

Banking regulation, some challenges



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1. SREP and Pillar 2 decision by the ECB
2. Harmonization of national discretions
3. To be prepared for the challenge of data collections
4. To be prepared for the implementation of the new accounting standard IFRS 9
5. To be prepared to meet the TLAC (*Total Loss-Absorbing Capacity*)
6. To be prepared for the revision of risk weighted
7. To be prepared for the leverage ratio and the new interest rate risk framework

1 – SREP and Pillar 2 decision by the ECB (1/2)

2015

L'évaluation « SREP » de la BCE

1. Business model assessment

Viability and sustainability of Business Model

2. Governance and Risk Management assessment

Adequacy of governance and Risk Management

3. Assessment of risks to Capital

Categories: e.g
Credit, Market,
Operational Risk and
IRRBB

4. Assessment of risks to Liquidity and Funding

Categories: e.g
counterparty
Concentration,
Encumbrance

Overall SREP assessment – Holistic approach
→ **Score + Rationale/main conclusions**

Supervisory measures

Quantitative capital measures

Quantitative liquidity measures

Other supervisory measures

1 – SREP and Pillar 2 decision by the ECB (2/2)

Le Pilier 2 de la BCE

1 of January
2016

Pillar 2 decisions take into account

- risks related to economic conditions and market that banks face in the euro area, as the credit and liquidity risks;
- the goal of a transition to « full Basel 3 » requirements in 2019;
- the equal competition within the SSM and with other major areas.

SREP decisions will be finalized by the end year 2015

- Pillar 2 requirements for 2016 are slightly higher than for 2015, with an increase of 30 bp in average
- Are added about 20 bp of requirements related to the phase-in of the buffers

Which disclosure of Pillar 2 decisions ?

How to set the **MDA** (maximum distributable amount) ?

(the MDA is the level of requirement of own funds below which prohibited the distribution of dividends, variable remuneration and payment of interest on Tier 1

2 – Harmonization of national discretions

The 2014 Asset Quality Review (AQR) has highlighted the impact of national discretions on CET1 and important differences between member States including the application of transitional measures

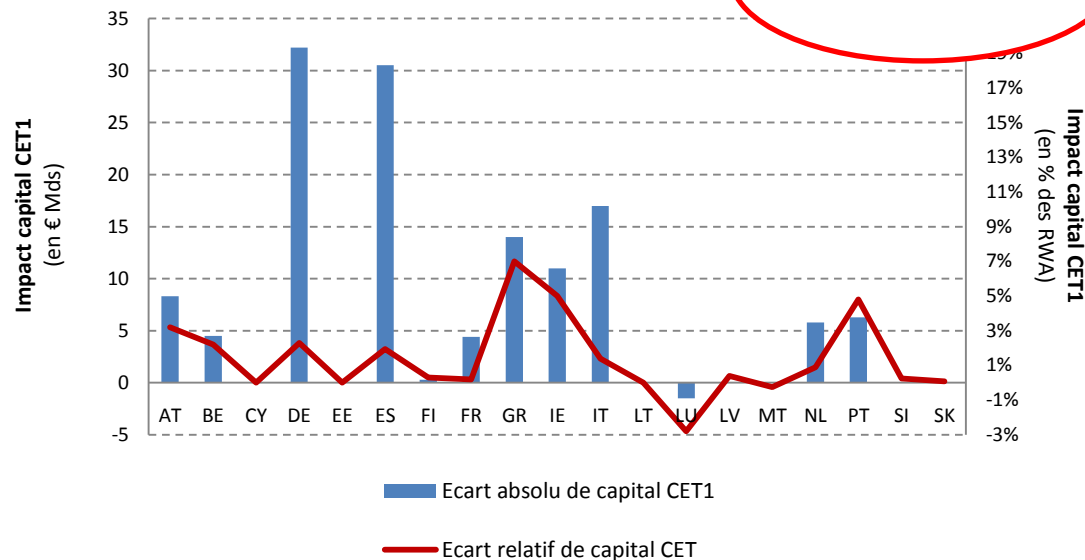
167 options identified in CRD4/CRR

122 options « by hands » of the ECB have been revised



July 2015 : recommendations approved by the *Supervisory Board*

11 November 2015 : public consultation on a draft regulation on the exercise of national discretions and guidelines for the exercise of the individual character options



3 – To be prepared for the challenge of data collections

BCBS 239 : Principles for effective risk data aggregation and risk reporting

1 of January
2016

Governance, tools, data aggregation, reporting

- Improve IT infrastructure
- Improve risk management
- Improve the timeliness of availability of information

