹ 68.36 to a US dollar on 28 August 2013, triggered by the expected taper of quantitative easing in the United States, the rupee gradually strengthened and the year ended with the exchange rate averaging ₹ 61 per US dollar in March 2014, owing to measures taken by the government and the Reserve Bank of India (RBI).

Foreign Exchange Reserves

Foreign exchange reserves increased by nearly US$ 40 billion from US$ 275 billion in early September 2013 to US$ 314.9 billion on 20 June 2014. These developments on external account have generated some optimism that the Indian economy is better prepared to confront the challenges of global policy reversals, including tapering of quantitative easing in the US.

Fiscal Deficit

Improvement is also observed on the fiscal front, with the fiscal deficit declining from 5.7 per cent of GDP in 2011-12 to 4.9 per cent in 2012-13 and 4.5 per cent in 2013-14. Much of this improvement has been achieved by reduction in expenditure rather than from increased revenue. Nevertheless, the corrections in fiscal and current account deficits augur well for macroeconomic stabilization. The improvements in the twin deficits would help the economy to grow better than the previous years, but the pace of recovery may be gradual.

Owing to the political stability after the election, the fear of uncertainties in policy developments and other much needed measures are over. Now the present government is in the process of taking various reform measures to lead economy to a sustainable growth path.

Performance of the Banking Sector in India during 2013-14

India's financial system remained stable, although the public sector banks (PSBs) face challenges in coming quarters in terms of their capital needs, asset quality, profitability and more importantly, their governance and management processes. During financial year 2013-14, public-sector banks and foreign banks registered acceleration in bank credit, while there was a deceleration for private-sector banks. Commercial banks' investment in government and other approved securities was low at 26.9 per cent at end March 2014 compared to 28.0 per cent a year ago. Consequently, the investment-deposit ratio declined from 29.7 per cent at end March 2013 to 28.7 per cent at end March 2014. Scheduled Commercial Banks' credit growth on a year-on-year basis declined significantly to 13.6 per cent in March 2014 from 17.1 per cent in September 2013 and 15.1 per cent in March 2013, while the decline in deposit growth from 14.4 per cent to 13.9 per cent was not as significant as decline in credit growth. SCBs' retail portfolios, which have a share of around 19 per cent in the total loans portfolio, recorded credit growth on y-o-y basis at 16.1 per cent in March 2014, which was significantly higher than the overall credit growth. The overall Capital Adequacy Ratio of Scheduled Commercial Banks improved to 12.9 per cent from 12.7 per cent between September 2013 and March 2014. The level of gross non-performing advances (GNPAs) as percentage of total gross advances for the entire banking system declined to 4.0 per cent in March 2014 from 4.2 per cent in September 2013. The net non-performing advances (NNPAs) as a percentage of total net advances also declined to 2.2 per cent in March 2014 from 2.3 per cent in September 2013. This improvement in asset quality was due to the lower slippage of standard advances to non-performing advances and a Sale of NPAs to asset reconstruction companies (ARCs) in the light of the Framework on Revitalising Stressed Assets could be another reason for this improvement. Return on assets (RoA) of all SCBs remained unchanged at 0.8 per cent while return on equity (RoE) declined further from 10.2 per cent to 9.6 per cent between September 2013 and March 2014. Lower interest income and higher provisioning sharply impacted the growth in profit after tax (PAT).

Important Developments in Banking Sector

Monetary Policy Developments

During the financial year 2013-14 and even up to August, 2014, RBI followed a tight monetary policy owing to high inflation. Important changes in the policy ratios are as follows:

- Repo rate was increased to 8.0 per cent in different phases.
- Reverse Repo rate also adjusted accordingly to 7.0 per cent
- Marginal Standing Facility also adjusted according to changes in the Repo rate to 9.0 per cent.
- Bank Rate also stands at 9.0 per cent
- Cash Reserve Ratio (CRR) kept unchanged at 4.0 per cent
- Statutory Liquidity Ratio (SLR) decreased from 24.0 per cent to 22.0 per cent in various phases.

Other Regulatory Developments

Women's Bank – Bharatiya Mahila Bank

The Government has established India's first Women's Bank, Bharatiya Mahila Bank (BMB) to achieve numerous objectives including empowerment of women, facilitating their access to financial services, promoting diversified asset ownership and women entrepreneurship thereby providing impetus to the process of inclusive growth. The BMB was inaugurated in Mumbai on 19.11.2013 and has commenced its operations and expanded its operations in eight additional centres.

Capital Needs of Indian Banks for Basel III

The capital to risk weighted assets ratio (CRAR) for Indian banks under Basel III as at end March 2014 stood at a comfortable level of 12.9 per cent, although going ahead, there will be a need for raising additional capital to comply with the Basel III requirements. According to some rough estimates based on a set of assumptions, Indian banks' additional capital requirements will be to the tune of ₹ 4.95 trillion over the period of phasing in of the Basel III requirements. This estimate does not include the impact of comprehensive pillar II capital add-ons under Basel III which Indian banks have not been subjected to so far. The Reserve Bank, as part of the Supervisory Review and Evaluation Process (SREP) under pillar II of Basel III, may, if required, prescribe a Supervisory Capital Ratio (SCR) above the regulatory minimum under pillar I, which banks need to maintain on an on-going basis. The Supervisory Programme for Assessment of Risk and Capital (SPARC) framework of the Reserve Bank, under the Risk Based Supervision (RBS) regime, integrates SREP's main elements.

Non-Performing Assets

Asset quality in the banking system has deteriorated in the post-crisis years and among banks groups, PSBs had the highest level of stress in terms of NPAs and restructured advances. Some recent initiatives taken by the government to address the rising NPAs include: Appointment of nodal officers in banks for recovery at their head offices/zonal offices/for each Debts Recovery Tribunal (DRT). Thrust on recovery of loss assets by banks and designating asset reconstruction companies (ARC) resolution agents of banks. Directing the state-level bankers' committees to be proactive in resolving issues with the state governments. Sanction of fresh loans on the basis of information sharing amongst banks. Conducting sector / activity-wise analysis of NPAs. Close watch on NPAs by picking up early warning signals and ensuring timely corrective steps by banks including early detection of sign of distress, amendments in recovery laws, and strengthening of credit appraisal and post credit monitoring. The RBI's recently released a study 'Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders. Framework for Revitalizing Distressed Assets in the Economy' has suggested various steps for quicker recognition and resolution of stressed assets.

Resolution Regime for the Indian Financial System

Work relating to an effective resolution mechanism has been initiated under the aegis of the Sub-Committee of the Financial Stability and Development Council (FSDC). The working

group set up to suggest steps for strengthening the resolution regime submitted its report in January 2014. Considering the special nature of financial institutions, as well as limitations in applying corporate insolvency laws to these institutions, the working group has recommended that there should be a separate comprehensive legal framework for resolving financial institutions and financial market infrastructures (FMIs). The main recommendations of the working group are in line with FSB's key attributes and include inter-alia, establishing a single Financial Resolution Authority (FRA), developing prompt corrective action (PCA) by all regulators for the entities under their regulatory jurisdiction and a financial holding company structure to improve the resolvability of financial conglomerates.

Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households

The RBI set up the Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households (CCFS) in September 2013 under the Chairmanship of Dr Nachiket Mor. The Committee's Report was released on 7 January 2014. The Committee's recommendations are that in order to achieve the task of financial inclusion in a manner that enhances both financial inclusion and stability, there is need to move away from an exclusive focus on any one model to an approach where multiple models and partnerships are allowed to thrive, particularly between national full-service banks, regional banks of various types, NBFCs, and financial markets. The common theme of all the recommendations made by the Committee is that instead of focusing only on large generalist institutions, specialization and partnerships between specialists must be encouraged. Such an approach, in its view, would be far more effective at delivering high quality financial inclusion, without compromising financial stability or responsibility towards customers. The Committee recommended setting up of payments banks and small banks to operate in small areas and also to offer some basic banking services with a view to encourage financial inclusion initiatives of Government of India and RBI. Accordingly, RBI has issued draft guidelines on setting up of Payments Banks and Small Banks on 17th July, 2014.

Financial Inclusion

Financial inclusion is an important priority of the Government of India. The objective of financial inclusion is to extend financial services to the large hitherto unserved population of the country to unlock its growth potential. To extend the reach of banking to those outside the formal banking system, various initiatives are undertaken by the Government of India (GoI) and RBI from time to time. PSBs opened 7840 branches in 2013-14 as compared to 4432 in 2012-13. They had a total of 96,853 automated teller machines (ATMs) by January 2014 as compared to 69,652 at the end of 2012-13. Direct Benefit Transfer (DBT) by linking beneficiaries account with the Government account has been started in various States of India to enable the benefits offered by the Government to reach the beneficiary without any middlemen. Further, efforts are on to ensure each household of the country to have a bank account. These Accounts are to be integrated with DBT, credit, insurance and pension.

New Banking Licenses in the Private Sector

The RBI released 'Guidelines for Licenses of New Banks in the Private Sector' on 22 February 2013, wherein applications for setting up new banks in the private sector were invited,

for which 25 applications were received. A High Level Advisory Committee under the Chairmanship of Dr Bimal Jalan, former Governor RBI, was set up for screening these applications. The Committee submitted its Report along with its recommendations on 25 February 2014. Based on this, an internal scrutiny of the applications was done and the RBI, on 2 April 2014, granted 'in-principle' approval to two applicants, namely IDFC Limited and Bandhan Financial Services Private Limited, to set up banks under the Guidelines.

Entry of Banks in Insurance Broking Business

Hon'ble FM, in his Budget Speech 2013-14, announced that Banks will be permitted to act as insurance brokers so that the entire network of bank branches will be utilised to increase penetration. Consequent to the announcement, IRDA has formulated and notified the IRDA (Licensing of Banks as Insurance Brokers) Regulations, 2013 to enable banks to take up the business of insurance broking departmentally. Reserve Bank of India has also issued guidelines on 29.11.2013 to all Scheduled Commercial Bank and decided to permit banks to undertake insurance broking business departmentally subject to the requirements, including the minimum eligibility criteria. In the light of guidelines of RBI, Ministry of Finance has issued an advisory on 20.12.2013 to all public sector banks to implement this decision.

SIB Framework for India

There is no Indian bank in the list of global systemically important banks (G-SIBs). While the competitive structure of the industry has improved over the last two decades, there is still a significant degree of skewness in the size of the banks, as reflected by the fact that the second largest bank in the system is only around a third of the largest bank in terms of total assets (on balance sheet). The top 5 banks account for around 35 per cent of the total assets but none of the banks is seen to be large enough to becoming a significant global player. Thus, the TBTF issues being faced in most advanced jurisdictions are not as critical in the Indian context, though they remain important in terms of the evolution of the regulatory framework. The Reserve Bank released the draft framework for identification of the Domestic Systemically Important Banks (D-SIBs) in December 2013 which was finalised recently. Indicators which will be used for assessment are size, interconnectedness, substitutability and complexity, with a larger weightage (40 per cent) given to size than to the other indicators. Based on their systemic importance scores, banks will be plotted into different buckets and D-SIBs will be required to have an additional common equity Tier 1 capital requirement ranging from 0.20 per cent to 0.80 per cent of the risk-weighted assets. D-SIBs will also be subjected to differentiated supervisory requirements and higher intensity of supervision based on the risks that they pose to the financial system. The computation of systemic importance scores will be carried out at yearly intervals and the names of the banks classified as D-SIBs will be disclosed in August every year starting from 2015.

Financial Safety Net – Deposit Insurance

In view of the important role of a deposit insurance agency, setting and maintaining a suitable target level for the quantum of funding is required to ensure that there are adequate funds available in contingencies. The sources of funds are premiums collected from member institutions and the returns earned by investing these funds. Many of the deposit insurers maintain this ratio at up to 2 per cent though some of the countries go up to 5 per cent. In case of the Deposit Insurance and Credit Guarantee Corporation (DICGC), the reserve ratio (deposit insurance fund/insured

deposits) stood at 1.7 per cent at end-March 2013. While, so far there is no targeted level of the reserve ratio for DICGC, it would be desirable to set a target ratio based on a detailed assessment of the risk.

Developments in Capital Market

During 2013-14, resource mobilization through the primary market witnessed a downward movement over the previous year. The cumulative amount mobilized through equity public issues declined by 14.2 per cent. Initial public offerings (IPO) listed at the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) with a mean IPO size of ₹ 33 crore went down by 83.33 per cent compared to 2012-13. The public issue of corporate debt increased in 2013-14 by 149 per cent whereas private placement fell by 23.5 per cent. Mutual Funds (MF) mobilized ₹ 53,783 crore from the market as compared to ₹ 76,539 crore in 2012-13, a drop of 23.1 per cent. The market value of asset under management (AUM) stood at ₹ 8,25,240 crore as on 31 March 2014 compared to ₹ 7,01,443 crore as on 31 March 2013, an increase of 17.6 per cent. Indian benchmark indices BSE Sensex and NSE Nifty gained 18.8 and 18.0 per cent in fiscal year 2013-14. Among the select world indices the SPX index registered the highest percentage change of 29.6 per cent during the calendar year 2013. Sensex and Nifty meanwhile observed a percentage change of 9.0 and 6.8 per cent respectively for the same period. The total net foreign institutional investment (FII) flows stood at US $ 8.9 billion. Market turnover in the cash segment of the equity market at the BSE and NSE stood at ₹ 5,21,664 crore and ₹ 28,08,489 crore respectively in 2013-14 as compared to ₹ 5,48,774 crore and ₹ 27,08,279 crore respectively in 2012-13. In the equities derivatives segment, all three stock exchanges, NSE,BSE, and Multi-commodity Exchange Stock Exchange (MCX-SX), registered a marked increase in turnover. In the currency derivatives space, the number of contracts and turnover fell at NSE and MCX-SX in 2013-14. The fall in currency derivatives trading is due to forex volatility and the liquidity tightening measures taken by the RBI. Indian capital market, in line with global trends, was affected by the market expectation regarding the tapering of quantitative easing of the US Federal Reserve, the US Federal government shutdown in October 2013 and developments in Ukraine.

Important Regulatory Development Pertaining to Capital Markets

Corporate Bond Market

Various policy reform measures were implemented in consultation with all market regulators and the Ministry of Corporate affairs (MCA) to improve the regulatory regime and stimulate the growth of the corporate bond market. Strengthening of the legal framework for regulation of corporate debt by amendments in rules/regulations formulated by the MCA, Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFESI) Act, and Income Tax Act; Relaxation of investment guidelines for pension funds, provident funds, insurance funds, etc. to enable the inclusion of a long-term and stable class of investors; Introduction of new products or removal of legal or regulatory constraints for nascent products such as covered bonds, municipal bonds, credit default swaps, credit enhancements, and securitization receipts; Amendment in definition of deposit in Companies (Acceptance of Deposits) Rules 1975; Development of securitized debt market by ensuring clarity in taxation policy for securitized debt; Rationalization of withholding tax (WHT) on FIIs for G-Secs and corporate bonds; Relaxation of investment norms of insurance / pension funds to

encourage such funds to increase their participation in corporate bonds; Encouragement of public issuance of corporate bonds for raising Tier II capital by banks, especially since banks are viewed as more reliable by public investors; Insurance companies allowed to participate in the repo market to increase liquidity; The RBI also reduced the minimum haircut requirement in corporate debt repo. Repo in corporate debt shall also be permitted on commercial papers, certificates of deposit, and non-convertible debentures of less than one year of original maturity; Insurance companies and mutual funds allowed to participate as market makers in credit default swap (CDS) market to improve trading in this product; Setting up of central counter party (CCP) and creation of trade guarantee fund for trading in corporate bonds in stock exchanges; New trading platform and risk management system for corporate bonds including a centralized database on outstanding amount, settlement value, and traded volume to eliminate fragmentation of information. Despite all these, the corporate bond market is still not fully developed.

Insurance Sector

The insurance sector was opened up to private participation with the enactment of the Insurance Regulatory and Development Authority Act, 1999. The core functions of the Authority include (i) licensing of insurers and insurance intermediaries; (ii) financial and regulatory supervision; (iii) regulate premium rates; and (iv) protection of the interests of the policyholders. With a view to facilitating development of the insurance sector, the Authority has issued regulations on protection of the interests of policyholders; obligations towards the rural and social sectors; micro insurance and licensing of agents, corporate agents, brokers and third party administrators. Since its opening up in 2000, the number of participants in the insurance industry has gone up from 7 insurers (including the Life Insurance Corporation of India [LIC]), 4 public-sector general insurers, 1 specialized insurer, and the General Insurance Corporation (GIC) as the national re-insurer in 2000 to 53 insurers as on 31 March 2014. During 2013-14 life insurers registered a growth of 11.44 per cent. The premium Underwritten by the private sector declined by 4.01 per cent, whereas that underwritten by the LIC registered a growth of 17.64 per cent. Non-life registered a growth of 12.23 per cent. Micro insurance regulations issued by the Insurance Regulatory and Development Authority (IRDA) have provided the necessary impetus for promoting insurance to the needy sector.

Financial Stability and Development Council Secretariat

With a view to strengthening and institutionalizing the mechanism for maintaining financial stability, enhancing inter-regulatory coordination, and promoting financial-sector development, the government has set up an apex-level Financial Stability and Development Council (FSDC) in December 2010. The Council monitors macro-prudential supervision of the economy, including functioning of large financial conglomerates, and addresses inter-regulatory coordination and financial-sector development issues. It also focuses on financial literacy and financial inclusion. The council met five times and reviewed the position of asset quality and capital adequacy of the banking system in the country, National Strategy for Financial Education, recommendations of the FSLRC, impact of tapering off of the quantitative easing in the US and preventive measures to be taken, steps to be taken by regulators/government to facilitate the 'Corporate Distress Resolution Mechanism' as laid out in the Companies Act 2013, Assessment on External Sector Vulnerabilities, Issuance of Basel III Compliant Capital Instruments by Banks, etc.

Indian Financial Code (IFC)

With a view to revamping financial-sector laws to bring them in tune with current requirements, the government set up the Financial Sector Legislative Reforms Commission (FSLRC) on 24 March 2011. The Commission in its Report has given wide-ranging recommendations, both legislative and non-legislative, on the institutional, legal, and regulatory framework and operational changes in the Indian financial sector. The Report of the Financial Sector Legislative Reforms Commission, was submitted to the government on 22 March 2013. The report contained the FSLRC Draft Indian Financial Code. The Commission distilled the consensus of a decade of expert committee reports into a draft IFC, which replaces most existing Indian financial law. It sought to address present weaknesses of the Indian financial system, and meet the requirements of the Indian economy
over the coming 30 years.

Increasing Minimum Public Shareholding for Listed Companies

The Securities Contracts (Regulation) Rules (SCRR) 1957 provide for non-promoter, public shareholding for all listed companies to be 25 per cent (except for government-owned public sector enterprises where the threshold is 10 per cent). SEBI has introduced the following methods for achieving the minimum public shareholding (MPS) requirement in terms of Rules 19(2) (b) and 19A of the SCRR.

- Issuance of shares to public through prospectus.
- Offer for sale (OFS) of shares held by promoters to public through prospectus and sale of shares held by promoters through the secondary market by OFS through the stock exchange. This is coupled with a new Institutional Placement Programme (IPP).
- Rights issues to public shareholders, with promoters/promoter group shareholders foregoing their rights entitlement. The same norms apply to bonus issues.

Secondary Market Initiatives

It was a busy year in the secondary markets as many market segments were liberalized and new products like interest rate futures were launched. Other schemes and reforms include:

Small and Medium Enterprise (SME) Segment

A framework to permit small and medium enterprises, including start-up companies, to list on the SME exchange without being required to make an IPO, was announced in the Union Budget 2013-14. The issue however will be restricted to informed investors. This will be in addition to the existing SME platform on which listing can be done through an IPO and with wider investor participation. This move was made to increase SME access to capital markets.

Reduction and Harmonization of Securities Transaction Tax (STT)

The STT has been reduced for equity futures from 0.017 per cent to 0.01 per cent in 2013-14. At the same time the commodities transaction tax (CTT) rate on non-agricultural commodities futures contracts has been harmonized at the same rate as on equity futures.

External Market Initiatives

Foreign Portfolio Investor (FPI)

SEBI has notified new FPI regulations on 7 January 2014 to put in place a framework for registration and procedures with regard to foreign investors who propose to make portfolio investment in India. The RBI followed up these recommendations with announcement of FPI norms with SEBI on 25 March 2014. The portfolio investor registered in accordance with SEBI guidelines shall be called registered foreign portfolio investor (RFPI). The existing portfolio investor class, namely FII and qualified foreign investor (QFI) registered with SEBI shall be subsumed under RFPI. An RFPI may purchase and sell shares and convertible debentures of an Indian company through a registered broker on recognized stock exchanges in India as well as purchase shares and convertible debentures which are offered to public in terms of relevant SEBI guidelines/ regulations. An RFPI shall be eligible to invest in government securities and corporate debt and all exchange-traded derivative contracts on the stock exchanges subject to limits prescribed by the RBI and SEBI. This move is expected to streamline the foreign investment process in India for all FPIs.

Review of ADR/GDR Scheme

A committee was set up to review the American Depository Receipt (ADR)/Global Depository Receipt (GDR) scheme of 1993 keeping in view the new company law and the recent legislations in the financial markets; the needs of the Indian companies and foreign investors; and the need for simplification and legal clarity of the Scheme. The Committee submitted its report on 27 November 2013. The government has accepted the report and the new scheme suggested by the Committee would be notified at a later stage after the necessary tax-related amendments are made.

Enhancement of FII Debt Limits

The GoI in consultation with the RBI has progressively enhanced the limits for FII investments in the domestic debt (G-Sec as well as corporate debt) market keeping in view India's evolving acroeconomic scenario. The FII debt limits have now been enhanced to US$ 81 billion (corporate bond US$ 51 billion and G-Secs US$ 30 billion) from the earlier US$ 66 billion.

Insurance Sector

Since its opening up in 2000, the number of participants in the insurance industry has gone up from 7 insurers (including the Life Insurance Corporation of India [LIC]), 4 public-sector general insurers, 1 specialized insurer, and the General Insurance Corporation (GIC) as the national re-insurer in 2000 to 53 insurers as on 31 March 2014 operating in the life, non-life, and re-insurance segments.

Life Insurance

During 2013-14 life insurers underwrote first-year premium of ₹ 1,19,641 crore as against ₹ 1,07,361 crore during 2012-13, registering a growth of 11.44 per cent. The premium

underwritten by the private sector declined by 4.01 per cent, whereas that underwritten by the LIC registered a growth of 17.64 per cent.

