

Financial Regulatory Developments Focus



In this newsletter, we provide a snapshot of the principal US, European and global financial regulatory developments of interest to banks, investment firms, broker dealers, market infrastructures, asset managers and corporates.

Our European Governance & Securities Law Focus Newsletter is available [here](#).

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Bank Prudential Regulation & Regulatory Capital

Regulatory Capital Tool for Securitization Exposures

On February 13, 2015, the Board of Governors of the Federal Reserve System, the FDIC and the Office of the Comptroller of the Currency announced that they have developed an automated tool to aid financial institutions subject to the agencies' regulatory capital rules in calculating risk-based capital requirements for individual securitization exposures. This tool is not a part of the regulatory capital rules or a component of regulatory reporting, and financial institutions may use the tool solely at their own discretion. Specifically, institutions that use the rules' Simplified Supervisory Formula Approach to calculate risk-based capital requirements for securitization exposures may use the tool to calculate capital requirements for such exposures. The SSFA is a formula-based approach intended to apply relatively higher capital requirements to the more risky junior tranches of securitizations that are the first to absorb losses, and relatively lower requirements to the most senior tranches.

The SSFA Calculation tool is available at: [SSFA Securitization Tool](#).

European Banking Authority Reports on Implications of Regulatory Reforms for Banks' Business Models

On February 9, 2015, the European Banking Authority published an overview of the potential implications of regulatory measures for banks' business models. The report focuses on the impact of regulation for business models after the recent financial crisis, including the implementation of regulatory capital requirements, the leverage ratio, the liquidity coverage ratio, net stable funding ratio, reforms on banking structures, recovery and resolution regimes and the obligations under European Market Infrastructure Regulation for the derivatives markets.

The EBA report is available at:

<http://www.eba.europa.eu/documents/10180/974844/Report+-+%20Overview+of+the+potential+implications+of+regulatory+measures+for+business+models.pdf/fd839715-ce6d-4f48-aa8d-0396ffc146b9>.

Implementing Technical Standards under CRR

On February 14, 2015, implementing technical standards for currencies in which there is an extremely narrow definition of central bank eligibility were published in the Official Journal of the European Union. CRR requires firms to report assets as liquid assets where they meet certain conditions, one of which is that the assets are eligible collateral for standard liquidity operations of a central bank in a Member State or a third country. The condition is waived for liquid assets held to meet liquidity outflows in a currency in which there is an extremely narrow definition of central bank eligibility. The ITS establish that the Bulgarian Lev is the only such currency to date.

The legislation is available at:

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:JOL_2015_039_R_0005&from=EN.

European Central Bank Recommends Dividend Distribution Policies for Significant Eurozone Banks

On February 13, 2015, a European Central Bank Recommendation on dividend distribution policies was published in the Official Journal of the European Union. The ECB Recommendation is addressed to significant supervised entities and significant supervised groups, which are subject to supervision by the ECB under the Single Supervisory Mechanism.

The Recommendation is available at:

http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=uriserv:OJ.C_.2015.051.01.0001.01.ENG.

Consumer Protection

Federal Deposit Insurance Corporation Releases Additional Technical Assistance Video on Consumer Financial Protection Bureau Mortgage Rules

On February 13, 2015, the US Federal Deposit Insurance Corporation announced the release of the third technical assistance video developed to assist bank employees in meeting regulatory requirements. This is the final release in a series of three technical assistance videos which address compliance with certain mortgage rules issued by the US Consumer Financial Protection Bureau. The first video, released on November 19, 2014, covered the Ability to Repay and Qualified Mortgage Rule. The second video, released on January 27, 2015, covered the Loan Officer Compensation Rule. The third video covers the Mortgage Servicing Rules.

The third video is available at: <https://www.fdic.gov/regulations/resources/director/technical/servicing.html> and all of the FDIC's technical assistance videos are available at: <https://fdic.gov/regulations/resources/director/video.html>.

Credit Ratings

European Securities & Markets Authority Sets Out Work Plan for Supervision of Credit Rating Agencies

On February 16, 2015, the European Securities and Markets Authority published its annual report on its supervision of credit rating agencies and trade repositories. In the report, ESMA sets out its work plan for credit rating agencies in 2015 which will focus on credit rating agency's governance, risk management and internal decision making processes and their business development processes. ESMA aims to gain a better understanding of how these processes influence the process of issuing credit ratings. ESMA also intends to continue with the thematic and individual investigations that it is already conducting such as the review and validation of rating methodologies and IT internal controls and information security.

ESMA's report is available at:

<http://www.esma.europa.eu/news/Press-Release-ESMA-publishes-annual-report-and-supervisory-focus-CRAs-and-TRs?t=326&o=home>.

Derivatives

Commodity Futures Trading Commission Issues No-Action Relief from Electronic Reporting Requirements in the Ownership & Control Final Rule

On February 10, 2015, the US Commodity Futures Trading Commission issued a no-action letter ("CFTC Letter 15-03") that provides additional time for reporting parties to comply with certain reporting requirements of the ownership and control final rule ("OCR Final Rule"). CFTC Letter 15-03 letter extends certain relief provided under CFTC Letter No. 14-95, a no-action letter issued July 23, 2014 that extended time-limited no-action relief from certain reporting obligations under the OCR Final Rule. The OCR Final Rule requires the electronic submission of trader identification and market participant data reporting forms. CFTC Letter 15-03 provides time-limited no-action relief for reporting parties from the requirement to file the forms electronically and provide certain additional information required by the OCR Final Rule. The relief is extended to dates ranging from September 30, 2015 to February 13, 2017.