Contraintes accrues en termes de reporting

Exercices récurrents de stress tests

- | | | |
|---|---------------------|--|
| ▪ ITS EBA (COREP, FINREP...) | | ▪ European transparency exercise in 2015 |
| ▪ FBF Data gaps | | ▪ European stress test in 2016 |
| ▪ ECB projets | | ▪ A recurrent tool for banks , expected in the internal assessment of capital (ICAAP) and liquidity (ILAAP) |
| ✓ S4 : collection of pilot data for the evaluation of risks (SREP) | 2015 to ? | |
| ✓ <i>IRB model Stock take et review</i> | 2015 to ? | |
| ✓ <i>Reporting ICAAP</i> | 2016 to ? | |
| ✓ Financial reporting on consolidated and individual basis (FINREP generalization) | 2015 to 2017 | |
| ✓ MMSR (<i>Money Market Statistical Reporting</i>) : collection of daily transactions on the market | April 2016 | |
| ✓ ANACREDIT : reporting loan by loan | 2018 ? | |

4 – To be prepared for the implementation of the new accounting standard IFRS 9

1 of January 2018

1. From IFRS 39 to IFRS 9

- Application date on 1 of January 2018
- Redéfinition des modèles de calcul des dépréciations via une refonte de la classification et de l'évaluation des actifs financiers :
 - Juste valeur par résultat
 - Juste valeur par capitaux propres
 - Coût amorti

2. Technical issues (modelling, implementation), steering (what impact on the prices of products) and financial issues

- EBA decided to make a qualitative and quantitative impact mid-2016
- Need to consider the prudential impacts

IAS 39	IFRS 9	
<ul style="list-style-type: none"> ▪ Individual provisions on non performing loans ▪ Collective provisions on assets non individually impaired ▪ Sectoral provisions on fragile portfolios 	<ul style="list-style-type: none"> ▪ From incurred losses (IAS39) to expected losses (IFRS 9) ▪ Triple segmentation : <ul style="list-style-type: none"> ➢ credit risk has not deteriorated significantly or it is low ➢ credit risk has deteriorated significantly ➢ portfolio is non performing 	<p style="text-align: center;">Provisions</p> <ul style="list-style-type: none"> ➔ On the expected loss in 12 months ➔ On the expected loss at maturity ➔ individual

5 – To be prepared to met the TLAC (*Total Loss-Absorbing Capacity*)

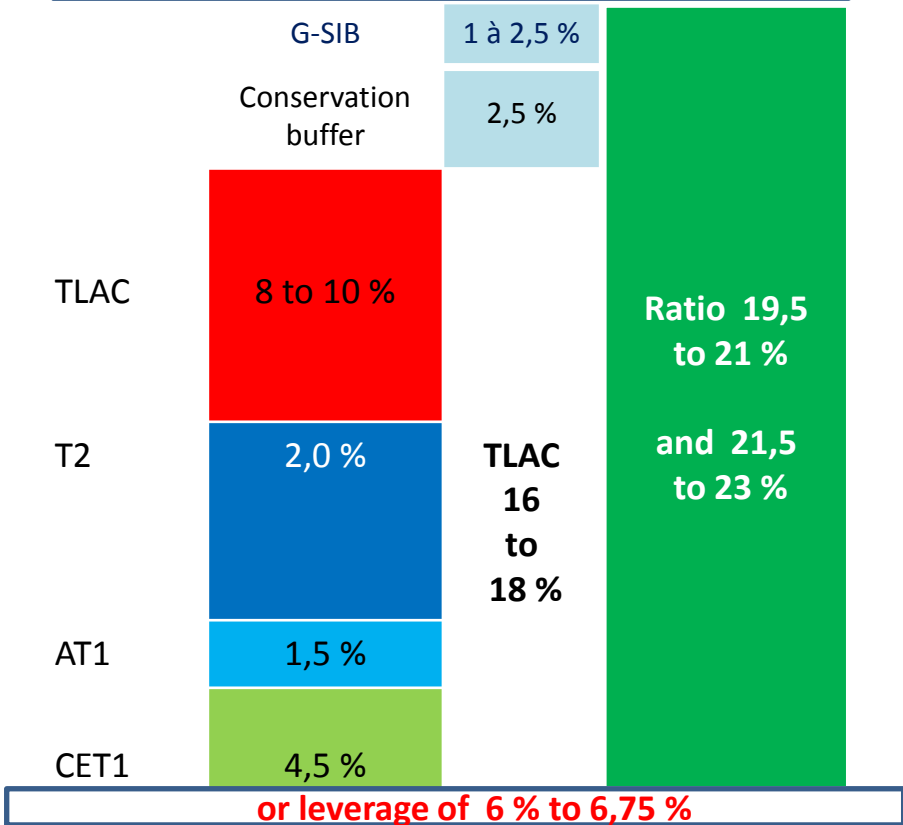
1. For systemic banks (G-SIBs), agreement on a minimum capacity of loss absorption in resolution, as approved at the G20 November summit

2019 -2022

2. BUT will markets be waiting ?

3. Several approaches to comply

In terms of risk-weighted assets (RWA)