Non-Life Insurance

During 2013-14, non-life insurers including standalone health insurers and specialized insurers (Export Credit Guarantee Scheme [ECGC] and Agriculture insurance company [AIC]) underwrote premium worth ₹ 77,583 crore as against ₹ 69,089 crore during 2012-13, registering a growth of 12.23 per cent.

Micro Insurance

Micro insurance regulations issued by the Insurance Regulatory and Development Authority (IRDA) have provided the necessary impetus for promoting insurance to the needy sector. There were 17,052 micro insurance agents operating in the micro insurance sector as of end 2012-13, a 35 per cent increase as compared to 2011-12. In micro insurance-life, the individual new business premium in the year was ₹ 109.68 crore under 50.36 lakh policies, which is marginally lower than ₹ 115.68 crore raised under 46.20 lakh policies in 2011-12. The group business amounted to ₹ 218.03 crore premium under 139.81 lakh lives in 2012-13.

Insurance Penetration and Density

Insurance penetration is defined as the ratio of premium underwritten in a given year to the GDP. Likewise, insurance density is defined as the ratio of premium underwritten in a given year to the total population. Insurance penetration has grown from 2.3 per cent (life 1.8 per cent and non-life 0.7 per cent) in 2000 to 3.96 per cent (life 3.17 per cent and non-life 0.78 per cent) in 2012.

Pension Sector

The New Pension System (NPS) now called National Pension System was introduced by replacing the existing defined benefit pension system for the new recruits joining government service on or after January 2004. Till 7th May 2014 a total of 67.41 lakh subscriptions have been enrolled under the NPS with a corpus of ₹ 51,147 crore. From May 2009, the NPS was opened up for all citizens in India to join on a voluntary basis. The Swavalamban Scheme for workers in the unorganized sector launched in 2010, initially for three years for the beneficiaries who enrolled themselves in 2010-11, has now been extended to five years for the beneficiaries enrolled in 2010-11, 2011-12, and 2012-13 and thus the benefits of co-contribution under the Scheme would be available till 2016-17. A customized version of the core NPS model, known as the NPS Corporate Sector Model was also introduced from December 2011 to enable organized-sector entities to move their existing and prospective employees to the NPS under its Corporate Model. All the public-sector banks, which also act as points of presence for the NPS, have been asked to provide a link on their websites to enable individual subscribers to open online NPS Accounts.

The Pension Fund Regulatory and Development Authority (PFRDA) Act 2013 has been made effective from 1 February 2014, after it was passed by Parliament in September 2013. The PFRDA Act 2013 seeks to vest the PFRDA with statutory status in order to allow it to perform its

regulatory and developmental roles effectively and to extend the social security cover to hitherto uncovered working population through the NPS.

IRELAND

Executive Summary of Developments

Our Retail team focused a considerable amount of its time and effort on the personal and mortgage debt agenda as we worked on an extensive range of support initiatives designed to positively shape and influence policymaking and practice. These included extensive discussions with the Central Bank of Ireland (CBI) on pilot results for the treatment of multi-indebted distressed borrowers; Re-possessions Framework, engagement with the Insolvency Service of Ireland (ISI) on the operation of the new Personal Insolvency regime.
Initial work has started on a Central Credit Register and this will gain momentum as the year progresses.

In our Capital Markets and Risk team considerable effort was expended in influencing critical legislation that directly impacts on members. Significant progress was made on the Bank Recovery and Resolution Directive and Deposit Guarantee Scheme, both of which were approved by the European Parliament in April. Supervisory Reporting was another area which was a priority for members given the changes to the FINREP and COREP frameworks.
On the EU and International front we continued to invest considerable time and effort in Brussels with a view to shaping and influencing legislation that affects our members. To further enhance our effectiveness members also made a decision that IBF should open a representative office in Brussels. This office, in the EBF building on Avenue des Arts, will be a base for IBF staff visiting Brussels and will have meeting room facilities.

IBF and the Irish Payment Services Organisation (IPSO) have decided to integrate the two organisations into a single entity, Banking and Payments Federation Ireland.

Central Credit Register

The Credit Reporting Act was commenced by Minister Michael Noonan in January 2014, with all sections of the Act commenced including that permitting the collection of the PPSN. The Central Bank's Central Credit Register (CCR) project commenced engagement with interested parties in January, with the IBF participating in "data" workshops throughout January and February. This series of workshops was focused on the Central Bank gaining a better understanding of the data available for reporting into a Register now and assessing the feasibility of various other data fields being reported under the new system.

Mortgage Arrears

Lenders continue to implement the regulatory requirements established by the Central Bank of Ireland (CBI) under the Code of Conduct on Mortgage Arrears. Mortgage lenders have introduced a range of forbearance initiatives for borrowers in difficulty with regard to their Principal Private Residence. In March 2013 the Central Bank began setting Mortgage Arrears

Resolution Targets, which banks are required to meet on a quarterly basis in terms of offering and concluding sustainable solutions for those in mortgage arrears. The Central Bank has now set its expectations for the banks to the end of 2014, which will require the banks to propose sustainable solutions to 85% of customers over 90 days in arrears and for concluded solutions to reach 45% by the end of 2014.

Insolvency

The Irish Government enacted legislation to overhaul the insolvency framework in 2013 which included the establishment of the Insolvency Service of Ireland (ISI) to oversee activity in this area. The insolvency framework includes three types of debt solutions: Personal Insolvency Arrangement (PIA) for both unsecured and secured debt (up to €3m); Debt Settlement Arrangement (DSA) for unsecured credit (no limit); and Debt Relief Notice (DRN) for debt < €20,000. The commencement of a package of bankruptcy reforms was also introduced in 2013 and a new division has been established in the ISI to deal with an expected increase in petitions. There will now be automatic discharge from bankruptcy after three years from the date of adjudication.

Mortgage Market Developments

Following a significant period of low transaction activity in the housing market, we have recently seen a return to a more active mortgage market underpinned by a steady recovery in the Irish economy. While the volume of transactions remains relatively low, despite apparent levels of consumer demand for housing, both loan 'approvals and 'drawdown' data are showing increased levels of growth. Mortgage approvals increased in Q2 2014 by 46.1% year-on-year along with a rise in gross new lending of 48.7% year-on-year albeit from a very low base level of activity.

Residential property prices rose by 12.5% in the year to June 2014, according to official Central Statistics Office figures, the strongest appreciation in prices since April 2007. As in all recent quarters, these increases are being driven by trends in Dublin, where prices are 24% higher than a year ago, a rate of increase larger than any seen since the start of the CSO index in 2005 (the previous high being 22.5% in August 2006). However, prices are also rising outside Dublin, with a 3.4% year-on-year increase registered in the year to June.

Variable Remuneration Arrangements

The Central Bank published Guidelines on the Variable Remuneration Arrangements for Sales Staff in July 2014, following the completion of a cross-sectoral review of incentives payable to employees of banks, insurance companies and investment firms. The review was established to gauge the extent to which incentive arrangements were operated in the best interests of consumers in their design, management and monitoring. The Board of each firm must confirm to the Central Bank that a review of variable remuneration arrangements has been undertaken and a revised structure implemented where necessary, in advance of the remuneration period commencing on 1 January 2015.

Capital Requirements Directive (CRD) IV and Capital Requirements Regulation (CRR)

CRD IV and CRR were signed off for the European Union under the Irish Presidency in June 2013, with implementation beginning in 2014. They became effective in Ireland under the Irish Government Statutory Instruments SI Nos 158 and 159 of 2014, published in March 2014. Associated National Discretions and Options of these regulations, as applied by the Central Bank of Ireland (CBI), were published by the CBI in May 2013 under 'Implementation of Competent Authority Discretions and Options in CRD IV and CRR'. In general the CBI approach has been to take the more prudential approach to such discretions and options.

The CRR/ CRD includes higher capital requirements for all banks; additional capital buffers; leverage ratio; new short & medium term liquidity requirements, increased disclosure and higher governance. In order to speed up overall CRR/ CRD approval, many detailed aspects were deferred for later consideration as Regulatory or Implementing Technical Standards. These are now being progressed at EU level through the European Banking Authority.

Corporate Governance Code (CGC)

The Central Bank of Ireland undertook a wide ranging review of the 2010 CGC Code during 2013, with significant industry input. The revised 2013 Code was published in December 2013. It contains many positive proposals and welcome amendments, with increased flexibility and proportionality, and a more practical approach in many areas. The Code brings an increased role for the Risk Committee and the requirement for a Chief Risk Officer role in all institutions. The new Code comes into effect from 1st January 2015, allowing a reasonable lead in amendments. The CBI has in general aligned its corporate governance requirements with those of the CRD IV. In cases where there is a difference between EU and CBI requirements, the more stringent framework will apply.

Single Supervisory Mechanism

As a member of the Eurozone financial regime the Irish banks which are considered systemically important are taking part in the evolving SSM developments, including the Asset Quality Review, Stress Testing of portfolios and subsequent change in their supervision to be led by the ECB.

ITALY

Banking Industry Overview

In the last few months the market is taking a more constructive stance on Italian banks, thanks to: their solid progress on balance sheet restructuring and recapitalization; a better operating environment, partly due to the reduction in the sovereign spread that contributed to the normalization of funding conditions; the falling operating costs; the increase of the asset management volumes and fee-based income more generally.

A confirmation to the above comes from the positive market reaction to the 2013 economic results released by the major Italian banks: after an initial negative surprise due to the higher than expected losses, it seems banks' management have correctly interpreted the sentiment of the market which is to clear the decks of uncertainties regarding the "real value of the balance sheet" even if this may impact on the equity position. New business plans presented by some banks at the beginning of this year have also encountered the interests of the market, mainly due to the prospect of a profitability recovery, even if at this stage, according to the analysts assessment, some execution risks remain and the profitability normalization could still take time to be fully reached.

The economic performance of the Italian banking sector is still constrained by the slow recovery of the economy, the key factor in the profitability of Italian banks, as a result of their business model, which implies a strong correlation between banks' performance and domestic economic growth. Therefore, a full recovery of profitability will be achieved only through the combination of endogenous actions by the banks with external interventions.

With respect to the first, whilst an important revenue contribution can come from the exploitation of the substantial and still untapped growth potential in many financial products and services (eg. current accounts, credit cards, asset management, life & non-life insurance products, pension funds, mortgages), in the short & medium term profitability recovery is expected to be achieved mainly by additional effective cost cutting measures.

With respect to the external interventions, the current Government has already acted in a proper way to reinforce domestic demand and, to reinforce the supply side, has a tight agenda for reforms which, if well implemented, could prove beneficial for the Italian economy as a whole (sustaining the on-going recovery) and thus for the banking sector.

New ECB monetary policy measures (TLTROs) can also help, even if the liquidity conditions today are much better than end of 2011/beginning of 2012, and hence the impact on the credit stock will keep depending mostly on the easing of firms' riskiness and therefore on the consolidation of the on-going real economy recovery.

Finally, but equally important, the future performance of the banking sector will also depend on the removal of significant competitive disadvantages that affect Italian banks with respect to many European peers, and that we expect to be removed by the Single Supervisory Mechanism once, after the asset quality review and the stress test exercises (both of which should deliver not negative outcomes for Italian banks with respect to their peers), it will become fully operational.

Regulation and Supervision of Banks

Unfair Commercial Practices

Italian Legislative Decree No. 21/2014 introduced some new amendments regarding unfair commercial practices covered by the Consumer Code (Italian Legislative Decree No. 206/2005). The amendments concerned, among other issues, the question about the Competition Commission (*Autorità Garante per la Concorrenza ed il Mercato* – AGCM) competence to intervene in sectors

where specific regulation – also aimed at protecting the consumer – are applied by different Authorities (i.e. the Bank of Italy for banking services).

The Legislative Decree reasserts the role of the AGCM stating that, even in regulated sectors, the power to intervene with respect to conducts of traders that are assessed as "unfair commercial practices" shall lie exclusively with the AGCM which acts on the basis of the powers granted by the Consumer Code, after getting the opinion of the competent Regulatory Authority. The Authorities may sign memorandums of understanding on the application and procedures with respect to the mutual cooperation pursuant to respective competences.

Internal Controls

July 2013 **-** Bank of Italy issued the new regulation of internal controls, effective from 1st of July 2014. The regulation urges banks to further strengthen their capacity to manage business risks, requiring that they should establish a system of reliable internal controls. Particularly important is the active involvement of top management in the management of the bank and in the understanding of the risks inherent in the business. The framework relies on a few basic principles, consistent with international best practices and recommendations of the major standard setters (Financial Stability Board, Basel Committee on Banking Supervision, EBA).

Corporate Governance

May 2014 **-** Bank of Italy issued the new rules of corporate governance of banks, already in force in many parts. The provisions aim to transpose CRD IV and EBA Guidelines on internal controls and suitability of the board.

The main topics covered by this regulation are: the establishment, composition and functions of the committees within the board of directors; the involvement of the directors, to ensure that everyone acts with independence of judgment and sufficient time; induction programs for the persons who hold key positions; information to be given on the website.

Local Regulation within the Scope of Over-the-Counter Derivatives

As it regards the developments in the Italian local regulation within the scope of over-the-counter derivatives, the main developments during the period under review relate to the entry into force of Regulation EU n.648/2012, i.e. EMIR. Its entry into force has born some new specifications in the Italian Consolidated Law on Finance, Legislative Decree n.58 of 24 February 1998. Specifically, some definitions have been transposed from the Regulation (such is the case for "central counterparty") and new Articles (art. 4-quarter) were introduced in order to: A) identify the competences of national authorities (*Consob* and Bank of Italy) for i) the authorisation and supervision of the central counterparties; ii) the cooperation and the exchange of information with the European Commission, ESMA, the competent authorities of the other Member States, the EBA and the relevant members of the European System of Central Banks (ESCB); iii) the respect of the obligations bearing on the financial and non-financial counterparties; B) align some details of the (article 69) liquidation of transactions on non-derivative financial instruments; C) specify the new process for the authorization of CCPs (article 69-bis); D) replace previous rules on the Guarantees acquired in the exercise of the central counterparty's activity (article 70); and E)

update the framework for fines relative to the breach of the provisions reported in Regulation n. 648/2012 (article 193-quater).

In addition to the changes to the Italian Consolidated Law on Finance, the entry into force on the 12th of February 2014 of the obligation to report to trade repositories all transactions in derivative financial instruments (i.e. OTC and non-OTC), has prompted the entire banking and financial industry, during the course of the months preceding the entry into force of such obligation, to launch internal assessments aimed at understanding how to structure the reporting prescribed by EMIR. Such in-depth analysis allowed the identification by the Italian Banking Association, and by the financial industry at large, of a number of issues related to the actual correct identification of the trades to be reported, in order to be certain not to include transaction not following within the scope of this obligation. Thus, during 2013 and later on in February 2014, the banking industry produced a document highlighting a selection of specific issues on which it asked the national and European authorities to focus their attention, much in advance of the entry into force of the reporting obligation. Among the instances signalled are the following:

- Applicability of the Regulation n.648/2012 (i) to some specific instruments on currencies which are currently not classified as "financial instruments" (forwards on currencies with physical delivery of the underlying) and (ii) to some specific types of foreign exchange swap transactions (FX Swaps) which the Italian regulation would not deem as "financial instruments" . This matter prompted ESMA to ask the European Commission to consider the issue and the European Commission to issue a public consultation (in the scope of the current MiFID Directive);

- (Reporting Schemes for Exchange Traded Derivatives) i.e. the appropriateness to pass on (or not to pass on) sensitive information on clients, when necessary for a complete and correct reporting, in those cases where a clearing member does not receive such information by the other operators in the chain due to the presence of an intermediary playing the role of reception and transmission of orders (a person which is not subject to the scope of application of EMIR's reporting obligation).

Italian Digital Agenda and Digital Administration Code

In February 2014, *Agenzia per l'Italia digitale* (Agency for Digital Italy) issued the Guidelines implementing art. 5 of the Legislative Decree no. 82/2005 (Digital Administration Code), concerning the execution of electronic payments in favour of Public administrations and companies managing public services. The Guidelines provide the framework for an extensive reform of the system through which Public Administrations collect funds, and that has a major impact on central Government, local administrations, providers of payment services (PSP), private companies and citizens alike.

Specifically, PSPs will have to engage in new technical and contractual scenarios for the collection services offered to local public authorities. The objective of the new framework – which will have to be fully in place by the end of 2015 – is to allow any citizen or enterprise to pay any amounts due to the public sector via electronic payment instruments.

JAPAN

Market Developments

Start of NISA

In January 2014, a new tax exemption program for small investments called "NISA", short for Nippon (Japan) Individual Savings Account, started in Japan. Modeled after the Individual Savings Account (ISA) in the United Kingdom, NISA has the following objectives:

- To encourage people in preparing for the future by accumulating financial assets (supporting the formation of stable assets by households), and
- To utilize effectively the financial assets of households for economic growth (expanding the supply of funds from households for economic growth).

NISA is characterized by a tax exemption of 20% for 5 years at the longest on dividends and capital gains from newly purchased listed stocks and investment trusts, with annual investments of up to one million yen (approximately US$10,000). As of March 31, 2014, approximately 6.50 million NISA accounts have been created.

Establishment of JBA TIBOR Administration, a New Entity

On April 1, 2014, the Japanese Bankers Association (JBA) established the JBA TIBOR Administration (JBATA) and transferred operations of the JBA TIBOR calculation and publication to JBATA.

JBA discussed measures to maintain and enhance the credibility and transparency of the JBA TIBOR, taking into account global trends such as the Principles for Financial Benchmarks by the International Organization of Securities Commissions (IOSCO) as well as the discussions in Japan on how financial benchmarks should be regulated.

Based on the discussion, JBA publicized the Report on the Review of JBA TIBOR Administration on December 27, 2013, announcing that it would form a legal entity that undertakes TIBOR calculation and publication in order to establish a more neutral administration framework, and that JBA would transfer its TIBOR calculation and publication operations to this entity, JBATA.

JBATA, to which operations were transferred from JBA on April 1, 2014, established the JBA TIBOR Oversight Committee, which is primarily comprised of external experts, under the Board of Directors to secure fairness and transparency of benchmark administration. JBATA will work to reinforce the administration of JBA TIBOR so that it will be recognized internationally as a benchmark that conforms to IOSCO's Principles for Financial Benchmarks and will continue to be used widely as a representative benchmark for the Japanese yen interest rates.

Major Mergers

On July 1, 2013, Mizuho Bank, Ltd. and Mizuho Corporate Bank, Ltd. merged to form a single entity named Mizuho Bank, Ltd.

Mizuho Financial Group, Mizuho Bank and Mizuho Corporate Bank decided on November 14, 2011 to merge Mizuho Bank and Mizuho Corporate Bank, fully-owned subsidiaries of Mizuho Financial Group, in the first half of 2013 as a target. This decision was made based on the conditions that the filing to and approval by relevant authorities in Japan and abroad should be made, and a basic agreement had been executed between the three entities for specific investigations and discussions.

Regulatory Developments

Application of IFRS

In June 2013, the Business Accounting Council of the Financial Services Agency issued the Present Policy on the Application of International Financial Reporting Standards (IFRS), summarizing its opinions on the three points of 1) "Relaxation of statutory requirements for eligibility to voluntary application of IFRS," 2) "A process to incorporate IFRS" and 3) "Simplification of the disclosure of non-consolidated (single-entity) financial statements."

For the 1) "Relaxation of statutory requirements for eligibility to voluntary application of IFRS," the existing regime for voluntary application of IFRS requires the Japanese companies to satisfy three requirements – a) being a listed company in Japan; b) having established an appropriate internal framework for IFRS-based consolidated financial reporting; and c) conducting financial or business activities internationally – in order to prepare their consolidated financial statements by applying IFRS. Of these requirements, the Policy insisted that requirements a) and b) should be eliminated.

With regard to 2) "A process to incorporate IFRS," the Policy considered that, aside from using pure IFRS, it is useful to create an endorsement system that examines individual standards from Japan's viewpoint and adopts the standards after deleting or revising some standards as necessary. Regarding the specific endorsement process in Japan, the Policy says it is appropriate to adopt the method in which the Accounting Standards Board of Japan (ASBJ) first examines the standards, and then the authority designates individual standards that have been examined by ASBJ.

As for 3) "Simplification of the disclosure of non-consolidated financial statements," the Policy claimed that it is appropriate to examine the simplification of the disclosure of non-consolidated financial statements required under the Financial Instruments and Exchange Act (FIEA).

Laws and regulations have been revised based on the above-mentioned Present Policy, relaxing the statutory requirements for eligibility to voluntary application of IFRS and allowing companies that prepare consolidated financial statements to simplify the disclosure of non-consolidated financial statements for some matters. In addition, regarding the process to

incorporate IFRS, a "Working Group for Endorsement of IFRSs" has been established at ASBJ and investigations have started.

Capital Adequacy Regulations

In February 2014, the Financial Services Agency (FSA) made revisions to its notification regarding the capital adequacy ratio regulation (Pillar 3), determining the disclosure items regarding capital composition, qualitative disclosure items and quantitative disclosure items for banks applying domestic standards to disclose.

Moreover, in association with the above revision, a revision was made to the notification for banks applying international standards and having a certain asset size, with regard to disclosure of benchmarks for selecting global systematically important banks (G-SIBs). These notifications, etc. were applied starting on March 31, 2014.

Finance for Small and Medium Enterprises

In fiscal 2013, amid the growing necessity to cope with the small and medium enterprises (SMEs) for which the applicable period of SME Finance Facilitation Act has expired (as in the previous fiscal year), JBA and The Japan Chamber of Commerce and Industry established the Study Group on the Guidelines Regarding Personal Guarantee at SMEs, given the "Report by the Study Group Regarding Personal Guarantee, etc. at SMEs" publicized by the FSA and the Small and Medium Enterprise Agency on May 2, 2013, and conducted discussions in order to effect solutions for issues regarding personal guarantee at SMEs upon such occasions as execution and implementation of contracts. As a result of the discussions, the "Guidelines Regarding Personal Guarantee at SMEs" (hereafter, the "Guidelines") were compiled.

To cope with the situations upon executing guarantee agreements, etc., the Guidelines requires financial institutions (1) to ensure that an SME is structured to separate management and ownership when an SME wishes to borrow money without providing management guarantee, (2) to make best efforts to explain the necessity of management guarantee and appropriateness of the guarantee amount when an SME must unavoidably execute such management guarantee agreement, and (3) to flexibly review remaining assets after liquidation, as long as economic rationality is maintained, for a SME owner who wishes to restart his new business when he has decided at an early stage to terminate his own SME business revitalization.