CFTC Letter 15-03 is available at:

<http://www.cftc.gov/ucm/groups/public/@lrllettergeneral/documents/letter/15-03.pdf>

Securities and Exchange Commission Publishes Final Rules Regarding Security-Based Swap Data Repositories

On February 11, 2015, the Securities and Exchange Commission published final rules regarding security-based swap data repository registration and security-based swap reporting in accordance with Section 763 and Section 766 of Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The final rules establish (i) a registration process for swap data repositories; and (ii) certain policies and procedures for the reporting and dissemination of security-based swap transactions by registered swap data repositories. The goal of the regulation is to improve transparency in security-based swap reporting and is a part of the overall regulatory agenda to improve transparency in the OTC derivatives markets.

Additionally, the SEC issued two security-based swap proposed rules regarding the physical reporting and public availability of security-based swap data. The SEC also proposed new rules, rule amendments and guidance to Regulation SBSR regarding the reporting duties for cleared and platform-executed security-based swap transactions.

The final rule is available on the SEC site at: <http://www.sec.gov/rules/final/2015/34-74244.pdf> and the SEC Open Meeting notice is available at: <http://www.sec.gov/news/openmeetings/2015/ssamtg011415.htm>.

European Securities & Markets Authority Sets Out Work Plan for Supervision of Trade Repositories

On February 16, 2015, ESMA published its annual report on its supervision of credit rating agencies and trade repositories. In the report, ESMA sets out its work plan for trade repositories for 2015. Trade repositories are authorized and supervised by ESMA under EMIR. ESMA's 2015 work plan focuses on: (i) monitoring the action and improvement plans of trade repositories, including the data quality action plan; (ii) monitoring system operation and changes deployment; (iii) thematic reviews relating to the inter-TR reconciliation process, business continuity planning and cost relatedness of fees; (iv) trade repository's systems software development lifecycle; (v) data availability; (vi) regulators' access to trade repositories; and (vii) confidentiality of trade repository data.

ESMA's report is available at:

<http://www.esma.europa.eu/news/Press-Release-ESMA-publishes-annual-report-and-supervisory-focus-CRAs-and-TRs?t=326&o=home>.

Financial Services

G20 Communiqué and FSB Update on Financial Reforms

On February 10, 2015, the G20 Finance Ministers and Central Bank Governors issued a draft communiqué which was adopted in a meeting at the Turkish G20 Presidency on February 9-10, 2015. The communiqué highlighted the risk of prolonged low inflation, slow growth, and demand weakness in some advanced economies. G20 members will keep fiscal policy flexible to reflect near-term economic realities.

Additionally on February 10, 2015, the Chairman of the Financial Stability Board published a letter to the G20 Finance Ministers and Central Bank Governors titled, Financial Reforms – Finishing the Post-Crisis Agenda and Moving Forward. This letter sets out the FSB's priorities in the next phase of reform which include: consistent and prompt implementation of agreed reforms, finalizing the design of remaining post-crisis reforms and addressing new risks and vulnerabilities.

The FSB plans to publish its first annual report on the implementation of agreed reforms and their effects this year. In addition, implementation will be supported through peer reviews which will cover: implementation of the G20 policy framework for 'other shadow banking entities', effective supervisory frameworks for global systemically important banks; bank resolution powers and recovery and resolution planning requirements and the effectiveness of reporting

of OTC derivatives transactions to trade repositories. Additionally, the FSB will focus efforts to address two explicit emerging vulnerabilities: market-based finance and misconduct.

The Communiqué is available at:

<https://g20.org/wp-content/uploads/2015/02/Communique-G20-Finance-Ministers-and-Central-Bank-Governors-Ist-anbul.pdf> and the FSB Chairman's Letter is available at:

<http://www.financialstabilityboard.org/wp-content/uploads/FSB-Chair-letter-to-G20-February-2015.pdf>.

Funds

European Securities & Markets Authority Advice under the European Social Entrepreneurship Funds and European Venture Capital Funds Regulation

On February 16, 2015, ESMA published its technical advice (dated February 3, 2015) to the European Commission on certain aspects of secondary legislation to be adopted under the EU Regulations on European Social Entrepreneurship Funds and European Venture Capital Funds. The advice covers: (i) the types of goods and services, methods of production for goods and services and financial support representing a social objective; (ii) conflicts of interest of European Social Entrepreneurship and European Venture Capital fund managers; (iii) methods for the measurement of social impact; and (iv) information that European Social Entrepreneurship fund managers should provide to investors. The European Commission will use the technical advice to develop the required secondary legislation.

ESMA's advice is available at:

<http://www.esma.europa.eu/news/ESMA-publishes-technical-advice-implementing-measures-European-Regulations-Social-Entrepreneurs?t=326&o=home>.

People

February 11, 2015: Heather Seidel named Chief Counsel in SEC's Division of Trading and Markets.

February 12, 2015: Pamela C. Dyson named SEC Chief Information Officer.

Events

February 26, 2015: Public meeting of the Energy and Environmental Markets Advisory Committee focusing on the CFTC's proposed rules seeking to implement position limits and how these proposals will impact energy and environmental markets.

March 16, 2015: FCA briefing on the EU Market Abuse Regulation (first in a series).

March 5, 2015: Release of results from the latest supervisory stress tests conducted.

March 11, 2015: Release of results from the Comprehensive Capital Analysis and Review.

This newsletter is intended only as a general discussion of these issues. It should not be regarded as legal advice. We would be pleased to provide additional details or advice about specific situations if desired. If you wish to receive more information on the topics covered in this publication, you may contact your usual Shearman & Sterling representative or any of the following:

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