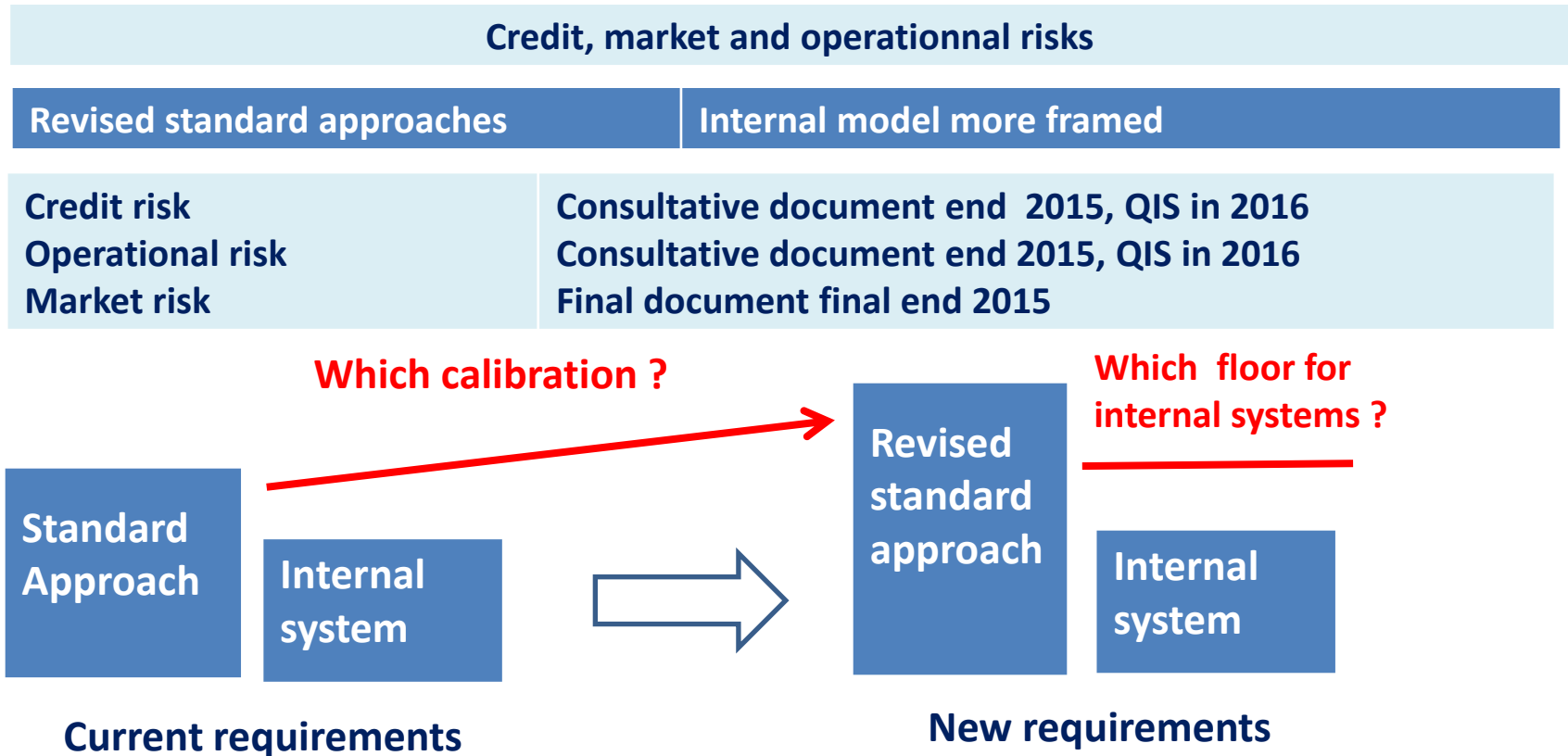


Senior debt issued at holding level	US, UK, Switzerland
Establishing a holding to issue senior debt	?
Increase the total capital ratio	
Issue new bailinable debt	
Change the rank of senior debt by law	Germany ?

6 – To be prepared to the revision of risk weighted

- Methods were not revised after the crisis (except on market risks)
- General objectives of simplicity, comparability and sensitivity to risks
- Excessive variability of risk weighted assets between banks not justified by the risks

2019/2020 ?



7 – To be prepared for the leverage ratio and the new interest rate risk framework

- ❑ Introduction of a **leverage ratio** to complement the risk weighted approach

- Fixed at 3 % (measure based on Tier 1)
- Final calibration by end 2017
- Possible move to a Pillar 1 requirement to

1 of January 2018

- ❑ Standard measurement of **interest rate risk**

- Capital requirement
- Alternative approach in Pillar 2
- What treatment of non mature liabilities

To be
decided mid
2016 ?

Thanks for your attention

and find ACPR analysis on our website: www.acpr.banque-france.fr