Proactively using of these Guidelines by SMEs in lending practices, financial institutions and other parties related to management guarantee are expected to 1) construct and reinforce good relationships between SMEs, management and financial institutions on an ongoing basis, 2) enhance the willingness of SMEs to make efforts at each of their business stages, and 3) further exert the vitality of SMEs through the facilitation of SME financing, eventually helping the vitalization of the Japanese economy.

Enforcement of the Revised Deposit Insurance Act

On March 6, 2014, the revised Deposit Insurance Act was put into effect as part of the Act for Amendment of the Financial Instruments and Exchange Act, etc.

The revision has established a framework for orderly resolution of financial institutions in response to systemic crises that may spread through the market and other channels. The framework covers the entire financial industry (including deposit-taking financial institutions, insurance companies, financial instruments business operators and financial holding companies).

When the Prime Minister confirms the need to implement the orderly resolution of financial institutions following deliberations by the Financial System Management Council (comprised of the Prime Minister (chairman), Chief Cabinet Secretary, Minister of Finance, Minister of State for Financial Services, Governor of the Bank of Japan and Commissioner of the Minister of the Financial Services Agency), 1) critical market transactions shall be executed through provision of liquidity and other measures (financial assistance and capital enhancement may be undertaken as necessary), and 2) measures needed for orderly resolution (such as restrictions on early cancellation) shall be taken, under the oversight by the Deposit Insurance Corporation, etc. In addition, expenses for these measures shall be borne ex post by the financial institutions as a general rule (government assistance may be given in exceptional cases).

Enactment of Amendments to the Companies Act

The Amendment of the Companies Act was enacted on June 20, 2014, and was promulgated on June 27.

The purpose of the amendments was to enhance the corporate governance of the stock companies by the outsider directors, etc. As a result of the amendments, in case where a stock company that is a “Company with Board of Auditors” (a large, public company) and obliged to submit securities reports regarding the stocks it issues has not appointed any outside directors, the company is required to explain why it is inappropriate for it to not appoint outside directors at its general meeting of shareholders in the relevant fiscal year. In addition, along with other amendments, the amendments allow shareholders, etc. that have more than 1% of the voting rights of a wholly-owning parent company, etc. to file an action for pursuing the liability of certain subsidiaries’ officers of the parent company.

Furthermore, the date of enforcement of the revised Act shall be the day specified by the Cabinet Order of within a period not exceeding a year and six months from the date of promulgation.

Moreover, the amendments call for the government to consider the status of appointing outside directors, etc. after two years have passed since the enforcement of the law and, if deemed necessary, to take required measures such as obliging relevant companies to appoint outside directors.

LATVIA

Market Developments

During the period under review, as in the previous year, the GDP growth in Latvia was the highest in the EU (4.1% at the end of 2013). Unlike 2012, when exports, investments and private

consumption contributed equally to GDP growth, the main driver of growth in 2013 was private consumption. Inflation was atypically low (0% on average) given the recovery in the economic activity, and mostly external and supply-side factors determined that development.

The year 2013 in the financial sector was a year of moderate development, with continuing improvements in the key performance ratios. All the credit institutions in Latvia complied with the regulatory requirements. Still the comparatively low lending activity determined the high level of the liquid assets and the liquidity ratio retained a high level, 64.4% at the end of 2013. The bank capitalization level improved, as a number of banks had made use of the possibility to strengthen their capital base and by the end of 2013 the capital adequacy ratio was 18.9%, whereas the tier 1 ratio stood at 17.3%.

Financial Sector Regulation

As in the previous years, the legislative activity that has been taking place in Latvia during the period from 1 July 2013 through 30 June 2014 has largely been a result of the requirement to transpose the applicable European Directives into Latvian laws and, with respect to financial matters, laws corresponding to a certain extent to the various agreements adopted by different bodies of the European Union.

As Latvia joined the euro zone on 1 January 2014, amendments related to the adoption of the euro currency to a number of laws and the FCMC's regulations were adopted in the reporting period.

Amendments to Laws

On 26 June 2013, the CRD IV Directive[14] and CRR Regulation[15] were approved, introducing Basel III requirements in the EU. The new regulatory framework covers the following subjects among others: the countercyclical capital buffers, issues on macro-prudential oversight, provisions on sanctions, effective corporate governance mechanisms, enhanced supervision and provisions preventing the overreliance on external credit ratings. In order to ensure harmonized application of the EU regulatory framework and promote the uniformed development of the financial market, most of the regulatory requirements are set in the CRR Regulation, which is directly applicable. In order to implement the provisions of the CRD IV Directive into Latvian legislation the **amendments to the Credit Institution Law** and **amendments to the Law on the Financial Instruments Market** were developed during 2013 and adopted by the Parliament in April 2014. In order to promote greater transparency regarding decisions taken during the supervision process, all the decisions taken by the FCMC on penalties imposed on credit institutions and for certain types of sanctions to investment firms have been publicly available as of 2014. New arrangements enter into force with the amendments to the Credit Institution Law and the Law on the Financial Instruments Market, stemming from the EU's financial sector regulatory reform – regulations and directives on capital requirements.

[14] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC

[15] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 48/2012

On 9 July 2013, the Parliament adopted the **Law on Alternative Investment Fund Managers** which entered into force on 7 August 2013. The Law contains provisions stemming from the AIFMD Directive[16]. The aim of the Law is to promote stability and development of the financial system, eliminating potential impact of risks on the financial system arising from the activities of the alternative investment fund managers, as well as to ensure effective co-operation among the supervisory authorities in monitoring and mitigating the risks. The Law introduces a uniform legal framework for financial market participants who provide fund management services in accordance with the EU Directive. The Law applies to investment management companies, which are closed-end management investment funds, and venture capital fund managers, whose activities previously were not subject to the supervision of the FCMC.

On 19 June 2014, the Parliament in its second reading adopted **amendments to the Law on the Prevention of Laundering the Proceeds from Criminal Activity (Money Laundering) and of Terrorist Financing** drafted by an Inter-Agency Working Group during 2013, in order to harmonize Latvian AML/CFT system with international standards. These amendments are focused on strengthening risk based approach, improving the regulation for supervision of financial institutions as well as improving the regulation for rights of the FIU to request information and freeze funds.

In 2014, to ensure gradual phase-in of the Solvency II regime, the FCMC plans to implement the EIOPA guidelines for the preparatory phase (Guidelines for the preparation of Solvency II) with regard to the management system, the own risk and solvency assessment, preparation of reports during the preparatory phase and internal models' pre-application process. In 2014, the FCMC will continue its work on drafting **the Law on Insurance and Reinsurance** in order to implement the requirements of the Solvency II[17] and the Omnibus II[18] Directives into national legislation by 31 March 2015.

The FCMC has started its work on drafting a new **Recovery and Resolution Law** with intention to create the Latvian legal framework for early intervention, recovery and resolution and transposing requirements of the BRRD Directive[19] applicable as of 1 January 2015. It is planned that the main policy measures of the Law will include the introduction of recovery and resolution plans, including the tasks for the resolution authority set up within the FCMC's structure to prepare resolution plans, as well as the option for early intervention by the FCMC and regulation of bail-in tools.

Most Important New Regulatory Provisions and Amendments to Regulations

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[16] Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010

[17] Proposal for a Directive of the European Parliament and of the Council concerning life assurance on the taking-up and pursuit of the business of Insurance and Reinsurance

[18] Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directives 2003/71/EC and 2009/138/EC and Regulations (EC) No 1060/2009, (EU) No 1094/2010 and (EU) No 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority)

[19] Directive of the European Parliament and Council establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council

In order to align the CRR Regulation with the Latvian legislation, during 2013, the FCMC approved new legislative provisions, amended ten and cancelled six of the FCMC's regulations, among them: "Regulations on application of option provided and transitional arrangements set by the European Parliament and Council Regulation (EU) No. 575/2013 (26 June 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012", establishing a regulatory framework for application of the option and transitional arrangements defined in Regulation No. 575/2013 in the Republic of Latvia, including the regulation for own capital adequacy calculations; risk weights applicable to loans secured by the commercial properties for the calculation of credit risk capital requirements; large exposure limits; and liquidity requirements for investment firms.

During the reporting period the FCMC also continued to improve regulatory framework for the financial and capital markets based on the guidelines of the EU institutions and international best practices, taking into account the specifics of the Latvian financial sector. The most important regulations adopted are: "Regulations on preparation and submission of information on occurrence of operational risk events" aiming to provide the FCMC with the relevant information necessary for supervision purposes on occurrence of operational risk events.

In 2013, based on the EBA "Guidelines on the assessment of the suitability of members of the management body and key function holders" the FCMC developed the "Recommendations for assessment of the suitability of board and council members, and a person who performs basic functions", setting criteria and processes that institutions are advised to follow in assessing elected (appointed) board and council members and persons who perform the basic functions in the credit institution.

To ensure implementation of the requirements set in the ESMA's "Guidelines for competent authorities and UCITS management companies on ETFs and other UCITS issues" into Latvian legislation, the FCMC has developed its "Regulations on requirements for investment funds' investment objectives, transactions and funds performing specific types of activities" binding to companies establishing and managing funds in Latvia. Regulations prescribe the requirements for investment funds' investment objectives and transactions that the investment management companies perform on behalf of the fund, for the funds that replicate the structure of the securities index, for the funds that follow a financial index, the funds with leverage funds that follow a financial index, the funds traded on a regulated market as well as disclosure requirements of the fund's prospectus, key investor information and other materials for the above mentioned funds and transactions.

LUXEMBOURG

- Law of 30 July 2013 on the modernisation of accounting law and the reform of the Commission des Normes Comptables.

- CSSF (Commission de Surveillance du Secteur Financier) Regulation n°13-02 of 15 October 2013 relating to out-of-court dispute settlement. The aim is to facilitate the

resolution of complaints against professionals out of court.

- Law of 10 March 2014 amending the Law of 10 August 1915 on commercial companies in order to implement Council Regulation 1435/2003 regarding the statute for a European Cooperative Society.

- Law of 26 March 2014 transposing article 8 of Directive 2011/16/EU of 15 February 2011 on the administrative cooperation in the field of taxation and modifying
  1. Law of 29 March 2013 on administrative cooperation in the field of taxation
  2. Law of 4 December 1967 on income tax.

- Law of 2 April 2014 transposing
  - Directive 2009/133/EC of 19 October 2009 on the common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States and to the transfer of the registered office of an SE or SCE between Member States.
  - Directive 2011/96/UE of 30 November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States.
  - Directive 2013/13/UE of 13 May 2013 adapting certain directives in the field of taxation.

- Law of 26 May 2014, approving Convention on mutual administrative assistance in Tax Matters and the Protocol of Amendment, signed in Paris, on 29 May 2013 and modifying general tax law.

- Law of 26 May 2014 transposing article 5 of Directive 2008/CE of Council of 12 February 2008 modifying Directive 2006/112/EC as regards the place of supply of service - modifying Law of 12 February 1979 on value added tax.

- Draft bill n°6624 on the reform of the legal publication regarding companies and associations modifying amended Law of 19 December 2002 on trade and companies register and accounting and accoounts of companies.

- Draft bill n°6625 relating to the lock-up of bearer shares and the keeping of the share and bearer register and modifying Law of 10 August 1915 on commercial companies and modifying law of 5 August 2005 regarding financial guarantee contract.

- Draft bill n°6680 on the procedure for the exchange of information on demand in tax matters and modifying Law of 31 March 2010 approving tax conventions and the procedure applicable in case of exchange of information on demand.

- Draft bill n°6668 modifying: 1. amended Law of 21 June 2005 transposing in Luxembourg law directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments. 2. Amended Law of 23 December 2005 introducing a withholding tax on certain interests on savings. 3. Law of 21 June 2005 approving agreements concluded with dependent or associated territories of the Member States of the EU on taxation of savings income in the form of interest payments.

- Draft bill n°6595 on private foundation.

THE NETHERLANDS

Dutch Banking Association (NVB)

The Nederlandse Vereniging van Banken (NVB) is the representative voice of the Dutch banking community with 82 member banks, large and small, domestic and international, carrying out business in the Dutch market and overseas. The NVB strives towards a strong, healthy and internationally competitive banking industry in the Netherlands, whilst working towards wider single market aims in Europe.

Dutch Banking Sector

71 banks
2,165 bank offices
249,194 ATM's
23,482,098 bank accounts
325 billion Euro in saving accounts

Euronext

The stock exchange in Amsterdam, NYSE Euronext Amsterdam, is part of the InterContinental Exchange group. The InterContinental Exchange Group has spun off Euronext through an initial public offering in the summer of 2014. This move will make Euronext an independent stock exchange. Euronext, which operates stock exchanges across Europe, plans to initially list its shares in Paris, Amsterdam, Brussels and later on in Lisbon. One of the driving forces behind that deal was InterContinental Exchange's desire to acquire NYSE Euronext's European derivatives business, known as Liffe.

Remuneration Policy of Financial Undertakings

The Dutch government formulated a 20% bonus cap in its coalition agreement. On 26 November 2013, the government published a draft legislative proposal of the Act on the Remuneration Policy of Financial Undertakings, including this bonus cap. This proposal intends to implement the bonus cap in January 2015. The proposed Dutch bonus cap applies to all financial undertakings incorporated or established under Dutch law. With this proposal the Netherlands will have the strictest bonus policy of the European Union because a bonus with a maximum of 200% of the annual fixed salary has been decided at European level. The proposal further introduces a restriction on a bonus when leaving the company voluntarily. Moreover, when a board member leaves the company a payout of one annual salary is the maximum amount for a leaving bonus.

The bonus cap will not apply to managers of investment institutions, managers of UCITS and investment firms that act solely and exclusively for their own account with their own funds and capital and that do not have external clients. Moreover, financial institutions that primarily have activities abroad are exempted from the Remuneration Policy.

Regulation on Financial Supervision

On 1 January 2014 a new version of the Regulation on financial supervision became legally binding. In this regulation, among others, a general duty of care for financial services providers has been introduced, a ban on inducements for investment services has been implemented.

European Banking Union

The most significant change for Dutch banks is the introduction of the European Banking Union. The European Banking Union consists of three pillars:

Single Supervisory Mechanism

As of 4 November 2014 prudential supervision of European banks will be centralized. The European Central Bank will take over supervisory tasks and powers from the National Competent Authorities (NCA), for the Netherlands this is 'De Nederlandsche Bank'. The ECB will in the first place be responsible for the significant banks in the Member States that have the Euro as their currency. The NCAs will still be responsible for the supervision of the less significant banks. However, the ECB can take over any tasks and powers from the NCAs when deemed necessary. Among the tasks and powers of the ECB are applications to take up the business of a credit institution, imposing administrative penalties, on-site inspections and liquidity. Before taking over supervision, the balance sheets of significant banks will be assessed by an Asset Quality Assessment. The results of the comprehensive assessment will be published in October 2014. At least seven Dutch banks will be supervised by the ECB from November on: ABN AMRO, ING, Rabobank, Bank Nederlandse Gemeenten, Nederlandse Waterschapsbank, SNS Bank and Royal Bank of Scotland N.V. These Dutch banks are now being reviewed by the ECB and are preparing for the transitions of supervision.

Single Resolution Mechanism

On 10 July 2013, the Commission proposed to create a Single Resolution Mechanism. After the agreement on a Single Supervisory Mechanism, this is the next step towards the European Banking Union, indispensable to develop the European Economic and Monetary Union and to prevent bank bail-outs. Resolving failing banks can be expensive. Based on the Bank Recovery and Resolution Directive, the Single Resolution Mechanism will ensure that any resolution costs must first be borne by a bank's shareholders and creditors. Dutch banks are now drafting living wills in which the process of liquidating an insolvent bank is described. Furthermore, together with De Nederlandsche Bank they are preparing recovery plans for events of default.

Deposit Guarantee Scheme Directive

The new Deposit Guarantee Scheme Directive confirms that €100 000 is an appropriate level of protection and that this should be maintained. Deposits are covered per depositor per bank. This means that the limit of €100 000 applies to all aggregated accounts at the same bank. If a bank operates under different brand names, the coverage level applies to the aggregated amount of all deposits of the same depositor held at this bank. Depositors must be informed that deposits held under different brand names of the same bank are not covered separately. However, deposits by the same

depositor in different banks all benefit from separate protection. There will be further reduction of the time limit for paying out depositors from the current 20 working days to seven working days by 2024.

Deposit Guarantee Schemes will protect all deposits held by individuals and enterprises whatever their size. However, deposits of financial institutions and authorities will not be covered. Deposits in non-EU currencies will also be covered, which is important for small and medium-size enterprises acting globally. This will all contribute to more transparency for depositors, faster verification of claims by the DGS, and in turn quicker reimbursement in the event of a bank failure.

By way of derogation, Member States may, where justified and upon approval of the Commission, authorize a minimum target level lower than the target level when the banking sector in which the credit institutions affiliated to the DGS operate is highly concentrated (like the Dutch market) with a large quantity of assets held by a small number of credit institutions or banking groups. That reduced target level shall not be lower than 0,5 % of covered deposits.

Capital Requirements Directive 4 and Capital Requirements Regulation

CRD 4 will function as the basis of the European Banking Union and is referred to as the Single Rulebook, even though the legislative package contains a number of powerful measures that can be used discretionally by Member States, such as the systemic risk buffer. The CRD4 and CRR entered into force on 1 January 2014. However, the transposition of the CRD4 in the Netherlands was not finished on 1 January 2014. Next to capital buffers, the CRR introduces stricter capital requirements for banks, both in terms of quality and quantity, as well as requirements regarding leverage and liquidity. Some of the new policies are to be expanded further via implementing and technical standards.

Structural Reform

On 29 January 2014 the European Commission published their proposal concerning structural reform of the universal banking model. In this proposal the European Commission suggests to separate the retail activities from the trading activities of a bank. The scope of the proposal includes specific thresholds for risky trading activities of banks. The proposal covers a prohibition on proprietary trading and a separating of underwriting, hedging, market making, lending to private equity funds and hedged funds from savings accounting, lending and payments services. After the European election of May 2014, the new European Commission can change the contents of the proposal. Moreover, the European Parliament and Council also have to vote on this matter.

The impact of this proposal on Dutch banks is not known yet. Especially since some definitions such as the definition of market making is not drafted yet. In general, proprietary trading in the Dutch banking sector is negligible. Finally, it is not clear which Dutch banks will be subjected to this proposal.

Markets in Financial Instruments Directive and Regulation II

In 2007 the first tranche of rules concerning Markets in Financial Instruments was legally binding for the Member States of the European Union. MiFID establishes a regulatory framework for the provision of investment services in financial instruments, such as brokerage, advice, dealing,

portfolio management, and underwriting. Moreover, MiFID regulates the operation of regulated markets by market operators and establishes the powers and duties of national competent authorities in relation to these activities. A level 1 agreement has been agreed. Dutch banks are now preparing input for the Level II measures by ESMA. Some of the priorities of Dutch banks are transaction reporting, product development, and transparency of costs. The NVB welcomes the transparency of costs. However, the way in which the provisions on the transparency of costs are formulated now, it is impractical to achieve them.

European Market Infrastructure Regulation

EMIR contains regulation for derivatives clearing through a central counterparty or bilateral settlement. Besides a licensing requirement for these central counterparties and requirements for collateral and portability of positions, it also introduces organizational, conduct of business and prudential requirements for CCP's. The demand for high-quality liquid assets that can be used as collateral will increase further due to the OTC derivatives reforms resulting from EMIR. The parties of a derivatives transaction are subject to the collateral requirement of high-quality assets. It's important that sufficient high-quality liquid assets will be available for the market participants.

Financial Transaction Tax

The European Commission published a proposal for the implementation of a Financial Transaction Tax. Financial transactions between financial institutions will be taxed, for example trading in stocks and bonds. The Commission wants to implement the FTT in all 27 Member States. However, now only 11 Member States are left who are willing to participate in an enhanced cooperation procedure. The Dutch government has stated that it will only join the enhanced cooperation procedure of a FTT if three conditions are met. The first and far most important condition is relating to our pension funds. The Dutch Government doesn't support the proposal for a FTT because it makes no provision for exempting pension funds. The other two conditions are that the revenues of a FTT should not go to the European budget and a FTT should be compatible and not go against our current national banking levy.

Packaged Retail Investment Products (PRIPs)

The Prips regulation, initially proposed in July 2012, aims to improve transparency in the investment market for retail investors, It requires all entities producing Prips to draw up a key information document (KID). The consumers should be informed in a short and standardized format that is easy to understand. Whoever sells an investment product to a retail investor has the obligation to provide the KID. This document needs to help retail investors to make a more informed decision on whether an investment is right for them or not and be able to compare investment products with each other. At the same time, it aims to ensure a level playing field between different investment product manufacturers and those selling such products. At this moment, the Dutch banks are already obliged to provide clients with a similar document under Dutch Law, the so called 'financiële bijsluiter'(Financial leaflet).

The Dutch Banking Association welcomes the level 1 agreement on PRIIPs and understands the importance and inherent difficulty in defining the cross-sectorial scope with regards to the wide range of financial products and other (insurance-based) investment products. However, the scope of

the Regulation does not yet contain a clear enough definition as to what should be considered a PRIIP. Obtaining clarity is vital for market parties also with due respect to the rigorous sanctions that may be imposed on product manufacturers. Furthermore, it is important to avoid a continuous flow of information towards a client who already purchased the PRIIP. We suggest that the manufacturer publishes on its website the up-to-date version of the KID. It's important that this will be arranged in the level 2 process.

NORWAY

Regulatory Initiatives Regarding CRD IV

On 4 October 2013, the Government issued a new regulation on countercyclical capital buffers. The regulation establishes administrative procedures and distribution of work between the Financial Supervisory Authority, the Central Bank and the Ministry of Finance. Countercyclical capital buffers will apply to banks, mortgage companies and the parent company of the banking group and must consist of common equity. The purpose is to make institutions more solid and robust to absorb losses in a future recession and to reduce the risk that banks will reinforce any downturn by reducing lending. The Ministry of Finance will quarterly make decisions about the level of the buffer, which will be based on the Central Bank's advice. The Ministry has decided not to publish the advice until they have made a decision.

On 11 November 2013, The Ministry of Finance published a consultation on a draft regulation on the calculation of capital buffers and restrictions when the requirements are not fulfilled. The legal basis to impose capital buffer requirements entered into forced on 1 July 2013, but new rules on calculations of risk weighted assets remain to be adopted.

On 12 December 2013, The Ministry of Finance determined that the level of countercyclical capital buffers for institutions to be 1 percent, which shall apply from 30 June 2015. As opposed to CRD IV, the countercyclical capital buffer applies to total RWA, however, when the countercyclical buffer is introduced in other countries, the Ministry informs that the intention is that Norwegian banks basically shall use requirement set out in these countries for their operations there.

On 7 February 2014, The Ministry of Finance published a consultation paper on a temporary regulation of CRD IV, comprising changes to ten old and new regulations on capital requirements, remuneration schemes etc. The legislative acts are deemed relevant to the EEA, but are not yet included in the EEA Agreement. There remain a number of detailed and supplementary provisions in the new Norwegian legislation, related to the Directive (CRD) and the Regulation (CRR). Until the new EU regulations are incorporated in the EEA Agreement, temporary national rules are proposed. Only a few transition rules are proposed, which entails earlier implementation of regulatory filters. National discretions to reduce risk weights to exposure classes corporate mortgage lending and the public sector are not used, while current national requirements, such as Basel I floor to risk weighted assets are proposed to be continued. Stricter remuneration practices and reduced risk weights to the SME segment are proposed to be excluded from the temporary CRD IV regulation.

The Ministry will consider rules that match the EU's new liquidity requirements so that the requirement for liquidity buffers can take effect from 2015 in line with the EUs schedule.

On 12 May 2014, the Ministry of Finance adopted a regulation on the identification of systemically important financial institutions in Norway. The identified institutions shall comply with the capital buffer requirement at 1 percent from 1 July 2015 and 2 percent from 1 July 2016. The prior consultation paper suggested that eight institutions are identified as systemically important, however, the final regulation identifies only three banks as systemically important. The regulation stipulates that institutions with total assets corresponding to at least 10 percent of Mainland Norway's GDP, or a share of the Norwegian lending market of at least 5 percent, as systemically important. The Ministry has notified DNB Bank ASA, Nordea Bank Norge ASA and Kommunalbanken AS of the decision to designate these institutions as systemically important in Norway.

Institutions may also be designated as systemically important on the basis of their size, scope of operations in Norway and other countries, complexity, role in the financial infrastructure and their interconnectedness with the rest of the financial system. The Ministry of Finance shall designate systemically important financial institutions every year, based on advice from the Financial Supervisory Authority of Norway. The Ministry's decision shall normally enter into force no earlier than 12 months after a decision has been made.

Risk Weighted Assets (RWA)

On 13 October 2013, the Ministry of Finance approved a change in the rules on calculation of capital requirements for banks using internal models (IRB). The minimum floor level to the parameter "loss given default " (LGD) was increased from 10 percent to a new minimum of 20 percent for residential mortgage loans in Norway as from 1 January 2014. Justification is made with reference to the interest of financial stability.

On 21 February, the Norwegian Supervisory Authority (FSA) published its view to impose stricter requirements to institutions' IRB modelling. The FSA states that, although the CRD IV-package only explicitly provides for increased LGD floors, it is their view that further strict requirements for IRB models and the supervisory assessments justify measures like parameter floors for PD values and standardized procedures for determining long-run averages. The FSAs intention is to publish new requirements during the first half-year. The Norwegian FSA has asked the Danish and Swedish FSA to follow the Norwegian requirements for residential loans in Norway. As CRR regulates mandatory reciprocity for LGD-floors, we assume that branches will follow these rules. However, it remains uncertain if reciprocity will be achieved for the other proposed measures. The Swedish FSA has published that they intend, however, within the framework of Pillar 2, as opposed to the Norwegian Pilar 1 measures, to increase risk weights for the Swedish firms active in the Norwegian mortgage market, and informs that once Finanstilsynet has set out how the tightened requirements will be devised, the Swedish FSA has informed that they will set out how their implementation of the increase to risk weights will be devised, and the size of the increase.

The uniform ITS to COREP reporting requirements are changed without any consultation to include stricter RWA according to previous Basel I transition rules.

Guidelines for Prudential Lending Practices for Residential Mortgage Loans

On 6 February 2014, The Ministry of Finance clarified in a letter to the FSA that in some cases it may be prudent to provide residential mortgages loans to first-time home buyers with an equity down payment of 10 percent, provided adequate debt service ability on the part of the borrower. This entails that the guidelines from 2011, demanding maximum debt of 85 percent of the property's market value, is made less stringent. The Government's housing policy is to ensure that most people can own their own home by entering the housing market on reasonable conditions while the framework still is being kept prudential.

Tax Changes

It is agreed that inheritance tax is removed with effect for gifts given and legacy of deaths that occur 1 January 2014 or later.

Other Regulatory Changes

Norway has signed an agreement with the United States in order to improve the international compliance with the tax laws and the implementation of FATCA (Foreign Account Tax Compliance Act). Information obligations on financial assets have been extended to implement FATCA, thus institutions, securities firms, mutual funds, life insurance companies, etc. are committed to report about financial assets for all its customers. The regulation implementing the provisions of the IGA on FATCA is not yet adopted, but is expected to enter into force on 1 July.

Life Insurance and Pensions

A new (hybrid) pension product was introduced at the beginning of 2014. At the same time the limits of savings in new defined-contribution (DC) schemes and existing DC-schemes were increased. The changes make the new hybrid pension product and define-contribution schemes competitive, with regards to the limits of savings. Rules of existing defined-benefit (DB) schemes are continued without further changes, although they are not fully adapted to the changes in the Social Security system that were implemented in 2011. The Banking Law Commission also proposed new rules with the aim to make it possible to transmit capital from existing DB-schemes into new (hybrid) pension products, but the proposals were not brought further by the Ministry of Finance.

The Norwegian financial supervisory authority is envisaging the transposition of Solvency II into national law by 31th March 2015, and will present a draft proposal on legislation by the end of 2014. A letter on how the insurance companies are expected to prepare for Solvency II was sent from the supervisory authority to Norwegian insurance companies in December 2013. As a part of their preparations, the insurance companies are expected to comply with the guidelines for Preparatory Phase (interim measures) as proposed by EIOPA. The supervisory authority is currently assessing the national implementation of the Omnibus II-measures for long term guarantees.

The legislation for public-sector disability pensions was decided in April 2014. A consultation document on proposals for the remaining rules for public sector retirement pensions (for those born after 1953) was due to be presented in 2012. However, the Ministry of Social and Labour is still working on these rules, which may possibly be finished by the end of 2014.

Other central legislative initiatives taken by the authorities:

- The Ministry of Finance decided to keep the maximum guaranteed interest rate in life insurance unchanged
- Consultation - NOU 2013: 12 - Disability in private pension scheme
- Consultation on proposed new disability scheme in the public service pension schemes
- New mortality basis for group pensions – decided 8th March 2014
- No transitional rules as a result of amendments to IAS 19 (Resolution of the corridor)
- Consultation - gender neutral premiums and benefits in insurance contracts outside employment
- Consultation regarding entry into force of the rules on paid-up policies with unit-link
- Announced consultation - Proposed regulations for occupational pensions (e.g. paid-up policies) and on payment profile

PORTUGAL

As has been the case in previous years, the evolution of the legislative and regulatory impositions on the financial sector in Portugal, and on the banking system in particular, during the period in review continued to be largely determined by the measures agreed under the Memorandum of Understanding (MoU) related to the Economic and Financial Assistance Programme for Portugal, and by the European authorities' regulatory and legislative initiatives.

Regulatory Framework

The Portuguese Credit Institution Legal regime is currently being reviewed, in order to transpose, at national level, Directive 2013/36/EU of the European Parliament and of the Council of 26th June 2013 (CRD IV), on access to the activity of credit institutions and on the prudential supervision of credit institutions and investment firms. In 2013, Portuguese banks have started contributing to the National Resolution Fund which has been established in February 2012.

Supervision of the Banking System

For the purpose of following the objective to reinforce the supervision of the banking system included in the MoU and in order to prepare for the Single Supervisory Mechanism, Banco de Portugal continued to examine the banks' activity closely, namely through several inspections conducted by full-time on-site teams supported by external auditors. Between September 2013 and March 2014, Banco de Portugal has conducted a sectoral on-site inspection (ETRICC 2) for the largest 12 banks' counterparts, in order to ensure appropriate amounts of impairments are recognized in their accounts (this is the fourth inspection exercise conducted since 2011).

A Special Assessment Programme (SAP – Management Distressed Loans) has also been carried out by the supervisor on the eight largest banking groups between September and October 2013, to assess institutions' internal processes related to the treatment of problematic credit, from the viewpoint of maximising the capacity to recover such credit.

Moreover, the four largest Portuguese banks have been included in the ECB's Asset Quality Review (AQR) which started in November 2013.

For the purpose of dealing with NPLs and keeping a close look at the progress of problematic customers, Banco de Portugal published an Instruction (No 32/2013 revoking Instruction No 18/2012) whereby banks must mandatorily earmark all mortgages which terms were amended due to situations of non-performance due to customer's financial difficulties. This new Instruction revises the rules and assumptions defined by the revoked Instruction and makes them consistent with the EBA Implementing Technical Standards on Non-Performing Exposures.

Capital and Liquidity

At the end of 2013 Portuguese banks' core Tier 1 Ratio stood at 12.3%, fulfilling the capital requirements imposed by the national authorities, which demanded a minimum ratio of 10%. This requirement was changed by the approval of Notice No 6/2013, which establishes transitional arrangements for own funds, under Regulation (EU) No 575/2013, and lays down measures to preserve those funds, requiring in particular a minimum level of 4.5% for the common equity Tier 1 capital ratio, applicable as of 1 January 2014, and determining that credit institutions and investment firms preserve a common equity Tier 1 capital ratio of no less than 7%.

In regard to State Aid, the Portuguese Government amended the national legislation on the recapitalization of credit institutions. Subsequently, the European Commission issued new State Aid rules, meaning that, once again, the Government had to amend the national law on the recapitalization of credit institutions accordingly.

The four banking groups that have resorted to public funds to follow their recapitalization plans in 2012/13, have been repaying the instruments subscribed by the State. By June 2014, EUR 2.2 billion out of the EUR 5.6 billion used from the Bank Solvency Support Facility foreseen in the Economic and Financial Assistance Programme had been repaid.

In terms of liquidity, Portuguese banks continue to show a comfortable position, confirmed by the 117% Loan-to-Deposit Ratio at the end of 2013, which stood below the threshold recommended by Banco de Portugal of 120%. The positive trend gave Portuguese banks a more stable funding structure, where deposits plays a crucial role accounting for approximately 55% of the entire balance sheet at the end of 2013. Meanwhile, Portuguese banks have also managed to reduce their dependency on ECB funding, decreasing the amounts borrowed from the Eurosystem by 23% from July 2013 until June 2014.

Banking Conduct Supervision

In Portugal, the regulation and supervision of the conduct of institutions in retail banking markets is carried out by the Central Bank. Banco de Portugal's regulatory role is achieved

through the issuance of regulations (notices and instructions) and the oversight function through inspections and complaint processing. Banco de Portugal requires institutions to remedy infractions by setting down specific recommendations and provisions, and applies fines and penalties to non-compliance.

In 2013, important amendments were introduced to the retail banking markets' legal and regulatory framework, in particular in the areas of mortgage and consumer credit, basic bank accounts and payment services.

Mortgage credit: In the context of a very challenging economic environment, especially for households, a general regime on the prevention and settlement of arrears and an extraordinary regime for protecting home loan borrowers were implemented, as well as a network to assist indebted consumers renegotiate credit agreements in arrears. In order to complement this recent legislation to protect debtors of mortgage credits, Banco de Portugal issued a Best Practices Code focusing on the particular conditions whereby banks should grant more favourable conditions to non-performing mortgages.

Consumer credit: The amendments to the consumer credit regime were particularly relevant in terms of provisions related to credit costs, namely in what concerns the methodology to calculate maximum rates.

Basic bank accounts: The basic bank accounts legal framework was revised, aiming at increasing duties of member credit institutions to disseminate information on the provision of such accounts as well as their access conditions.

Payment services: Banco de Portugal issued a code of conduct targeted to institutions providing card services defining good practices in the classification of types of cards and the fees applicable to the acceptance of such payment instruments.

Other Initiatives

Slight changes were introduced in the Corporate Governance code, allowing for listed companies to adhere to other governance codes. However, due to the principle of “comply or explain”, companies, that choose to adhere to other codes, must disclose the reasons why they have opted out from the Code established by the Portuguese Securities and Exchange Commission.

Banco de Portugal also issued specific rules to complement the national law that implemented the Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

The new financial and prudential reporting requirements to the National Central Bank will start at the end of June 2014.

Finally, the Portuguese legal regime regarding commercial paper was also amended. The purpose of the amendment was to facilitate the issuance of this type of financial instrument, as the Government considers that it can be an alternative to provide financing to SMEs.

ROMANIA

The period under review witnessed strong advances in the prudential regulation of credit institutions, consisting of the adoption of new provisions focusing on the following:

Legislation

The legal framework was supplemented by adopting *Law no.271/2013 approving Government Emergency Ordinance no.43/2012 on amending Art.240[28] para.(1) of Government Emergency Ordinance no. 99/2006 on credit institutions and capital adequacy.*

Amendments to the Banking Law were also introduced by *Law no. 272/2013 amending and supplementing Government Emergency Ordinance no. 98/2006 on the supplementary supervision of credit institutions, insurance companies and/or reinsurance companies, investment services and investment management firms in a financial conglomerate, the Government Emergency Ordinance no.99/2006 on credit institutions and capital adequacy of Law. 32/2000 on insurance undertakings and insurance supervision (Law no. 272/2013)*, in order to make clear that implementing the stabilisation measures in case of a threat to financial stability includes also protecting the depositors and maintaining public confidence in the banking system, with a view to applying the stabilisation measures even in the case of small-sized credit institutions; also, the amendments specify more clearly the general objectives pursued by the National Bank of Romania when applying any of the stabilisation measures (to ensure business continuity for critical activities in case of disruptions that could materially impair the functioning of the economy or of the financial market; to preserve financial stability and market discipline; to protect covered deposits).

Law no. 272/2013 also ensures the transposition of art.2 and art.3 of the *Directive 2011/89/EU of the European Parliament and of the Council of 16 November 2011 amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate,* ensuring the application of those provisions for credit institutions.

As regards the transposition of CRD IV provisions (Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC) into the national legal framework, Romania observed the implementation timetable set at EU level by adopting *Government Emergency Ordinance No.113/2013 on some budgetary measures and on amending and supplementing Government Emergency Ordinance No.99/2006 on credit institutions and capital adequacy* which contains provisions envisaging the strengthening of the legal framework on credit institutions and investment firms in areas such as corporate governance, prudential supervision and sanctions.

Regulatory Framework

Harmonisation with CRD IV and adequate measures to facilitate the implementation of CRR (Regulation no.575 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no.648/2012, which sets uniform and directly applicable prudential requirements for all credit institutions and investment firms authorised in the Member States of the European Union) were also ensured.

In the above-mentioned context and in the context of addressing the risks incurred by foreign currency lending, the following were issued:

NBR Regulation no.5/2013 on prudential requirements for credit institutions, which:

- ensures also the transposition of some provisions of Directive 2013/36/EU and specifies the manner in which the national options included in the CRD IV/CRR package have been exercised;

- takes over, amends and/or supplements the relevant provisions of the previous framework, harmonized with the CEBS/EBA guidelines in such areas as corporate governance (including the responsibilities of management body of the credit institution's risk management, internal control policies and remuneration practices, conditions of outsourcing activities of the credit institution), internal capital adequacy assessment process, validation and implementation of the internal models used for the calculation of the regulatory capital in the field of credit risk, operational risk and market risk;

- ensures a full compliance with the requirements imposed by Recommendation D (Internal Risk Management) issued by the European Systemic Risk Board (ESRB), respectively requiring credit institutions to incorporate in their internal risk management systems the risks incurred by the foreign exchange lending and to account for these risks in their internal pricing and internal capital allocation. Recommendation D is part of the *ESRB Recommendation on foreign exchange lending* (ESRB/2011/1).

NBR-FSA Regulation No. 7/8/2013 repealing certain regulatory acts. The said Regulation concerns acts that were issued to implement Directives 2006/48/EC and 2006/49/EC, whose application ceases with the entry into force of the CRD IV/CRR package.

NBR Order no. 7/2013 regarding capital buffers, issued on the basis of the Recommendation of the National Committee for Financial Stability no.1/2013 regarding capital buffers, starting with the 1st of January 2014, the capital conservation buffer and the countercyclical capital buffer shall not apply to credit institutions and the level of the systemic risk buffer is 0%.

In the context of applying the CRD IV/CRR package, as of 1 January 2014, some new provisions and amendments needed to be implemented, mainly with a view to reconciling the national legal framework with the new European requirements, e.g.:

- The total of the additional prudential value adjustments is now subject to a 4-year phasing out process complying with the CRD IV provisions, which were included in NBR Regulation no.5/2013.

- A new allocation method is in place establishing in a manner compatible with CRD IV the value to be assigned to the exposures representing loans/investments when computing the prudential ratios in the calculation of which the net value of these assets is needed, by issuing *NBR Regulation no.6/2013 on amending and supplementing NBR Regulation no.16/2012 on classification of loans and investments, as well as the establishment and use of prudential value adjustments.*

The reporting terminology used was updated by issuing *NBR Order no.6/2013 amending NBR Order no.15/2012 on reporting the situations related to the application of NBR Regulation no.16/2012 on classification of loans and investments, as well as the establishment and use of prudential value adjustments.*

The reporting requirements on foreign currency and gold positions were repealed as a result of repealing NBR - NSC (currently FSA) Regulation no.22/27/2006 on capital adequacy of credit institutions and investment firms, as subsequently amended and supplemented, which required their limitation as a percentage of own funds, by issuing *NBR Order no. 5/2013 for repealing NBR Order no.16/2011 on reporting the situation in currency and gold positions*.

Moreover, starting with the CRD IV/CRR implementation, credit institutions are required to observe the EC's implementing regulations laying down technical standards, directly applicable in all Member States, including also those related to the reporting field.

One of the key objectives in the regulation field is to continue the harmonization process of national regulations with the guidelines and standards issued by EBA.

As regards financial conglomerates framework, it was issued NBR/FSA Regulation *no.1/2014/9/2013 amending NBR/NSC Order no. 23/120/113136/2006 on the supplementary capital adequacy requirements, intra-group transactions and risk concentration in a financial conglomerate,* which ensures the transposition of the provisions of art.2 (24) of the *Directive 2011/89/EU* and reflects the elimination of the third method for calculating the supplementary capital adequacy requirements (Book value/Requirement deduction).

With regard to the reporting field, the credit institutions have to observe the new EU regulation *(Commission Implementing Regulation (EU) No 680/2014*) establishing uniform implementing technical standards with regard to supervisory reporting of credit institutions.

Ongoing Financial Regulatory Reform Efforts

The process for the adoption of Law on approving the Government Emergency Ordinance no.113/2013 is in progress, at Parliament level.

The bank resolution Directive establishing a framework for the recovery and resolution of credit institutions and investment firms (**Directive 2014/59/EU of the European Parliament and**

of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council) will be transposed ahead of the implementation deadline, as a result of the conditionality negotiated with the International Monetary Fund. The normative act shall also clarify the role of DGF in financing bank resolution measures in line with the principles envisaged by the incoming EU Directive for deposit guarantee schemes.

The Government Emergency Ordinance no. 99/2006 shall be amended in the context of:

- the transposition into the national legislation of the **Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council**; and

- the impact arising from national implementation of the package of the Single European Supervisory mechanism, based on the timeframe it will take the political decision of Romania's participation in the Banking Union.

The new legislative framework for covered bonds is in the process of finalization.

The regulatory framework will be reviewed in terms of compliance with the new resolution framework; in the context of national implementing measures of the Single Supervisory Mechanism; and within the meaning of supplementing with provisions such as merger and splitting-up of credit institutions, specific operating requirements of savings banks for housing.

EBA guidelines will be taken over in the form of instructions for credit institutions, in areas such as liquidity risk, credit risk, large exposures, corporate governance, operational risk, market risk.

Developments in the Accounting Regulation Field

Taking into consideration the Ministry of Public Finance reporting requirements, in order to ensure the comparability of the information covered by the semi-annual accounting reports at the national level, the Semi-annually accounting reporting system, applicable to the entities under the National Bank of Romania accounting regulation scope, was updated by the National Bank of Romania in August 2013 by issuance of the following order:

- Order no.3/2013 amending and supplementing Order no.10/2012[20], modifying the template of one of the semi-annual accounting reporting forms - "Informative data - code

[20] NBR Order no.10/2012 for the approval of the Semi-annual accounting reporting system, applicable to the entities under the National Bank of Romania accounting regulation scope

30", for all the categories of entities under the scope of the NBR Order no.10/2012, according to the reporting requirements set out in the *Ministry of Public Finance Order approving the accounting reporting system on the 30th of June 2013 for economic entities,* namely by including some new templates, as well as new indicators into the old templates. The correlations among indicators have been also modified accordingly.

The accounting regulations according to the European directives approved by NBR Order no.27/2011[21] were amended and supplemented in November 2013 by issuance of Order no.4/2013 for ensuring a unified treatment with that provided for the economic operators in the regulation issued by the Ministry of Public Finance.

The main changes consist in the amendment of the accounting treatment for receivables taken by assignment, respectively the registration thereof at acquisition cost, introduction of a new off-balance sheet account and supplementing of one Explanatory Note in order to present the receivables taken by assignment.

In order to ensure a unified treatment with that provided for the economic operators in the regulation issued by the Ministry of Public Finance[22] and to meet the information needs for that authority, Order no.1/2013[23] was updated in March 2014 by issuance of the following order:

- Order no.1/2014 amending and supplementing Order no.1/2013, with the main changes presented as follows: supplementing and modifying some reporting templates (mainly in the form "Informative data - code 30") and introducing a new reporting form - "Equity items – code 60F" including information related to the application by the credit institutions of IAS 29, Financial reporting in hyperinflationary economies". The correlations within the forms and between forms were appropriately updated.

[21] NBR Order no.27/2011 for the approval of the Accounting regulations according to European directives
[22] Ministry of Public Finance Order no.79/2014 regarding the main aspects related to the preparation and remittance of the annual financial statements and accounting reports of the economic operators to the territorial units of the Ministry of Public Finance
[23] NBR Order no.1/2013 for the approval of the Methodological rules regarding the preparation of the annual reporting for Ministry of Public Finance information needs, applicable to the credit institutions

SINGAPORE

Significant Developments in Banking

Credit Card and Unsecured Credit Rules

Changes to the credit card and unsecured credit rules were announced by MAS on 11 September 2013, which were aimed at improving lending practices by financial institutions and enabling individuals to make better borrowing decisions, with the key requirements for financial institutions as follows:

- Review a borrower's total debt and credit limits before granting a new credit card or unsecured credit facility, or increasing the credit limit on such facilities.
- Disclose to individuals who roll over their credit card debts and revolving credit facilities the potential cost of doing so and how the debt will accumulate.
- Obtain a borrower's express consent for the amount of each credit limit increase.
- Not allowed to grant further unsecured credit to individuals whose unsecured debts with those financial institutions are more than 60 days past due, until all past due amounts are paid.
- Not allowed to grant further unsecured credit to individuals whose aggregate interest-bearing outstanding unsecured borrowings across all financial institutions exceed 12 months of their income for a period of 3 months or more.

The changes are being implemented in stages from December 2013 to June 2015 to provide borrowers and financial institutions time to adjust.

Issuance of Prohibition Orders ("PO")

The MAS proposed on 4 October 2013 to introduce new provisions into the Banking Act to give it the power to issue a PO against any person who is not fit and proper, prohibiting him from conducting banking business and functions incidental thereto and taking part, directly or indirectly, in the management of, acting as a director of, or becoming a substantial shareholder of a bank for a specified period. The proposed prohibition powers are necessary to ensure that MAS can properly safeguard the banking industry by excluding unfit and improper persons from it.

The MAS currently has the power to issue POs to prevent unsuitable persons from engaging in capital markets, financial advisory and insurance intermediation activities, but does not have similar powers in relation to banking-related activities.

Supervisory Oversight

On 28 November 2013, the MAS proposed several changes to the Banking Act to, inter alia, strengthen its supervisory oversight over banks, their directors and executive officers and

substantial shareholders and controllers. Specifically, MAS proposed to codify MAS' expectations as to the information that banks should provide to the MAS and the adequacy of risk management systems and controls that banks should implement that are commensurate with the scale and complexity of their operations.

Significant Developments in Insurance

Risk-Based Capital Framework for Insurers

On 26 March 2014, MAS published a second consultation paper on the details of the proposed revisions to the Risk-Based Capital ("RBC") framework for insurers, which aim to improve the comprehensiveness of the risk coverage and the risk sensitivity of the framework to ensure that regulations continue to be 'fit-for-purpose', and adequately address risks, both at the institution, and the system levels, including:

- Introduction of a matching adjustment to the discount rate to take into account the fact that, for life insurers with predictable liability cash flows, the fixed-income assets that are held to back the policy liabilities are more likely to be held to maturity and therefore do not face the risk posed by short-term interest rate movements.

- Recalibration of the risk requirements to a consistent target criterion i.e. Value at Risk ("VaR") measure of 99.5% confidence level over a one year period. This aims to ensure to a high level of certainty that an insurer holds sufficient capital to buffer against losses.

- Recognition of diversification between the insurance and asset risk requirements, as well as between some of the underlying risk requirements within these two categories of risk requirements.

- Alignment of insurers' available capital components with those in MAS' capital adequacy framework for banks, wherever appropriate with aims for a level playing field and a consistent regulatory and supervisory framework for financial institutions.

Significant Developments in Securities

Better Understanding of Prospectuses

The MAS released a consultation paper on 14 October 2013 setting out proposals to improve the readability of prospectuses for offers of securities and facilitate better understanding of key information presented in prospectuses so as to empower retail investors to make better informed investment decisions. The proposals include:

- Extending the requirement for a product highlight sheet (PHS) to offers of equity, debt and hybrid securities. The PHS, which sets out key features and risks of an investment in a clear, concise and simple format, is currently required for offers of products which are more complex in structure (namely structured notes, asset-backed securities, unlisted collective investment schemes and exchange traded funds);

- Allowing certain information contained in a separate document outside a prospectus to be incorporated into the prospectus by making reference to the separate document (Incorporation by reference); and

- Developing a regulatory guide to highlight common drafting problems and encourage good drafting practices for prospectuses.

MAS and SGX Propose Measures to Strengthen the Securities Market

The MAS and Singapore Exchange ("SGX") released a joint consultation paper on 7 February 2014 setting out proposals to strengthen the securities market in Singapore. The proposals follow an extensive review by MAS and SGX, which concluded that Singapore's securities market remains sound[24]. Nonetheless, three key areas of possible enhancements were identified:

1. Promoting orderly trading and responsible investing

    - *Minimum trading price* – To introduce a minimum trading price as a continuing listing requirement for issuers listed on the SGX Mainboard to address risks of excessive speculation and potential market manipulation risks associated with low-priced securities

    - *Collateral requirements for securities trading* – To impose minimum collateral requirements on the customers of securities intermediaries for trading in both SGX-listed and foreign listed securities to promote responsible investing and reduce the credit risk exposures of market participants. SGX also intends to shorten the settlement cycle from T+3 to T+2 days by 2016. Taken together, these measures will enhance the robustness and resilience of the securities market.

    - *Short position reporting requirements* – To introduce a short position reporting regime to complement the existing short-selling marking regime to further enhance transparency in short selling

2. Improving the transparency of market intervention measures

    - *Transparency of trading restrictions imposed by securities intermediaries* – To require trading restrictions imposed by securities intermediaries for securities listed on SGX to be announced through the SGX website to ensure fair and transparent dissemination of information on such restrictions

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[24] This conclusion is in line with the assessment under the International Monetary Fund ("IMF") Financial Sector Assessment Program ("FSAP"). Nonetheless, MAS and SGX had identified further improvements to various market functions and trading practices in the securities market in Singapore. In its report published in November 2013, IMF found that Singapore's securities sector presents a generally high level of compliance with standards. Singapore was assessed against the Committee on Payment and Settlement Systems – International Organisation of Securities Commissions ("IOSCO") Principles for Financial Market Infrastructures ("PFMI") and the IOSCO Objectives and Principles of Securities Regulation under the IMF FSAP. The FSAP report may be accessed through the following link: http://www.imf.org/external/pubs/ft/scr/2013/cr13325.pdf

3. **Strengthening the process for admitting new listings and enforcing against listing rule breaches**

    - *Reinforcing the SGX listings framework* – To establish an independent Listings Advisory Committee to consider listing policy issues and listing applications that meet specified referral criteria to address perceived and actual conflicts of interests in relation to SGX's role as the listing authority. This proposal will supplement SGX's existing listing review process and introduce practitioner experience to the decision-making process.

    - *Strengthening powers to enforce regulatory actions against breaches of listing rules* – To establish an independent Listings Disciplinary Committee and Listings Appeals Committee to improve the transparency of SGX's disciplinary process and ensure fair administration of sanctions for listing-related matters. It is also proposed that the range of regulatory sanctions for listing rule breaches be expanded to include powers to impose fines, restrict the activities that issuers may undertake, as well as to make offers of compositions for minor and technical breaches.

In addition, SGX separately announced measures to strengthen market transparency, effective from 3 March 2014, including:

- An issuer's board of directors will be required to approve the issuer's reply to a public query by SGX.

- SGX will publish a "Trade with Caution" announcement whenever issuers are unable to explain the trading activities which SGX is querying.

- Issuers will be required to notify SGX of discussions or negotiations that are likely to lead to a takeover, reverse takeover or a very substantial acquisition.

<u>*Reporting of Derivatives Contracts*</u>

On 26 March 2014, MAS amended the requirements for reporting of derivatives contracts to provide relief for certain reporting requirements, pertaining to:

- Reporting of counterparty information: Relief is granted until 1 November 2014 to allow for masking of counterparty information for jurisdictions not listed in the Fifth Schedule to the principal regulations if there exists any legal or regulatory requirements that prohibit a specified person from reporting counterparty information.

- Reporting of Universal Transaction Identifier ("UTI") and Legal Entity Identifier ("LEI"): Relief is granted until 1 April 2015 to allow for reporting of internally generated UTI for an uncleared contract that is not electronically confirmed and is entered into before 1 April 2015. For an uncleared contract that is not electronically confirmed and is entered into on or after 1 April 2015, the counterparties shall agree on the UTI to be reported.

- Reporting commencement date: Relief is granted to commence reporting of interest rate derivatives contracts and credit derivatives contracts traded in Singapore on 1 April 2015 onwards; instead of 1 April 2014 onwards. Commencement date of 1 April 2014 onwards for reporting of interest rate derivatives contracts and credit derivatives contracts booked in Singapore remains unchanged.

Significant Developments in Financial Advisory

Draft Regulations pursuant to the Securities and Futures Act and Financial Advisers Act

On 17 September 2013, the MAS proposed amendments to various Regulations with respect to:

- Requiring advertisements for investment products to give a fair and balanced view of the product and comply with certain advertising restrictions, and be approved by senior management prior to being made public; and

- Removing the exemption for advising overseas investors.

Complaints Handling and Resolution ("CHR")

The MAS released a consultation paper on 30 September 2013 on draft regulations under the Financial Advisers Act ("FAA") to strengthen regulatory requirements on financial advisory ("FA") firms' CHR processes. The Regulations seek to ensure consistent and efficient CHR process across the financial advisory industry. The Regulations include requirements for an FA firm to:

- Establish a process for handling and resolving complaints from retail clients which is independent and prompt;

- Designate a person or committee within the firm to be responsible for the oversight of its compliance with the regulatory requirements on CHR;

- Ensure that information on its CHR process is publicly available;

- Put in place a centralized management system for complaints; and

- Report its complaints data to MAS on a biannual basis.

MAS intends to monitor such complaints statistics as part of their assessment of an FA firm's business conduct practices, as well as enhance its powers to direct any FA firm to conduct a review of its compliance with the relevant regulatory requirements on its sales and advisory process, when there may be widespread or regular failure by certain FA firm(s) to comply with any business conduct requirement.

Financial Advisory Industry Review

On 30 September 2013, MAS published its response to feedback received on a consultation paper regarding recommendations aimed at:

- Raising the competence of financial advisory representatives;
- Raising the quality of financial advisory firms;
- Making financial advising a dedicated service;
- Lowering distribution costs by enhancing market efficiency; and
- Promoting a culture of fair dealing.

Other Significant Market Developments

Addressing Technology Risks in the Financial Sector

On 24 July 2013, the Government of Singapore announced a five-year National Cyber Security Masterplan, one component of which is to enhance the security and resilience of critical information infrastructure ("CIIs"), including those in the financial sector. The MAS has been working closely with the industry to address cyber security threats with the adoption of a three-pronged approach, focusing on:

- Principles of confidentiality, integrity and availability as encapsulated in the Technology Risk Management Notice and Guidelines issued by MAS in June 2013
- Preparedness to mitigate risks before adopting new technology solutions by maintaining vigilance and scanning the environment for threats
- Partnership with the industry and various other stakeholders

Corporate Governance Regulations

On 20 September 2013, the MAS proposed amendments to the Corporate Governance Regulations for Approved Exchanges, Approved Clearing Houses and Approved Holding Companies ("CG Regs") in the areas of director independence, board and board committees and appointment of key management officers. It is also proposed that the CG Regs and the proposed amendments to be extended to Licensed Trade Repositories in view of their status as systemically important financial market infrastructure.

ASEAN CIS Framework

The MAS, the Securities Commission of Malaysia, and Securities and Exchange Commission of Thailand signed an agreement on 1 October 2013 to facilitate the cross-border offering of collective investment schemes to retail investors in the three countries under a

streamlined authorisation process. The signatories are targeting to implement this framework in the first half of 2014. The three signatories have also agreed to an arrangement to provide mutual assistance in supervising the offerings of collective investment schemes to non-retail investors to facilitate the cross-border offering of such non-retail schemes.

Strengthening RMB Cooperation

On 22 October 2013, Singapore and China agreed on new initiatives to strengthen cooperation on financial sector development and regulation, and further promote the international use of the Renminbi ("RMB") through Singapore. These initiatives include:

- Granting Singapore a quota of RMB 50bn under the RMB Qualified Foreign Institutional Investor ("RQFII") programme. This was followed by MAS' announcement on 24 January 2014 for eligible financial institutions to submit applications for the RQFII licence. The introduction of the RQFII scheme in Singapore would spur the development of a broader range of RMB products and services to meet investment needs, and play a key role in developing a vibrant RMB eco-system;

- Considering Singapore as an investment destination under the RMB Qualified Domestic Institutional Investor ("RQDII") scheme, allowing qualified Chinese institutional investors to use RMB to invest in Singapore's capital markets;

- Establishing cross border RMB channels between Singapore and Suzhou Industrial Park ("SIP") as well as Tianjin Eco-City ("TEC"); and

- Launching SGD-CNY direct trading in both China and Singapore markets.

Separately, on 25 February 2014, Singapore and the United Kingdom agreed to support the establishment of a new, private sector-led forum to boost the development of the offshore RMB market. The forum will focus on increasing cooperation between the UK and Singapore markets.

Regulation of Virtual Currency Intermediaries for Money Laundering and Terrorist Financing Risks

On 13 March 2014, MAS issued a statement that it would be introducing regulations to require virtual currency intermediaries (including operators of Bitcoin exchanges and Bitcoin vending machines) in Singapore to verify the identities of their customers and report suspicious transactions to the Suspicious Transaction Reporting Office (Singapore's Financial Intelligence Unit).

The requirements will be similar to those imposed on money changers and remittance businesses who undertake cash transactions, and do not extend to the safety and soundness of virtual currency intermediaries nor the proper functioning of virtual currency transactions. MAS will continue to monitor closely the development and implications of virtual currencies as well as evolving regulatory approaches taken towards virtual currencies by major jurisdictions.

Asia Region Funds Passport ("ARFP")

On 16 April 2014, Singapore, Australia, Korea, New Zealand, Philippines and Thailand released a joint consultation paper on the proposed rules and arrangements that will govern the operation of the ARFP. When implemented, the ARFP will allow fund managers operating in a passport member economy to offer their funds in other passport member economies under a streamlined authorisation process (facilitate the cross-border offering of funds in Asia).

As an inclusive regional initiative, the ARFP aims to strengthen the region's fund management capability, deepen capital markets, and provide finance for sustainable economic growth. Investors in the region will also benefit from having access to a broader range of quality investment products. Following the consultation, the economies that decide to participate in the passport will together work towards the launch of the ARFP in 2016.

NOTE: Click here for list of significant legislative/regulatory developments between 1 July 2013 and 30 June 2014.

SOUTH AFRICA

Significant Developments in the Financial Sector

Systemic Crisis Simulation Exercise

The Financial Sector Contingency Forum (FSCF), which is a crisis-coordination body for the financial sector, conducted a simulation exercise on the 5 March 2014. It was attended by 54 key decision makers and stakeholders from across the financial sector and was conducted by external facilitators. The objective of the exercise was to evaluate the level of effectiveness of the FSCF's escalation, coordination and communication strategies in a systemic financial crisis.

The exercise emphasised the need for ongoing cross-sectorial contingency planning, and was hailed as a very informative and valuable exercise by the participants. In order to obtain the optimum benefit from the exercise, a post-test analysis was conducted. A comprehensive report was compiled which highlighted and identified shortcomings and gaps with appropriate recommendations on how to address these.

The Regulation and Supervision of Banks

Supervisory practice for the period under review continued to focus on reviewing and assessing the effectiveness of internal audit departments of banks and included in this process is benchmarking against the BCBS document on principles for internal audit functions in banks.

Provisions, referred to as loan loss reserves in one non-IFRS compliant country, in specific credit portfolios of banks have received particular scrutiny from the perspective of provisioning governance and estimation methodologies used in banks.

In general the largest proportion of bank assets in SA are not measured using the "past due" definition of the Basel Standardised Approach, but instead are measured according to the probability of default (PD) and Loss-given-default (LGD) specified in the Internal-ratings based approach (IRB). Nevertheless the number and values of defaulted loans, impaired loans and provisioning levels have been at the focus of credit risk supervision for a few years.

Recovery plans of banks have been a theme for the supervisory discussions with Boards of banks for the past two years, whilst the development of a law addressing resolution is underway.

A Credit Rating Services Act was recently introduced to regulate credit rating agencies, however the domestic banking legal framework has not placed reliance on credit rating agencies, other than instances where the Basel framework has done so.

We participate in the Basel Committee structures and have oversight over the developments of the Enhanced Disclosure Task Force, a joint industry and regulatory team, which is advising on revisions to the disclosures made by banks, and which is being considered by the Basel Committee. Awaiting the outcome of its processes aligns us with international developments.

Basel Capital Adequacy Requirements

South Africa implemented the standards commonly referred to as Basel III in January 2013 with a minimal adoption of national discretion, including the levels of capital in the various Tiers. In South African, the level of additional capital to capture the systemic risk of the system is implemented at varying values over time, between 0.5% and 2%. In addition banks receive individual capital requirements depending on their idiosyncratic risk. Following the Basel III approach additional Tier 1 instruments, such as Non-Redeemable Non-Cumulative Preference Share's that lack contractual commitments to convert to shareholder equity or be written off, are being incrementally derecognised for capital from 2013.

Anti-Money Laundering Developments

The Financial Intelligence Centre (FIC) released a consultation document on proposed amendments to the FIC Act to implement suggested amendments made in the last Mutual Evaluation, and in accordance with the 2012 revised FATF Standards. The intention is to introduce a clear risk-based approach to AML, including relating to international and domestic PEPS. This new approach would also facilitate the reduction in the number of current compliance exemptions originally prompted by the more rigid regulatory approach.

The identification and verification of "beneficial owners", as defined in the Standards, will also be more clearly articulated in the new legislative requirements. At this stage there is no stated support from the Department of Trade and Industry or the Companies and Intellectual Property Commission for the necessary public disclosure and register of "beneficial owners" as increasingly being called for by the G20.

Developments Relating to Payment Systems

In terms of the SADC Finance and Investment Protocol (FIP) the central banks in the SADC region are directing the development and implementation of a SADC Payments System. The involvement of commercial banks is being coordinated through the SADC Banking Association of which the Banking Association of South Africa is a member. This initiative includes both high value transfers as well as retail payments and the settlements of financial market transactions. The SADC Banking Association is collaborating with both the Central Bank Financial Markets sub-Committee and the Committee of SADC Stock Exchanges with regard to the settlements of securities transactions.

At the heart of the system is a regional real time gross settlement system known as SIRESS – SADC Integrated Regional Electronic Settlement System. This system went live in July 2013 when banks in the four common monetary area countries in SADC, i.e. Lesotho, Namibia, South Africa and Swaziland commenced transacting. Subsequently banks in a further three countries have gone live, i.e. Malawi, Tanzania and Zimbabwe. Banks in a further three countries are preparing for live implementation in September this year, i.e. Democratic Republic of Congo, Mauritius and Zambia. Banks in Angola and Botswana will test the system this year and request permission from their regulators to proceed to implementation in early 2015.

All documents, agreements, standards, rules, etc. for all the retail and financial markets settlements will be completed by end of June this year when commencement on implementation plans will start. It is anticipated that live transactions in all these streams will have taken place by end of 2015.

Regulatory Reform Efforts

Recovery Planning

The Financial Stability Board (FSB) issued two papers in October 2011 (Key attributes of effective resolution regimes) and November 2012 (Recovery and resolution planning: making the key attributes requirements operational). During 2012 and 2013, the Bank Supervision Department (BSD) in the South African Reserve Bank (SARB) focused on the development of recovery plans (RPs) by all banks registered in South Africa. RPs were identified as one of the flavour-of-the-year topics for the 2012 and 2013 calendar years to be discussed in meetings between the BSD and the board of directors of each bank. The minimum requirements of recovery plans were communicated to banks in various guidance notes, and the BSD has also held workshops with the five largest banking groups in South Africa to discuss the development of their recovery plans and to provide guidance on gaps identified.

These RPs had to contain the details of how a bank's management and board of directors will execute the identified recovery options in order to recover from a severe financial crisis. RPs are required to address scenarios of liquidity stress, capital inadequacy and operational disruption of critical functions. The RPs should include, inter alia, identified trigger points at which the RPs would be invoked, clear escalation procedures and interventions required in various stress scenarios. The treatment of branches and subsidiaries of banking groups in these stress scenarios should also receive attention. By the end of 2013 the systemically significant banking groups in

South Africa had integrated recovery plans in place. The BSD's focus for 2014 onwards is on the refinement of the RPs, specifically with regard to the feasibility of recovery options and the severity of the stress scenarios identified by the systemically significant banking groups.

The SARB, having been identified as the Resolution Authority in terms of the Twin Peaks regulatory architecture, will be responsible for the development of resolution plans for the domestic systemically significant banking groups in South Africa. Resolution plans provide details on how supervisors would resolve a bank if the recovery actions identified by the bank itself fail, with the minimum cost and use of public funds. The work on the resolution plans of the banking groups is expected to gain momentum during 2015.

Regulation of OTC Derivatives

The regulations for OTC derivatives have been drafted and are due for release and comment. Specific regulations relating to registration requirements for dealers, clearing and reporting requirements will be provided through notices issued by the Financial Services Board once the regulations have been finalised.

Volcker Rule

There are no equivalents to the Volcker Rule in South Africa. The adoption of the Basel frameworks into the domestic banking legislation has introduced capital constraints that limited proprietary trading.

Special Resolution Regimes

The National Treasury, in co-operation with the SARB and the Financial Services Board, is in the process of developing proposals to strengthen South Africa's resolution framework in order to deal with the failure of large and/or complex financial institutions in an orderly manner. The focus of the process is to bring South Africa's resolution framework in line with international standards, in a way that supports financial stability in South Africa. In line with the SARB's financial stability mandate, the SARB will be appointed as the Resolution Authority responsible for the resolution of systemically important financial institutions. As part of this process, research is being conducted on the appropriateness of a deposit guarantee scheme for South Africa.

International Regulatory Counterparts

The Bank Supervision Department of the South African Reserve Bank participates actively in the Basel Committee structures that facilitate dialogue and cooperation on those issues affecting South Africa. Our involvement in the RCAP process provides valuable insight and when developing domestic frameworks for Twin Peaks, OTC derivatives and Resolution, the contribution of international consultants has been invaluable.

Hedge Fund

The Financial Services Board has released their Draft Regulation of Hedge Funds in South Africa following the publication of the proposed framework released in 2012. These

regulations will contribute to South Africa's commitment to the G20 and Financial Stability Board objective to regulate shadow banking.

SPAIN

As in previous years, the legislative activity that has taken place in Spain during the period under review has largely been as a result of the need to transpose into Spanish law applicable European Directives and, with respect to financial matters, laws corresponding in certain part to the various agreements adopted by the European Union Bodies. The most significant of these measures are the following:

- Royal Decree-Law 14/2013, of 29 November, on urgent measures to adapt the Spanish legislation to the contents of the European Union Regulation 575/2013 and Directive 2013/36/EU, on prudential requirements, access to the activity and prudential supervision of credit institutions, which have incorporated the Basel III rules in the European framework.

- Law 26/2013, of 27 December, which has established a new regulation of the Savings Banks, enhancing the corporate governance requirements and limiting their activities to certain areas. It has also stated the legal regime for named "banking foundations", a new type of entity which will have capital stakes in banks that are currently developing the financial activities of the former saving banks.

- Law 3/2014, of 27 March, which has incorporated the Directive 2011/83/UE, of 25 October, on consumer rights, in particular, regarding distance contracts.

- Royal Decree 304/2014, of 5 May, on money laundering and terrorism financing prevention, which has updated the Spanish rules to the Gafi's New Recommendations, of February 2012.

- Law 10/2014, of 26 June, which has concluded the incorporation of "Basel III" rules to the Spanish legal system, and has recast the previous Spanish laws on solvency and supervision of credit institutions.

In addition to the foregoing provisions, laws have also been enacted to respond to the current economic situation and to foster Spanish economy. The most significant of these measures are the following:

- Law 14/2013, of 27 December, which has stated supportive measures to foster the entrepreneurship activity and the internationalization of the Spanish economy.

- Law 20/2013, of 9 December, which has eliminated administrative barriers in order to achieve a true single internal market.

- Royal Decree-Law 4/2014, of 7 March, on urgent measures regarding the restructuring and refinancing of companies' debt, which has made a very important reform in the Spanish insolvency proceedings' regime.

SWEDEN

Bank Results and Key Figures

The description focuses on the four major commercial banks in Sweden. They jointly represent about 70 per cent of the market. These major banks have considerable activities in markets outside Sweden. The text is mainly based on the Swedish Central Bank's (The Riksbank) Financial Stability Report and National Institute of Economic Research (NIER).

Market Developments

The Swedish economy has been in a prolonged slump ever since the financial crisis, writes the National Institute of Economic Research. Recovery will take a long time due to limited support from the rest of the world. GDP stagnated in the first quarter this year, and the recovery stalled temporarily, but there are some rays of light. Employment is continuing to grow relatively quickly, and homebuilding is beginning to pick up. Besides aiding economic recovery, this may help correct the imbalances in the housing market in the longer term. The slowdown in the economy in the first quarter was expected after temporary factors pushed up GDP in the fourth quarter last year. The weak growth in exports in the first quarter gives some cause for concern, but rising export orders point to stronger export growth ahead. The NIER's economic tendency indicator, which reflects the mood of the economy as a whole, has fallen back somewhat in recent months, but remains in June at levels compatible with continued recovery

The protracted global recovery means that exports are playing a relatively minor role in Sweden's recovery. Domestic demand is therefore more important than normal. Demand this year is being stimulated by expansionary monetary and fiscal policy, which is helping investment to take off.

Housing investment is set to jump 17 per cent and approach 4 per cent of GDP. The number of apartment starts has risen to historically high levels, which means that homebuilding activity will continue to grow strongly in the coming quarters. In the longer term this may help correct the imbalances in the housing market.

Employment was unchanged in the first quarter this year, but indicators suggest that the upward trend since 2010 will resume in the second quarter. The prolonged period of high unemployment has meant that long-term unemployment is high, and a relatively large proportion of the unemployed belong to "weak groups" who find it comparatively hard to obtain work. This has contributed to growing matching problems in the labour market.

The weak economic climate in Sweden and elsewhere has meant that inflation as measured by the CPIF (consumer price index with constant mortgage rates) has fallen and was as low as 0.4

per cent in May this year. Weak demand is making it hard for firms to pass on cost increases to consumers. Inflation expectations for the coming years are also very depressed.

Household Loans

Household debt has continued to increase during the spring, the Swedish Central Bank writes. This is closely related to the development of prices on the housing market as the purchase of a house or flat is usually financed with a mortgage. Housing prices have also increased recently. Prices have risen in nearly all parts of the country and increases have been particularly high for tenant-owned apartments, where the price level has more than doubled since 2005. The development of prices for tenant-owned apartments has meant that it is above all the rate of borrowing for loans with such apartments as collateral that has increased the most. However, these loans make up only just over a quarter of the total loan stock, and total loan growth has therefore been relatively stable in recent years

The price increases on the housing market in recent decades are due to several factors. Rising household incomes, changes in taxes and in credit terms and conditions, falling real interest rates and increased population growth and urbanisation can account for a large part of the price increases. Housing construction has also been at a low level in Sweden for some time. High construction costs, strict building regulations, the municipal land monopoly and an inefficient rental market have all contributed to this. The structural problems on the housing market have thus contributed to a substantial increase in both housing prices and household debt since the mid-1990s.

Household debt is at a historically high level and is expected to increase going forward. At the aggregate level, the household debt ratio (total debt as a percentage of disposable income) is over 174 per cent.

The assessment at present is that the debt-servicing ability of the households is good. Despite the increase in the burden of debt in recent years, the aggregate interest ratio (household interest expenditure after tax as a percentage of disposable income) has decreased as interest rates have fallen. The interest ratio was approximately four per cent at the end of 2013, which is a low level in historical terms.

Corporate Loans

Corporate debts with the banks are increasing slowly. This can partly be explained by the weak economic situation in Sweden and the euro area which has meant that the companies' have had a limited need to invest. On the other hand, the companies' borrowing in the form of market funding is increasing at a higher rate than their borrowing from the banks. This is partly due to an increased desire on the part of the companies to diversify their borrowing. All in all, total corporate debt as a percentage of GDP has been stable in recent years. Compared to other countries, corporate debts, excluding intracompany loans, are relatively low. However, according to Almi's loan indicator for the first quarter of 2014, a majority of bank managers expect lending to companies to increase during the year as economic activity improves. The Economic Tendency Survey of the National Institute of Economic Research and the Riksbank's Business Survey also show that the companies have good access to funding.

The companies' debt-servicing ability has improved. This gradual improvement is above all due to the low level of interest rates and the brighter economic prospects. This in turn has contributed to a slight fall in the default rate in recent months. The expected default frequency for listed Swedish companies has also fallen, which indicates that the default rate will continue to decline somewhat in the period ahead.

Lending and Credit Risk

Growth in the major Swedish banks' lending is lower than before the crisis. Lending increased by just over two per cent in 2013, compared with an average rate of increase of 16 per cent per year in the period 2005-2009. The most important factor behind this decrease is that lending growth abroad is now at much lower levels than before the financial crisis. Over the last 12 months, the major banks have continued to reduce their exposures to Eastern Europe. Since 2009, the major banks' lending to Eastern Europe has fallen from eight per cent of total lending to less than five per cent today. Three of the major banks still have some lending activities in Russia and Ukraine. This mainly concerns lending to Nordic companies with operations in these countries and to large domestic companies.

In Sweden, lending for housing purposes continues to increase at a faster rate than lending to non-financial companies. Since the beginning of 2009, mortgages have increased by an average of 6.5 per cent per year, while lending to non-financial companies has only increased by 0.6 per cent per year. The reason for this is that mortgages have increased in pace with the increase in housing prices, at the same time as limited GDP growth has meant that corporate demand for loans has been low. In addition, the companies are funding their operations by issuing corporate bonds to a greater extent than previously.

The loan losses of the major Swedish banks are low. During the first quarter of 2014, loan losses as a percentage of the major banks' total lending amounted to just over 0.1 per cent. This is largely because the low interest rates mean that the bank customers' interest burden is light, and because the Swedish economy has proved to be relatively resilient to the recession that has hit the euro area. Loan losses have also been kept low because some of the banks have still been able to reverse some of the provisions that were made for anticipated loan losses in, above all, the Baltic countries during the financial crisis. Loan losses are still low in Finland and Norway. This is despite the fact that economic activity has been weak in Finland and has declined in Norway. The loan losses suffered by the banks primarily stem from the corporate sector, which has been hit hard by falling domestic demand and, to a certain extent, declining exports.

Loan losses are decreasing in Denmark and in the shipping sector. Lending in Denmark still accounts for the largest part of the major banks' total loan losses. As in Finland and Norway, the losses stem above all from lending to companies.

Credit quality has improved in the major banks' lending in the Baltic countries. In the first quarter of 2014, impaired loans made up 3.3 per cent of the major banks' total lending in the region. This can be compared to 8.3 per cent at the beginning of 2012. This is still a high percentage in comparison with the corresponding figure for the major banks' total lending, which is 1.1 per cent, but despite this the loan losses in the Baltic countries are small. The reason for this is that the banks made substantial provisions for anticipated loan losses in the Baltic countries during the financial

crisis. However, it has been possible to reverse a large part of these provisions as the economic situation has improved and the number of impaired loans has fallen. 60 per cent of total impaired loans in the Baltic countries stem from lending to companies and the remainder from lending to households.

Earnings and Profitability

The major Swedish banks continue to report good profitability before loan losses. Both net interest income and net commission income have risen over the last six months thanks to increased lending volumes and increased demand for those banking services that generate commission. At the same time their costs are low, which means that the banks' costs in relation to incomes are lower than for many other European banks.

The major banks also have low loan losses compared to the European banks. While the average loan-loss level for the European banks is 0.8 per cent, the corresponding figure for the major Swedish banks is around 0.1 per cent. An important reason for this difference is that the countries in which the major Swedish banks have operations have not been as hard hit by the financial crisis as many other countries.

All in all, the low level of costs in relation to incomes and the low level of loan losses mean that the profitability of the major banks is comparatively high. In the first quarter of 2014, the major banks' average return on equity was approximately 13 per cent, which can be compared to around three per cent for the group of comparable European banks.

Capital

The major Swedish banks have continued to increase their core Tier 1 capital ratios. Since December 2008, the average core Tier 1 capital ratio of the major banks, as defined in Basel II, has improved by over eight percentage points. Almost four percentage points of this improvement are due to an increase in the banks' core Tier 1 capital. Some 1.6 percentage points of this stem from the new issues of share capital that three of the major banks conducted in 2009, while the rest comes from the profits the banks chose not to pay out to their shareholders during the period. As a counteracting effect to the increase in capital, assets also increased and thus had a negative impact on core Tier 1 capital ratios. However, the major part of the change has been driven by the fact that average risk weights have fallen. This has improved the ratio by over five percentage points.

The fall in risk weights is partly due to a shift in the major banks' loan portfolios towards lending with less risk. In recent years, the major banks have increased their lending in, above all, the Nordic countries and reduced their lending in Eastern Europe. As loan losses have historically been lower in the Nordic countries than in Eastern Europe, this shift has led to lower risk weights. In addition, a larger part of the major banks' lending in Sweden goes to mortgages and a smaller part to the corporate sector. This has also led to a fall in risk weights.

Another important explanation of the fall in risk weights is that the major banks apply internal risk based (IRB) approach to an increasing part of their portfolios. This option was introduced in 2007 and means, among other things, that the banks themselves are permitted to calculate certain risk parameters when determining their risk weights. Before a bank can use the IRB method it

must first gain approval from Finansinspektionen. The introduction of IRB strengthened the banks' incentives to develop and improve their risk management systems. The banks' capital requirements also became more sensitive to risk, so that the difference between capital requirements relating to exposures with different levels of risk increased.

At the same time as the major banks' CET 1 capital ratios have increased, capital requirements have also increased. In November 2011, the Ministry of Finance, the Riksbank and Finansinspektionen stipulated that the CET 1 capital ratios of the major banks must be at least 12 per cent from 1 January 2015. In addition, the banks must hold capital for the 25 per cent risk-weight floor that Finansinspektionen intends to introduce for Swedish mortgages within the framework of Pillar 2. The Pillar 2 requirement also comprises another component for risks specific to particular institutions, such as concentration risks. The size of this requirement has not been made public as yet. Moreover, the European member states also have the option of introducing a countercyclical capital buffer for lending within the respective jurisdictions. Finansinspektionen has not yet made a final decision on how large the buffer will be for Swedish exposures.

Funding

The major Swedish banks' funding costs are lower than those of many other banks in Europe. This applies to both short and long term funding and to funding in Swedish krona as well as in foreign currencies. An important reason for the low funding costs is that the major Swedish banks have relatively high credit ratings. The major banks also benefit from the fact that the Swedish economy is relatively stable and that Sweden's sovereign debt is low. The major Swedish banks have substantial liquidity buffers in euros and dollars. An important explanation of this is that the funding situation is particularly favourable in these currencies. At short maturities, in US dollars, the major Swedish banks fund their operations at an even lower interest rate than the interest rate they subsequently receive when they place the money with the Federal Reserve.

SWITZERLAND

The world-wide economic environment remained challenging for Swiss banks in 2013/2014. The Swiss budget, however, remained balanced and national debt is still on a low level compared to other countries. Swiss banks proved again to be solid and profitable in the last year, as is underlined by ample credit, low CDS spreads and high capital levels. The SNB maintained the minimum exchange rate CHF of 1.20 per Euro introduced in September 2011 to ease the pressure on the Swiss economy. Swiss banking regulation continues to be in line with international standards. With respect to capital requirements, Swiss requirements will be among the highest globally, especially for the two systemically important institutions. The most important challenges arise from the international pressure on more tax transparency. Swiss banks have clearly stated only to acquire and manage taxed assets in future, and to continue to apply international standards. The most important step in this direction was the announcement that Switzerland will adhere to the automatic exchange of tax-related information when it becomes an international standard.

Tax Issues

Double Taxation Agreements

By adopting OECD 26 in full, Switzerland committed to providing administrative assistance in the case of tax evasion and tax fraud. Within a few years Switzerland has revised more than 40 DBAs to include the international standard on exchange of information. This represents approximately half of the Swiss DBA network.

Automatic Exchange of Information

With the G-20, the European Union and the OECD pressing ahead, it has become apparent that the automatic exchange of information (AEI) is becoming an international standard. According to their strategy to accept and implement international standards, the banks in Switzerland will accept an AEI. Before an implementation in Switzerland, fair and feasible solutions to regularise untaxed assets have to be found. The standard should be applied by all important financial centres in the world and should provide for transparency of all financial instruments, including structures like trusts. The standard should contain reciprocity, the principle that exchanged data are exclusively used for tax purposes and appropriate data protection measures. It is not acceptable that exceptions are granted to single jurisdictions such as the US, as this creates unfair competitive advantages.

Recommendations Regarding Tax Compliance for Cross Border Business

In November 2013, the SBA published recommendations regarding tax compliance for cross border business. These recommendations aim at a credible and rigorous implementation of the strategic goal of tax compliance. The SBA expects its members not to accept any assets where they know that these assets are and will remain untaxed. This also applies to cases of cross border clients changing banks within Switzerland. Through increased due diligence and by applying risk-based considerations, the banks are to ensure that clients, in particular those from European countries that offer their taxpayers the means of regularizing their situation, do not bring untaxed assets into Switzerland. Where countries offer possibilities for clients to regularize their situation, banks should persuade such clients of the options for regularization available in their country of tax domicile and help them to select the best solution. Where a client does not go along with the recommendations made by the bank, the bank must decide if the relationship is still acceptable.

Swiss/US Tax Issues

In 2011, the US started investigations against eleven banks in Switzerland; one bank was indicted. The assumption in the US is that from 2009 onwards, various former US clients of UBS moved their assets to other banks in Switzerland and their assets remained undeclared as a result. In the efforts to resolve the tax dispute, the Swiss authorities are prepared to provide administrative assistance in tax matters to the US authorities. In August 2013, the US Department of Justice announced a programme open for Swiss banks. Within the frameset of this voluntary programme, banks are enabled to settle tax issues with the US on an individual, but unified basis.

Capital and Liquidity Requirements

At the beginning of 2013, several new or amended capital and liquidity requirements entered into force. Most of them were part of the transposition of Basel III into Swiss law. The new Basel III capital requirements were included in the Capital Adequacy Ordinance (CAO) and several FINMA circulars.

In February 2013, and with effect from end of September 2013, the counter-cyclical capital buffer for mortgage loans has been activated at the level of 1%. In January 2014, this buffer has been increased to 2%, with effect from end of June 2014. The buffer is targeted at mortgage loans financing residential property located in Switzerland and refers to the associated risk-weighted positions.

In addition, the new provisions of the so-called “Too Big To Fail” (TBTF) package have been implemented in the Banking Act and put into force on 1 March 2012. This package allows for special requirements for systemically relevant banks. These requirements include higher capital requirements (up to 19% total capital and a leverage ratio), more stringent liquidity requirements, special risk diversification rules and provisions on contingency planning. Concrete rules at ordinance level have been put into force at the beginning of 2013.

Currently, a National Working Group lead by FINMA is in the process of preparing the Swiss implementation of the Basel III leverage ratio requirements for all categories of banks. Whereas the details of its calculation will probably be specified in a new circular by FINMA, the quantitative minimum requirements and final calibration will be determined subject to the time-table of the Basel Committee on Banking Supervision.

Regarding the transposition of the liquidity standards of Basel III, a new Liquidity Ordinance as well as a new FINMA circular were created. They regulate the qualitative liquidity risk management requirements according to the BCBS “Principles for Sound Liquidity Risk Management and Supervision”, the reporting requirements with regard to the Liquidity Coverage Ratio (LCR) and the general principles regarding the Net Stable Funding Ratio (NSFR). Revisions of the ordinance as well as the circular implementing the detailed requirements for the LCR will probably enter into force at the beginning of 2015.

New Accounting Rules for Swiss Banks

Following the revision of the Swiss Code of Obligations, the accounting standards applicable to banks and securities dealers have been amended accordingly. The new rules will be implemented both at the level of the Banking Ordinance and a new circular by FINMA. A consultation has taken place from end of October 2013 until the end of December 2013. The revision will basically enter into force at the beginning of 2015.

The proposed changes are based on the new legislation on financial reporting contained in the Swiss Code of Obligations and are geared in part to the internationally recognized accounting standards (IFRS and US GAAP). Swiss banks will thus have an amended set of accounting standards governing all types of financial statements.

Fight Against Money Laundering

Following the review of the 40 FATF recommendations, Switzerland is now in the final stages of adapting its respective legislation. As one of the most important changes, Switzerland has added tax crimes to the list of predicate offences for money laundering. Other changes are being made due to the heightened transparency requirements for legal persons, also stated in the reviewed FATF recommendations. In this context, new rules regarding the identification of beneficial owners as well as transparency rules for non-listed companies issuing bearer shares have been introduced. Further changes concern the identification of national politically exposed persons and the introduction of new rules with regard to real estate and cash transactions.

In order to enhance the cooperation and the information exchange with other financial intelligence units, further competencies have been assigned to the national financial intelligence unit.

TURKEY

Banking Regulations

During the period under review, amendments were made to the applicable legislation in response to the needs that have emerged, in the process of enforcement of the Banking Law and other related laws.

Regulation Amending the Regulation on Loan Transactions of Banks (OG no. 28704 dated 11 July 2013): This amendment provides that commitments of an unlimited guarantee nature extended by the banks operating in Turkey to competent authorities in foreign countries for their obligations concerning their consolidated subsidiaries and affiliates in such foreign countries as per the legislation of said countries shall not be taken into account in the calculation of loan limits.

Regulation Amending the Regulation on Internal Systems of Banks (OG no. 28709 dated 16 July 2013): Through this amendment, the audit board members of banks not accepting deposits or participation funds, established by a law or authorization provided by a law for the purposes of national development or financing a specific sector or area, have been excluded from the prohibition for audit board members from taking an office in commercial entity.

Regulation on Measurement and Evaluation of Leverage Ratios of Banks (OG no. 28812 dated 05 November 2013): Within the framework of harmonization with Basel III, Regulation on Measurement and Evaluation of Leverage Ratios of Banks has been prepared to help restricting cyclical movements, taking into consideration BCBS standards, AU legislation and other studies, as complementary to risk-sensitive capital calculation.

Regulation Amending the Regulation on Bank Cards and Credit Cards (repeated issue of OG no. 28828 dated 21 November 2013): Pursuant to the seventh paragraph of Article 27/A of Regulation on Bank Cards and Credit Cards, published in the Official Gazette no. 26458 dated 10 March 2007, institutions that have concluded card accepter agreement and card accepters are expected to support 3D-Secure card holder verification technology.

Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies (OG no. 28861 dated 24 December 2013): The Regulation has been issued to re-arrange the provisions of annulled "Communique on Principles and Procedures Applicable to Provisions to be Reserved by Financial Leasing, Factoring and Financing Companies for their Claims" and the financial reporting provisions of the "Communique on Uniform Chart of Accounts and Explanations to be Applied by Financial Leasing, Factoring and Financing Companies and the Format and Contents of Financial Statements to be Disclosed to the Public" pursuant to Financial Leasing, Factoring and Financing Companies Law No. 6361. While the provisions in the annulled communiques have been largely preserved, provisions regarding delay times in payments relating to guaranteed factoring transactions, general reserves to be set aside by financing companies and financial statement formats within the framework, of Turkish Accounting Standards have been amended.

Regulation Amending the Regulation on the Measurement and Evaluation of Liquidity Adequacy of Banks (OG no. 28868 dated 31 December 2013): This amendment has extended the effectiveness of provisional article regarding foreign exchange-indexed assets and liabilities, but the rate of 45 percent has been reduced to 40 percent for assets other than foreign exchange-indexed loans.

Regulation on Establishment and Operation Principles of Financial Leasing, Factoring and Financing Companies (OG no. 28868 dated 3.1 December 2013): The secondary legislation under Financial Leasing, Factoring and Financing Companies Law No. 6361 was completed in 2013. The Law and secondary legislation aim at establishing an efficient oversight and supervision system for these companies; ensuring that these companies take an active role in the financial system and have a strong financial structure; increasing product diversity in financial leasing sector by introducing operational leasing, subleasing, software leasing, sale and lease-back: and increasing revenue diversity through authorization for disbursing cash loans by up to a certain rate of paid-in capital.

Communique Amending the Communique on Preparation Consolidated Financial Statements of Banks (OG no. 28771 dated 20 September 20.13): The amendment has removed the obligation for taking consolidated financial statements of subsidiaries, jointly controlled corporations and affiliates as a basis in the preparation of consolidated financial statements for parent companies having subsidiaries jointly-control corporation and affiliates, and has enabled making calculations based on non-consolidated financial statements.

Communique Amending the Communique on Techniques for Reduction of Credit Risk (repeated issue of OG No. 28789 dated 08 October 2013): Considering that Eximbank is a public bank, that insurance covers the default risk of importer and political risk of importing country, that the losses of Eximbank from political risks are covered by the Treasury, and that political risks are at the same time is insured by Insurance Reassurance Association at the rate of 70 percent, the Communique on Techniques for Reduction of Credit Risk has been amended to ensure that export credit insurance policies from Turkish Export Credit Bank Inc. Co. are recognized as risk reduction instrument equivalent to Treasury guarantee in the calculation of capital adequacy ratio.

Communique on Principles and Procedures Applicable to Management of Information. Systems in Information Exchange, Clearing and Settlement Institutions and Audit of Business

Processes and Information Systems (OG no. 28841 dated 04 December 2013): While the Regulation on Bank Cards and Credit Cards meets the need for regulation on certain aspects of information systems, it remained insufficient in ensuring many basic information systems controls such as information security, separation of functions, authorization and audit trails. In this framework it was deemed necessary to undertake necessary regulatory work for making these institutions subject to "Communique on Principles Applicable to Management of Information Systems in Banks" and evaluate compliance with the provisions of the subject Communique through an independent audit system parallel to the information systems audits performed by independent audit institutions in banks. In this framework, it was decided to make necessary regulatory work for subjecting information exchange, clearing and settlement institutions (BKM, KKB and Risk Center) to "Communique on Principles Applicable to Management of Information Systems in Banks" and ensure audit and reporting of their compliance pursuant to "Regulation ön Audit of Bank Information Systems and Banking Processes by Independent Audit Institutions".

Communique on Uniform Chart of Accounts and Prospectus to be Applied by Financial; Leasing, Factoring and Financing Companies (OG no. 28861 dated 24 December 201.3): The Communique has been issued to re-arrange the chart of accounts and prospectus provisions of the annulled "Communique on Uniform Chart of Accounts and Explanations to be Applied by Financial Leasing. Factoring and Financing Companies and the Format and Contents of Financial Statements to be Disclosed to the Public" pursuant to Financial Leasing, Factoring and Financing Companies Law No. 6361.

Regulation Amending Regulation on Principles and Procedures on the Establishment of Characteristics of Loans and Other Receivables by Banks and Reserves to be Allocated for These (OG no. 28880 dated 12 January 2014): Pursuant to this Regulation, the lease certificates issued under Public Finance and Debt Management Law No. 4749, lease certificates under which banks are fond users, and mortgage-covered securities and asset-covered securities issued by banks have been included among First Group Covers.

Regulation Amending the Regulation on Measurement and Evaluation of Capital Adequacy of Banks (OG no. 28948 dated 21 March 2014): Through this amendment, it is possible to set the time periods in which the consolidated and nonconsolidated capital adequacy standards ratios are required to be sent to the Agency, through Board decision.

Regulation Amending the Regulation on the Measurement and Evaluation of Liquidity Adequacy of Banks (OG no. 28948 dated 21 March 2014): Through this amendment, it is possible to set the time periods in which statements relating to first and second maturity periods of total and foreign currency liquidity adequacy ratios are required to be sent to the Agency, through Board decision.

Regulation Amending the Regulation on the Calculation and Application of Foreign Currency Net General Position/Equity Standard Ratio on a Consolidated and Non-Consolidated Basis by Banks (OG no. 28948 dated 21 March 2014): Through, this amendment, it is possible to set the time periods in which statements relating to consolidated and non-consolidated foreign currency net general position/equity standard ratios are required to be sent to the Agency, through Board decision.

Macroprudential Measures for Consumer Loans and Credit Cards

In 2013, legal amendments were made to introduce some additional macroprudential measures for consumer loans and credit cards, with a view to keeping systemic risks at minimal level. In this context, the following regulatory amendments were introduced: Containing credit card limits and raising minimum payment rates; through Regulation on Amendment of Bank Cards and Credit Cards Regulation, the minimum payment rates of credit cards has been raised to minimum 30% of the debt for the period, for credit cards with limit of up to 15,000 TL, and to minimum. 35 % of the debt for the period, for credit cards with limit of 15,000 TL to 20,000 TL. Increasing risk weights applied to credit card installments; through Regulation Amending the Regulation on Measurement and Evaluation of Capital Adequacy of Banks, the risk weights applied to credit card installments has been increased, by 25 points for 1 to 6 months, and by 50 points for other maturities. Accordingly, risk weight has been raised to 100% for credit card installments of 1 to 6 months, 200% for 6 to 12 months and. 250% for credit card installments of more than 12 months.

For including individual credit cards in the scope of consumer loan; the definition of "consumer loan" has been added to ensure that the term "consumer loan" also includes loans extended through credit cards as well as loans extended through overdraft accounts in the "Regulation on Principles and. Procedures on the Establishment of Characteristics of Loans and Other Receivables by Banks and Reserves to be Allocated for These. Also general reserve ratio has been reduced to 0% from 1% for export loans, and to 0.5%> from 1% for SME loans.

Assessments have been conducted on the developments in consumer loans from the perspective of savings, which represent the unspent portion of income, as well as the developments in SME loans, which represent commercial loans as drivers of economy. As a result of these assessments, the following amendments have been made to Annex-1 of the above Regulation.

For the loans extended in cash or through purchase of goods and services by way of credit cards: 1) Risk weight of the outstanding amounts of installments with remaining maturity of 1 months (excluded) to 6 months (included) has been increased to 100% from 75%; 2) Risk weight of the outstanding amounts of installments with remaining maturity of 6 months (excluded) to 12 months (included) has been increased to 200% from 150%; 3) Risk weight of the outstanding amounts of installments with remaining maturity of more than 12 months has been increased to 250%» from 200%.

For vehicles loan receivables in the scope of consumer loans: 1) Risk weight of the outstanding amounts with remaining maturity of one year (excluding the twelfth month) to two years (including the twenty-fourth month) has been increased to 150% from 75%; 2) Risk weight of the outstanding amounts with remaining maturity of more than two years (including the twenty-fourth month) has been increased to 200% from 75%.

Changes in the regulation have been made for allocation of more general reserves for vehicles loans by banks.

Through introducing installment limitations for Consumer Loans and Credit Cards through "'Regulation on Amendment of Regulation Concerning Bank Cards and Credit Cards", an overall

installment limitation has been introduced for cash withdrawals and goods and service purchases by credit cards, and installments have been totally removed in certain sectors.

Basel III

Following the global financial crisis that started in 2008, G-20 (Group of 20), FSB (Financial Stability Board) and BCBS (Basel Committee on Banking Supervision) raised various proposals to transform financial systems into a sounder and stronger structure. The regulatory proposals in the field of banking have been compiled under Basel III. Member states of the Committee, including Turkey, decided to apply the requirements of Basel III consensus during the period 2013 - 2019. The Agency has completed the work for implementing the reform proposals published by Basel Committee on Banking Supervision and known by the public as Basel Ill. Within the framework of the implementation of this consensus, Regulation on Equity of Banks, Regulation on the Amendment of Regulation Concerning Measurement and Evaluation of Capital Adequacy of Banks, Regulation on Capital Protection and Cyclical Capital Buffers and Regulation on Measurement and Evaluation of Leverage Ratios of Banks have been published. Regulation on Calculation of Liquidity Coverage Ratios of Banks was published in the first quarter of 2014.

Regulation on Equity of Banks was published in the Official Gazette no. 28756 dated 05 September 2013. Through this regulation, the concept of core capital has been introduced as an element of equity; additional tier-I capital items to be included in tier-I capital besides core capital have been identified; stricter rules have been introduced for borrowing instruments to be included in tier-II capital; detailed adjustment principles have been established for items to be included in equity calculation; the principles for taking into account minority rights and shares held by third persons in consolidated equity calculation have been amended; and the borrowing instruments to be included in additional tier-I capital and tier-II capital have been allowed to be deleted from records or converted, to stock to compensate for losses if the bank's capital adequacy ratio falls below a certain threshold. Due to the innovations introduced by Regulation of Equity of Banks, it became necessary also to amend the Regulation on Measurement and Evaluation of Capital Adequacy of Banks. The amendments introduced by the Regulation, published in the Official Gazette no. 28756 dated 05 September 2013 include, among others, the introduction of minimum core capital adequacy standard ratio (4.5%) and minimum tier-I capital adequacy standard: ratio (6%), which will be calculated on. a consolidated and. non- consolidated basis, and applying risk weight instead of deduction from equity, for the purposes of capital adequacy practice, to certain items which are deducted from equity pursuant to legislation in force.

The Regulation on Capital Protection and Cyclical Capital Buffers, published, in the Official Gazette no. 28812 dated 05 November 2013, sets out the principles and procedures applicable to the calculation of additional core capital amount expected to be held by banks as capital protection buffer and cyclical capital buffer.

Under Basel III, a leverage ratio has been proposed as a complementary element for calculation of capital adequacy for quantified risks. In this scope, Regulation on Measurement and Evaluation of Leverage Ratios of Banks was prepared and published in the Official Gazette no. 28812 dated 05 November 2013, taking into consideration Basel Committee standards, European Union legislation and other related studies. The Regulation sets out principles and procedures applicable to ensuring that banks hold adequate capital on a consolidated and non-consolidated

basis against the risks they may be exposed to as a result of leverage effects. Pursuant to this regulation, the leverage ratio shall be calculated by dividing banks' tier I capital to total risk amount, composed of their total risk amounts of on-balance sheet assets and off-balance sheet transactions; and it is provided that the quarterly average of the mentioned ratio which will be calculated on a solo and consolidated basis shall be attained and maintained at the level of minimum 3%.

Through Regulation on Calculation of Liquidity Coverage Ratios by Banks, published in the Official Gazette dated 21 March 2014, the liquidity coverage ratio of minimum 100% has been established to be effective as from 01 January 2019, for the measurement and monitoring of liquidity risk. The practice of liquidity coverage ratio, which will be phased in as from 01 January 2015, is intended to ensure that banks hold high-quality liquid assets in an amount sufficient for covering their 30-day net cash outflows in their balance sheets particularly during times of stress. Liquidity coverage ratio is calculated as the rate of high-quality liquid asset stock to net cash outflows. High-quality liquid assets consist of assets the value of which can be measured easily and accurately, which constitute a reliable source of liquidity even during times of stress, which have not been used as collateral, and. which do not have any legal or operational restriction preventing its use, sale, transfer or liquidation by the bank. Net cash outflow consists of the difference between total cash outflow and total cash.

Market Developments

In the stated period the number of deposit banks, development, and investment banks was 46, reflecting the closure of Portigon A.G. and opening of Bank of Tokyo Mitsubishi A.Ş. The total number of branches was over 11,000.

UNITED KINGDOM

Key Regulatory Developments

Financial Services (Banking Reform) Act 2013

Following the final report of the Independent Commission on Banking, the government undertook detailed consultation on its proposals for structural reform of the banking industry before introducing the Financial Services (Banking Reform) Bill into Parliament. The Bill as introduced covered three broad areas:

- Proposals to ring-fence vital banking services from wholesale and investment banking activities. This provision will ring-fence the retail-banking activities of a banking group from its wholesale and investment banking activities. There are issues around the provision of services to SME businesses which may need to conduct business on either side of the ring-fence and also the provision of trade finance.
- Measures on capital, loss-absorbing debt, a bail-in mechanism, a leverage ratio, and depositor preference that collectively make up the loss-absorbency proposals.
- Proposals on competition in the banking sector through both this Bill and the work of the regulators in promoting competition.

The BBA, together with the banks impacted by Vickers' ring-fencing, put a lot of time and effort into ensuring that the requirements as set out in the secondary legislation were consistent with being able to meet reasonable client needs. This has involved engaging in a 'structured dialogue' with HM Treasury in a discussion which focused upon:

- Trade finance
- 'Simple' derivatives hedging
- High net worth individuals / Large organisations
- Structured finance
- Own risk management
- Securitisation
- Financial institution restrictions
- Payments

These discussions resulted in substantial progress being made and the secondary legislation – and therefore the fundamental framework of the regime – ended up looking in far better shape than previously. Trade finance is a good example of where an earlier unworkable definition was replaced with one which works much better.

Parliamentary Commission on Banking Standards

The Parliamentary Commission on Banking Standards issued its final report on 19th June 2013. Its recommendations were structured around five main themes:

- Making individual responsibility a reality
- Reforming governance to make individual responsibility a reality
- Better functioning markets
- Reinforcing the responsibilities and accountability of the regulators
- The responsibilities of Governments and Parliaments

The recommendations which attracted most interest were those relating to the enhancement of individual responsibility. This involved replacing the Approved Persons Regime by:

- creating a senior persons' regime that will make named individual responsible for core activities of a bank – this is expected to cover the main board and the executive committee
- introducing a certification regime to cover other senior individuals whose action, or lack of action, can significantly impact the bank's reputation, its customers or the wider economy
- reviewing the whistleblowing regime
- Greater and longer deferral of variable remuneration along with provisions on malus and clawback
- Introducing possible criminal sanctions for 'reckless' bank directors

The framework for the regime was backed into the Banking Reform Bill through government amendments in the Autumn and placed on the statute book when the Act gained Royal Assent in December 2013.

A further focus of attention was the question of professional standards in banking. The BBA, as the representative industry body, proposed the establishment of a Banking Standards Review Council in a detailed paper provided to the Commission. It recommended that the Council be independent of the industry but work alongside the still relatively new regulatory authorities and pre-existing professional and educational bodies. The idea was supported by the Commission and in September 2013 the industry announced that Sir Richard Lambert, ex-President of the Confederation of British Industry (CBI), had been appointed to lay the groundwork for the establishment of such a body.

Basel III in the European Union

Activity in the UK has focused on implementing the CRR with many technical standards being finalised by the European Banking Authority. These take effect across the EU once they have been published in the Official Journal and are supported by the BBA as they provide no opportunity for local regulators to 'gold-plate' the legislative requirements. Some elements of the Basel III more capital, more liquidity proposals do however require national implementation including governance, regulatory cooperation, capital buffers, Pillar 2, remuneration and county-by-country reporting and in the summer of 2013 the Prudential Regulatory Authority consulted on its approach to implementing CRD in the UK.

The PRA consulted on its proposed approach in CP5/13 including the possibility that all of Pillar 2 A risks – IRRBB, concentration, pension - should be covered by Core Equity Tier 1 (CET1) capital although it subsequently confirmed that 56% CET1 capital would be acceptable, as the BBA had suggested.

It did not however relent on its decision to ignore the CRR transitioning of capital deductions and filters, meaning that banks will effectively be operating on a 2019 capital definition from 2014.

CRDIV will introduce some corporate governance type reporting requirements in relation to:

- the number of directorships held by members of the management body;
- the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise;
- the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved.

Leverage ratio

In November 2013 the Chancellor requested that the Financial Policy Committee (FPC) review the position of the leverage ratio within the capital framework covering:

- the roles of and relationship between the leverage ratio and risk-weighted measures, including the relative strengths and weaknesses of each measure;
- international developments related to the leverage ratio;
- the definition and design of the leverage ratio (e.g. minimum and buffers);
- the merits and demerits of varying the leverage ratio in light of variations in the corresponding risk-weighted standards and, therefore, the merits of being able to vary leverage ratios in a countercyclical manner;
- the appropriate leverage standards for ring-fenced banks;
- the case for Direction powers over the leverage ratio and how this would fit with the rest of the FPC's macroprudential toolkit, including the criteria to be used by the FPC when varying the leverage ratio;
- the impact of leverage standards on UK lending and GDP, and on those businesses with high concentrations in low risk-weighted assets or with different business models; and
- the transitional arrangements of leverage standards, including the circumstances under which it might be appropriate to introduce a leverage ratio on a faster timetable than international standards

The report will be submitted by November 2014.

Stress Testing and the Asset Quality Review

During 2014 EU bank supervisors are conducting a Europe-wide stress test. In parallel the European Central Bank is undertaking an Asset Quality Review (AQR) of the 129 banks for which it will take over supervisory responsibility, under the Single Supervisory Mechanism, from November 2014.

The AQR and European Banking Authority (EBA) stress testing exercise are crucial steps towards cementing financial stability and are designed to break the link between the credit quality of a bank and its home state sovereign, allowing EU banks to raise funds at more attractive rates and play their part in renewed growth in mainland Europe. In particular the stress testing exercise should deliver additional information as to the resilience of the banking system in the face of baseline and adverse economic scenarios which are credible and realistic.

The EBA's role in stress testing is to ensure consistency and comparability, and establish

- Common baseline scenarios and methodologies
- Common capital thresholds
- Common templates

Individual competent authorities will be able to use their own capital definition – for instance transitional capital vs. fully-loaded Basel 3 definitions but will be required to disclose on both bases, against a CETI threshold of 5.5%.

Individual competent authorities, not the ECB, will be responsible for the 'reaction function' i.e. what to do if the stress tests show that a bank's capital is likely to fall below the threshold. National supervisors will also have to disclose where they have used higher risk

weights and will be permitted to tweak scenarios, but only to add to the severity, they will not be permitted to make offsetting changes that would likely produce lower capital requirements.

At the same time the PRA is undertaking its own stress test on the major UK banks, building on the EBA's scenarios but over-laying a UK specific stress test, based on a 35% decrease in UK house prices and a jump in interest rates to 5%. The PRA stress tests will be conducted against a CET1 hurdle rate of 4.5%, lower than the EBA CET1 minimum as the UK authorities are using a fully loaded 2019 definition of capital, whereas the EBA stress test is based on individual member state's transitional pathways.

Results of the EBA stress test/AQR are expected during October, whereas the UK authorities are likely to announce the results of their stress tests in December.

Bank Levy

The UK bank levy has been in effect from 1 January 2011, applying, where relevant aggregate liabilities amount to £20 billion or more, to:

- The consolidated balance sheet of UK banking groups and building societies;
- The aggregated subsidiary and branch balance sheets of foreign banks and banking groups operating in the UK; and
- The balance sheets of UK banks in non-banking groups.

The Government intends that the bank levy should raise at least £2.5 billion each year. To ensure this, and to offset the benefit to the banking sector from reductions to the main rate of corporation tax announced since 2010, the Government announced at Autumn Statement 2013 that the full bank levy rate would be increased from 0.142 per cent to 0.156 per cent. The half rate for chargeable equity and long term chargeable liabilities would be increased from 0.071 per cent to 0.078 per cent. The changes took effect from 1 January 2014. No further rate changes were announced at Budget 2014.

The Bank Levy was reviewed in the second half of 2013, to consider certain operational issues, and a summary of responses was published in December 2013. The Government decided to make certain changes so as to achieve 'simplification, fairness and alignment with regulation'. The design changes, to take effect from 1 January 2015 unless stated otherwise, are to:

- limit the protected deposit exclusion to amounts insured under a deposit protection scheme;
- treat all derivative contracts as short-term liabilities;
- restrict relief for a bank's High Quality Liquid Assets (HQLA) to the half-rate;
- align the Bank Levy definition of Tier One capital with the new Capital Requirements Directive (from 1 January 2014);
- exclude liabilities in respect of collateral that has been passed on to a central counterparty (from 1 January 2014); and
- widen legislation-making powers within the Bank Levy from Royal Assent to ensure it can be kept in line with regulation.

In March, at Budget 2014, it was announced that the Government would consult on re-designing the bank levy, in response to criticisms about the predictability and stability of the tax:

The government will consult on the merits of a new charging mechanism for the bank levy, where banks are allocated into different bands according to their chargeable equity and liabilities and then charged an amount set for that band, with the overall level of revenue raised from the sector unchanged.

The BBA welcomed the Government's stated intention to use the Bank Levy to meet EU requirements under the Bank Recovery and Resolution Directive (BRRD) and the Deposit Guarantee Scheme Directive (DGSD) without any additional ex-ante demands. While welcoming the Government's desire to improve the design of the Bank Levy, it was concluded that the specific proposals for a banding model were not supported by the industry. In response, the Government issued a written ministerial statement on 26th June 2014, stating:

… [T]he Government announced that it was willing to explore (on a non-committal basis) whether a revenue-neutral reform to the bank levy charging mechanism, in which the headline rate would be replaced by a new banding approach for determining a bank's charge, could help to address these concerns and increase the predictability and sustainability of bank levy receipts. Feedback from banks, building societies and advisory bodies as part of the consultation process suggests that it would not, irrespective of how it was structured... Reflecting on these concerns - which were raised by banks of different domicile, structure and balance sheet size and trajectory - the Government has decided against the introduction of a banding approach for the bank levy at Finance Bill 2014 and has no plans to consider this idea further.

Significant Market Developments

Financial Transaction Tax

In September 2013, a leaked EU Council Legal Services opinion strongly criticised the legality of the FTT proposal, concluding that the proposal:

- exceeds the EU-11's jurisdiction for taxation under the norms of international customary law;
- infringes the taxing competences of non-participating Member States which have chosen not to implement the FTT but which nonetheless find their financial markets burdened with the tax; and
- is discriminatory and likely to lead to distortion of competition to the detriment of non-participating Member States. This comes about not only from the fact of whether the FTT is imposed on a transaction at all, but also the rate at which it is charged and the availability and practicality of enforcement measures.

In December 2013, a leaked opinion from the Commission's own Legal Services provided a rebuttal, claiming that '*The proposed FTT Directive is in conformity both with customary international law and EU primary law*,' and '*does not lead to any inadmissible extraterritorial effects of the FTT*'.

In April 2014, the Court of Justice of the EU ruled that the UK's legal challenge was premature but explicitly clarified the UK's ability to bring a future challenge against the FTT implementing directive, if necessary.

In May 2014, 10 Member states (omitting Slovenia, which has apparently withdrawn from the proposal) issued a political statement agreeing a step-by-step approach to the FTT starting with equities and 'some derivatives', although which derivatives remains unclear, allowing some participating members states (e.g. Belgium) to continue to tax other products currently not in scope. The ten participating Member States have agreed to produce a final legal text by the end of this year ready for implementation on 1 January 2016. The UK reiterated, at the May ECOFIN meeting of European Finance Ministers, its intention to challenge the tax if need be and Sweden said that, given the way negotiations had been conducted, they were close to supporting the UK in this.

Bank Recovery and Resolution Directive

The Bank Recovery and Resolution Directive adopts the Financial Stability Board's Key Attributes for Resolution Regimes into European law, including a statutory 'bail-in' regime to apply from 1 January 2016, with the remainder of the requirements applying from 1 January 2015. The UK authorities will amend the existing UK Special Resolution Regime to align it with the provisions of the Directive ahead of the transposition deadline. The UK government adopted legislation in late 2013 to introduce a statutory bail-in power. The secondary legislation necessary to achieve this is due to come into effect by summer 2014.

MiFID II & MiFIR

The Markets in Financial Instruments Regulation (MiFIR) and Directive (MiFID II) seeks to ensure a more robust EU framework of regulation to address a more complex market which is characterised by increasing diversity in financial instruments and new methods of trading. The legislation is aimed at establishing a safer, sounder, more transparent and more responsible financial system that works for the economy and society as a whole.

The proposals aim to make financial markets more efficient, resilient and transparent, and to strengthen the amount of protection for investors. The revisions to MiFID will have implications across regulation related to client assets, wholesale and retail conduct, secondary trading and transaction reporting. It promises to completely reform the EU's capital markets and will represent the greatest changes in a generation.

Political agreement on the final shape of the legislation was agreed on 14 January 2014. The Level 2 regulatory technical standards process is now underway, with the industry expecting the publication of a discussion paper imminently.

EMIR

The Regulation on over-the-counter (OTC) derivatives, central counterparties and trade repositories – knows as EMIR – was published by the European Commission in 2010. EMIR is the

EU implementing vehicle for the G20 commitments which aim to reduce systemic risk in the OTC derivatives markets via the mandatory clearing of eligible OTC contracts.

EMIR's impact on industry has been significant. Not only does it introduce a clearing obligation for eligible OTC derivatives contracts and a reporting obligation for all derivatives contracts, it also requires the implementation of measures to reduce counterparty credit risk for OTC contracts not considered eligible for clearing. Furthermore, EMIR establishes common governance and risk control rules for central counterparties and trade repositories. Trade reporting in particular has had significant impact on members and clients, with every entity – financial or otherwise – which trades a derivative brought within scope.

UNITED STATES

In what has become an annual ritual in the United States, the fourth anniversary of the Dodd-Frank Act in July 2014 was marked by Congressional hearings, industry seminars and media commentary on what works, what doesn't work, and what remains to be completed four years after President Obama signed the landmark financial reform legislation into law. While the implementation process is still a work in progress, core elements of the implementing regulations were finalized during the period under review – notably the Volcker Rule and enhanced prudential standards for systemically important financial institutions under Section 165 of Dodd-Frank. In another key development during the period under review, the 2010 Foreign Account Tax Compliance Act (FATCA) went into effect on July 1, 2014, with FATCA agreements treated as in effect with nearly 100 jurisdictions, according to the Treasury Department's count.

Dodd-Frank Act Implementation

Following is a review of the implementation status of key aspects of DFA that are of particular importance to foreign banking organizations operating in the United States.

- **Section 165 Enhanced Prudential Standards for Foreign Banking Organizations.** The Federal Reserve Board on February 18, 2014 voted unanimously to approve a final rule implementing the enhanced prudential standards for large FBOs under Section 165 of the Dodd-Frank Act. The enhanced standards apply, in varying degrees, to FBOs with global consolidated assets of $50 billion or more – the same threshold that applies to U.S. bank holding companies. The Institute of International Bankers (IIB) had argued from the outset that, in the case of FBOs, the $50 billion threshold should be based on U.S., not global assets, so that FBOs with relatively modest U.S. footprints would not be captured by requirements designed for firms whose failure could pose a risk to U.S. financial stability. As discussed further below, regulators and Members of Congress are now rethinking the wisdom of the $50 billion asset test.

  In its final rule, the Fed modified certain aspects of the original proposal in ways that were responsive to concerns raised by the IIB and member banks, but the Fed retained the fundamental requirement that foreign banks with substantial U.S. operations outside their branches place those non-branch operations under a U.S. intermediate holding company

(IHC). (Details of the Fed's original December 2012 proposal were reported in the U.S. chapter of last year's Global Survey.)

Key changes to the proposal included the following: 1) The threshold for establishing an IHC was increased from $10 billion to $50 billion of U.S. non-branch assets. 2) The compliance date for the final rule was extended by one year from July 1, 2015 to July 1, 2016. This was coupled with a requirement that affected FBOs submit an implementation plan by January 1, 2015 outlining plans for meeting the extended compliance date. 3) IHCs are required to comply with U.S. risk-based capital and leverage limit requirements, but (i) IHCs will be subject only to the standardized approach and will not have to apply the advanced approaches risk-based rules, regardless of whether they meet the thresholds for application of those rules; and (ii) leverage limits will not be effective until January 1, 2018. 4) The liquidity buffer required of U.S. branches is reduced from 30 days to 14 days. Other enhanced prudential requirements, including liquidity buffers, stress testing and risk committee requirements, are mandated for both IHCs and large FBOs with a somewhat more limited U.S. footprint.

Less than three months after voting on the final rule, Federal Reserve Board Governor Daniel Tarullo – the Fed's point-person on DFA implementation, suggested in a May 8th speech, that bank holding companies with less than $100 billion in assets should not be subject to the Section 165 requirements. "Experience to date suggests to me, at least, that the line might better be drawn at a higher asset level -- $100 billion, perhaps."

There is also growing sentiment in Congress that the $50 billion threshold should be increased or scraped altogether. In an opening statement at a July 16th Senate Banking subcommittee hearing on systemically important banks, Sen. Sherrod Brown, a Democrat and vocal critic of "too-big-to-fail" banks, indicated that he views the $50 billion asset threshold as too low. Pointing to the case of three regional banks operating in his home state of Ohio that each have over $50 billion in assets, Sen. Brown said: "From what I can tell, none of these regional institutions would threaten the U.S. or global financial system or economy if they were to fail." Meanwhile, legislation has been introduced in the House of Representatives that would replace the arbitrary $50 billion threshold with regulatory discretion in determining when an institution is systemically significant. The bill, *The Systemic Risk Designation Improvement Act of 2014* (H.R. 4060), is sponsored by Republican Congressman Blaine Luetkemeyer of Missouri, a former bank examiner and member of the House Financial Services Committee. The bill has bipartisan support but no action on the measure is expected this year. The IIB will continue to engage with Members of Congress and staff in the next Congress with respect to the treatment of FBOs in the legislation.

The Fed, meanwhile, has delayed finalizing the Section 165 single counterparty credit limit (SCCL) requirements pending the Basel Committee's completion of its work on developing a large exposure regime and the results of its own quantitative impact study. In addition, the Fed has delayed adopting rules implementing the early remediation requirements under Section 166, which remain under consideration.

- **Volcker Rule.** Five federal agencies on December 10, 2013 issued final rules implementing Section 619 of the Dodd-Frank Act (the "Volcker Rule"). The final rules, approved by the Fed, OCC, FDIC, SEC and CFTC, prohibit insured depository institutions, foreign bank branches and companies affiliated with these institutions from engaging in short-term proprietary trading of certain securities, derivatives, commodity futures and options on these instruments, for their own account. The final rules also impose limits on banking entities' investments in, and other relationships with, hedge funds or private equity funds. Banking organizations covered by section 619 will be required to fully conform their activities and investments by July 21, 2015 and must demonstrate to regulators in the meantime that they are making good faith efforts to come into compliance.

  The final rules provide exemptions for certain activities, including market making, underwriting, hedging, trading in government obligations, insurance company activities, and organizing and offering hedge funds or private equity funds in connection with the delivery of bona fide trust, fiduciary or investment advisory services. The final rules also clarify that certain activities are not prohibited, including acting as agent, broker, or custodian. In a departure from the initial proposal, which limited the government debt exemption solely to U.S. government securities, the final rule permits proprietary trading in foreign sovereign debt, albeit in more limited circumstances. The U.S. operations of foreign banking organizations will be permitted to trade in the sovereign debt of their home countries, while foreign bank and securities dealer affiliates of U.S. banks will be allowed to trade in the sovereign debt of the host country under whose laws the affiliate is organized.

  The compliance requirements under the final rules vary based on the size of the banking entity and the scope of activities conducted. Banking entities with significant trading operations will be required to establish a detailed compliance program and their CEOs will be required to attest that the program is reasonably designed to achieve compliance with the final rule. Independent testing and analysis of an institution's compliance program will also be required. The final rules reduce the burden on smaller, less-complex institutions by limiting their compliance and reporting requirements. Additionally, a banking entity that does not engage in covered activities will not need to establish a compliance program.

- **OTC Derivatives/Swaps Push-Out Rule.** The IIB, together with the Securities Industry and Financial Markets Association and the International Swaps and Derivatives Association on December 4, 2013 filed a legal challenge to the CFTC's cross-border swaps rule. The suit alleged that the CFTC violated both the Administrative Procedure Act and the Commodity Exchange Act and sought to halt what plaintiffs argued was an unprecedented and unlawful effort by the CFTC to regulate financial activity around the world without complying with fundamental requirements of agency rulemaking. The complaint made clear that the Associations' members support vigilant regulation of the derivatives markets to eliminate systemic risk, and have attempted in good faith to comply with the CFTC's improperly-adopted regulations. However, the Associations said they were compelled to bring this action to stop what was proving to be an unceasing effort by the Commission to regulate the global swaps markets through unpredictable "guidance" documents, advisories, and directives, and to force the CFTC instead to abide by the requirements for rulemaking laid down by Congress. Oral arguments in the case, filed in

Federal District Court in Washington, D.C., were heard on July 30th. On September 16th, the court ruled that the CFTC's Cross-Border Guidance is non-binding and therefore not subject to judicial challenge. However, the Court found that 10 of the 14 challenged Title VII regulations were not supported by an adequate cost-benefit analysis and remanded those rules (which remain in force) to the CFTC with instructions to undertake the cost-benefit analysis.

The suit followed an advisory (13-69) issued on November 14th by the CFTC's Division of Swap Dealer and Intermediary Oversight, further interpreting the Cross-Border Guidance. That Advisory took the view that a non-U.S. swap dealer registered with the Commission (whether an affiliate or not of a U.S. person) must comply with transaction-level requirements under Dodd-Frank when entering into a swap with a non-U.S. person if the swap is arranged, negotiated or executed by personnel or agents of the non-U.S. swap dealer located in the U.S. "For the avoidance of doubt, the Division's view would also apply to a swap between a non-U.S. SD and a non-U.S. person booked in a non-U.S. branch of the non-U.S. SD if the non-U.S. SD is using personnel or agents located in the U.S. to arrange, negotiate, or execute such swap," the advisory stated.

Subsequent to the legal challenge, the CFTC on January 3rd voted to seek comments on all aspects of its staff advisory 13-69 due to the "complex legal and policy issues involved" in the advisory. The CFTC also extended the deadline for complying with the advisory to September 15, 2014 from January 14, and subsequently extended the deadline again to December 31, 2014. In its March 10th comment letter, the IIB strongly objected to the "personnel-based" approach of the advisory. However, if the Commission adopts that approach, "it is imperative that the Commission do so under different circumstances and with greater nuance than Advisory 13-69," the IIB letter stated, setting forth appropriate rulemaking procedures, distinctions between transaction-level rules, and the need for a clear, objective and ascertainable test for when the Commission intends to regulate the activities of U.S. personnel or agents.

Swap Margin Rules. Five federal agencies on September 3rd released a proposed rule under the Dodd-Frank Act to establish margin requirements for swap dealers, major swap participants, security-based swap dealers, and major security-based swap participants. The proposed rule would establish minimum requirements for the exchange of initial and variation margin between covered swap entities and their counterparties to non-cleared swaps and non-cleared security-based swaps. The proposal builds on one originally released by the agencies in April 2011 and includes some modifications that were made in light of comments, such as an expansion of the types of collateral eligible to be posted as initial margin. This proposal also seeks to promote global consistency by generally following the final framework for margin requirements on non-cleared derivatives that the Basel Committee and the International Organization of Securities Commissions adopted in September 2013, the agencies said.

The proposed margin requirements would apply to non-cleared swaps and non-cleared security-based swaps entered into after the proposed rule's applicable compliance dates. The amount of margin that would be required under the proposed rule would vary based on the relative risk of the counterparty and of the non-cleared swap or non-cleared

security-based swap.

In particular, the proposed rule does not require a covered swap entity to collect specific or minimum amounts of initial margin or variation margin from nonfinancial end users, but rather leaves that decision to the covered swap entity, consistent with its overall credit risk management.

The CFTC on September 17 proposed similar rules for swap dealers and major swap participants that are not covered by the rules proposed by the prudential regulators on September 3rd. Concerns have been raised about the proposals, including, most notably, application of margin to inter-affiliate transactions.

Swaps Push-Out Rule. The Federal Reserve on December 24th approved a final rule clarifying the treatment of uninsured U.S. branches and agencies of foreign banks under the swaps push-out provision (Section 716) of the Dodd-Frank Act. The final rule adopts without change the interim final rule issued on June 5, 2013, which clarified that, for purposes of Section 716, uninsured U.S. branches and agencies of foreign banks are treated as insured depository institutions. The Federal Reserve and the Office of the Comptroller of the Currency have provided several foreign banks additional transition relief through July 16, 2015.

U.S. Liquidity Coverage Ratio

Federal regulators on September 3rd approved a final rule implementing the U.S. Liquidity Coverage Ratio (LCR) for large banks. The rule is generally consistent with the Basel Committee's LCR standard, the agencies said, but is more stringent in certain areas, including a shorter transition period for implementation.

The rule will for the first time create a standardized minimum liquidity requirement for large, internationally active banking organizations. Each institution will be required to hold high quality, liquid assets (HQLA) such as central bank reserves and government and corporate debt that can be converted easily and quickly into cash in an amount equal to or greater than its projected cash outflows minus its projected cash inflows during a 30-day stress period.

The LCR will apply to all banking organizations with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposure and to these banking organizations' subsidiary depository institutions that have assets of $10 billion or more. The rule also will apply a less stringent, modified LCR to bank holding companies and savings and loan holding companies that do not meet these thresholds, but have $50 billion or more in total assets. Bank holding companies and savings and loan holding companies with substantial insurance or commercial operations are not covered by the final rule.

While the rule only applies to domestic bank holding companies (including foreign-owned BHCs), Fed Governor Tarullo indicated in an opening statement at the September 3rd Fed Board meeting that a future rulemaking will extend the LCR requirement to the U.S. intermediate holding companies and branches of large foreign banking organizations. He also said that while the LCR does not address all risks associated with short-term wholesale funding, some of those risks will be

addressed by the as-yet uncompleted Net Stable Funding Ratio. "Additionally, we intend to incorporate reliance on short-term wholesale funding as a factor in setting the amounts of capital surcharges applicable to the most systemic banking organizations," he said.

The final rule is largely identical to the proposed rule, with a few key adjustments in response to comments. Those adjustments include changes to the range of corporate debt and equity securities included in HQLA, a phasing-in of daily calculation requirements, a revised approach to address maturity mismatch during a 30-day period, and changes in the stress period, calculation frequency, and implementation timeline for the bank holding companies and savings and loan companies subject to the modified LCR.

The final rule, approved by the Federal Reserve, FDIC and OCC, is based on a liquidity standard agreed to by the Basel Committee. The LCR will establish an enhanced prudential liquidity standard consistent with section 165 of the Dodd-Frank Act. Firms will be required to be fully compliant with the rule by January 1, 2017.

Supplemental Leverage Ratio

The Federal Reserve Board, the FDIC and OCC on September 3rd adopted a final rule modifying the definition of the denominator of the supplementary leverage ratio in a manner consistent with recent changes agreed to by the Basel Committee. The revisions to the supplementary leverage ratio apply to all banking organizations, including foreign-owned top-tier U.S. bank holding companies, subject to the U.S. advanced approaches risk-based capital rule. The changes strengthen the ratio by more appropriately capturing a banking organization's on- and off-balance sheet exposures, and based on estimates, would increase the aggregate measure of exposure across firms, the agencies said.

The final rule modifies the methodology for including off-balance sheet items, including credit derivatives, repo-style transactions, and lines of credit, in the denominator of the supplementary leverage ratio. The final rule also requires institutions to calculate total leverage exposure using daily averages for on-balance sheet items and the average of three month-end calculations for off-balance sheet items. Certain public disclosures required by the final rule must be made starting in the first quarter of 2015 and the minimum supplementary leverage ratio requirement using the final rule's denominator calculations is effective January 1, 2018.

OCC Heightened Risk/Governance Standards

The Office of the Comptroller of the Currency on September 2nd published final guidelines to strengthen the governance and risk management practices of large financial institutions. The guidelines apply to insured national banks, insured federal savings associations, and insured federal branches of foreign banks with $50 billion or more in average total consolidated assets. The guidelines also apply to an OCC-regulated institution with less than $50 billion in average total consolidated assets if that institution's parent company controls at least one other covered institution. The guidelines provide that covered institutions should establish and adhere to a written risk governance framework to manage and control its risk-taking activities. The guidelines also provide minimum standards for the institutions' boards of directors to oversee the risk governance framework.

Institutions with $750 billion or more in average total consolidated assets are expected to comply immediately upon the effective date as published in the Federal Register. Institutions between $100 billion and $750 billion in consolidated assets should comply within six months of the effective date. Institutions with assets from $50 billion to $100 billion should comply within 18 months of effective date. Institutions with less than $50 billion that are covered because their parent company controls at least one other covered bank should comply on the same date that the other covered bank should comply. Institutions that reach the $50 billion threshold after publication of the guidelines should comply within 18 months from the date of the call report determining that it exceeded the threshold.

The final guidelines are generally the same as those proposed in January 2014. However, the final guidelines were revised to provide clarity and avoid imposing managerial responsibilities on board members, the OCC said.

FinCEN Proposed Beneficial Ownership Rule

The Financial Crimes Enforcement Network on July 30th issued a Notice of Proposed Rulemaking to help prevent the use of anonymous companies to engage in or launder the proceeds of illegal activity in the U.S. financial sector. An advance notice of proposed rulemaking was issued in March 2012 (click here for the IIB's May 4, 2012 comment letter.) The proposed rule would clarify and strengthen customer due diligence obligations of banks and other financial institutions (including brokers or dealers in securities, mutual funds, futures commission merchants, and introducing brokers in commodities). The proposed rule would require that financial institutions know and verify the identities of the beneficial owners who own, control, and profit from the companies they service. "The beneficial ownership requirement is intended to provide us with an important new tool to track down the real people behind companies that abuse our financial system to secretly move and launder their illicit gains," said David S. Cohen, Under Secretary for Terrorism and Financial Intelligence.

The rulemaking clarifies that customer due diligence includes four core elements: identifying and verifying the identity of customers; identifying and verifying the beneficial owners of legal entity customers; understanding the nature and purpose of customer relationships; and conducting ongoing monitoring to maintain and update customer information and to identify and report suspicious transactions. The proposed requirement to identify and verify the identity of beneficial owners is addressed through the proposal of a new requirement for covered financial institutions to collect beneficial ownership in a standardized format. Those financial institutions will have to identify and verify any individual who owns 25 percent of more of a legal entity, and an individual who controls the legal entity.

The *Koehler* Case

On September 16, 2014 the New York State Court of Appeals, the highest court in New York, heard oral arguments on the question of the status of the separate entity rule in the aftermath of the Court of Appeals' 2009 decision in *Koehler v. Bank of Bermuda Ltd*: specifically, whether the separate entity rule precludes a court in New York, in support of a judgment creditor’s efforts to enforce a monetary judgment against a third-party debtor, from ordering a garnishee bank

operating a branch in New York to restrain a debtor's assets held in foreign (non-U.S.) branches of the bank simply by virtue of the fact that the garnishee bank maintains a branch in New York. The case at issue is *Motorola Credit v. Standard Chartered, in which* the lower court applied the separate entity rule and decided in favor of the garnishee foreign bank.

On July 21st, the IIB submitted an amicus brief to the New York Court of Appeals discussing the strong policy bases for upholding the separate entity rule in the context of cross-border judgment enforcement actions. The IIB was joined on the brief by The Clearing House, the New York Bankers Association and the European Banking Federation. The brief also addresses the implications of the U.S. Supreme Court's decision earlier this year in *Daimler v. Bauman* - i.e., a bank incorporated and headquartered outside of New York is not subject to the general jurisdiction of the New York courts merely by reason of doing business in New York through a New York branch, so that a judgment creditor, in connection with its efforts to enforce a judgment held against a third party that may be a customer of the bank outside New York, is barred from relying on the branch's presence in New York as the basis on which to seek to enforce through the branch a restraining notice that purports to bind the bank's branches and offices outside New York. Oral arguments were heard in mid-September, and a decision is expected by the end of the year.

In related rulings, the U.S. Court of Appeals for the Second Circuit on September 17 issued decisions in two companion cases addressing whether the general jurisdiction of courts in New York authorizes a court to require foreign banks, by virtue of their operating branches in New York, to freeze assets of customers held in accounts outside the United States and to provide documents relating to those accounts in connection with efforts by a third-party judgment creditor of the customer to enforce its judgment against the customer. Applying the U.S. Supreme Court's decision earlier this year in *Daimler AG v. Bauman*, which imposed significant constitutional limits on the reach of courts' general jurisdiction, the Second Circuit ruled that such extraterritorial asset freeze orders and document subpoenas are not within the general jurisdiction of courts in New York and instead are permissible only if within a court's specific jurisdiction. The Second Circuit accordingly vacated the asset freeze orders and document subpoenas and remanded the case to the lower court to consider whether the court has specific jurisdiction over the matters and, if so, whether its exercise of that jurisdiction would be consistent with principles of international comity. The two cases are Gucci America, Inc. v. Bank of China and Tiffany LLC v. China Merchants Bank, et al.

FATCA

The 2010 Foreign Account Tax Compliance Act (FATCA) went into effect on July 1, 2014 with FATCA agreements treated as “in effect” with nearly 100 jurisdictions, according to the U.S. Treasury Department. Two months prior to the effective date, Treasury and the IRS issued a notice (2014-33) providing a transitional period for calendar years 2014 and 2015 during which the IRS will take into account the extent to which an institution has "made good faith efforts to comply" with FATCA with respect to IRS's enforcement of the law. In the notice, the Treasury and IRS also announced their intention to treat an obligation held by an entity that is issued, opened, or executed on or after July 1, 2014, and before January 1, 2015 as a preexisting obligation.