

# Key issues in Banking regulation and supervision

# Summary

- 1. EU implementation of Basel 3: key challenges**
- 2. Banking Union: progress and challenges**
- 3. Bank profitability: key challenges**
- 4. Bank digital transformation: key challenges**
- 5. IT risks and cybersecurity: key challenges**
- 6. Brexit: key challenges**

# EU implementation of Basel 3: key challenges

- The Basel agreement is fair and proportionate
- The EU process might hinder a timely implementation of Basel 3 and we need a clear commitment and think on fall-back solutions if needed
- Based on quantitative impact studies (EU Commission call for advise to EBA), need to see if or not adjustment to EU specificities are needed (for example: how to articulate Pillar 2 and the new floor)
- Issue to be solved on market risk (FRTB) as it is already included in the risk reduction package (CCR2):
  - reporting on the current framework by end 2019
  - EU proposal on a revised framework by June 2020

## Banking Union: progress and challenges

- Framework already reinforced with the Single Rule Book, the Single Supervisory Mechanism and the Single Resolution Mechanism

### But

- Need to tackle the persistent fragmentation: simplifying the framework for cross border groups (waivers, Pillar 2, MREL internal requirements)
- Move forward on Non Performing loans and EDIS
- Deal with all the potential risks induced by BREXIT



### First achievement with the political agreement on CCR2/CDR5 on 25 May

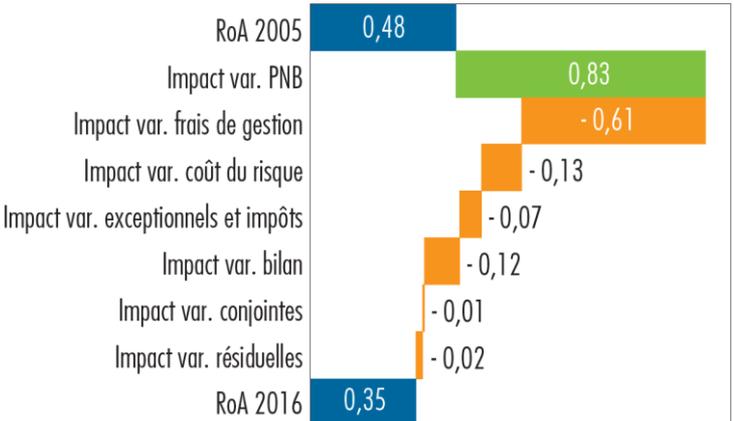
- Intermediate EU parent undertaking when the total value of assets in the Union of the third country group is higher than EUR 40 billion
- Additional identification methodology for G-SIIs to allow the recognition of the specificities of the integrated European resolution framework
- MREL (TLAC for GSIBs and MREL for top Tier banks)
- Proportionality in reporting and disclosure for small institutions (5 billion total balance sheet)

# 3.

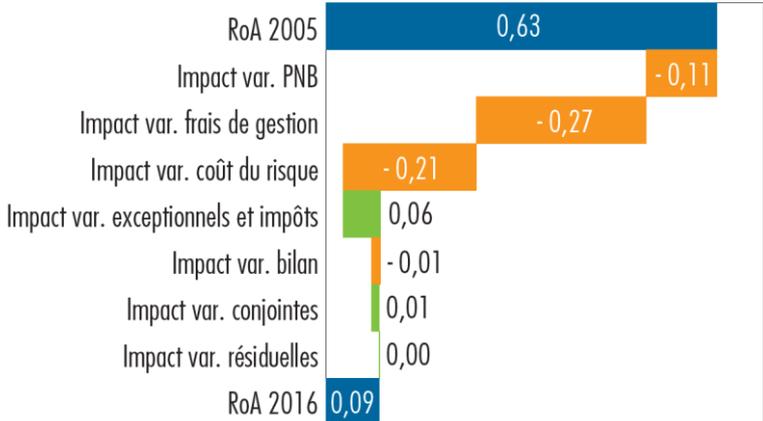
## Bank profitability: key challenges

➤ French banks in the a better situation compared to EU banks on the RoA

Banques françaises

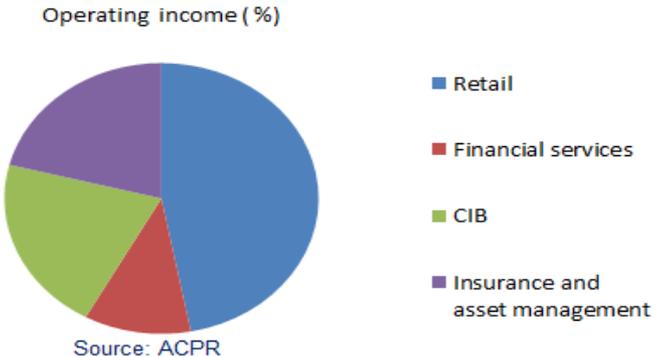


Banques européennes

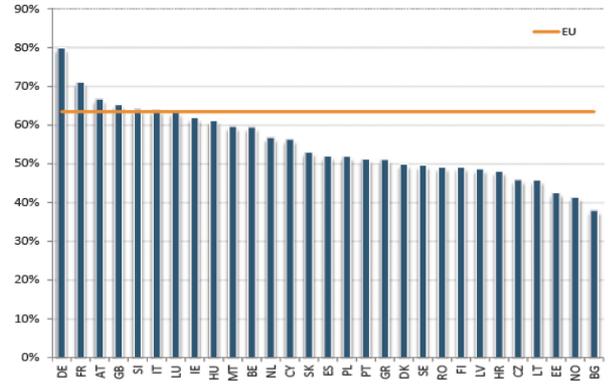


Source: Banque de France bulletin n° 216 (March-April 2018)

➤ Thanks to the diversification



but with cost to be reduced



Cost to income ratio (source: EBA – December 2017)

# 4.

## Bank digital transformation: key challenges



The digital revolution is a structural shock sweeping the entire financial sector, characterized by...

1. A wave of highly interconnected technological innovations that are nonetheless at varying levels of development
2. A profound change in customer behavior and expectations
3. A multifaceted competitive framework

The strategies of French financial institutions demonstrate a genuine – though sometimes recently acquired – awakening, and are based on **four key levers**:

1. Shifting corporate culture towards innovation
2. Modernizing information systems
3. Overhauling and dematerializing the customer experience
4. Harnessing and capturing value from customer data

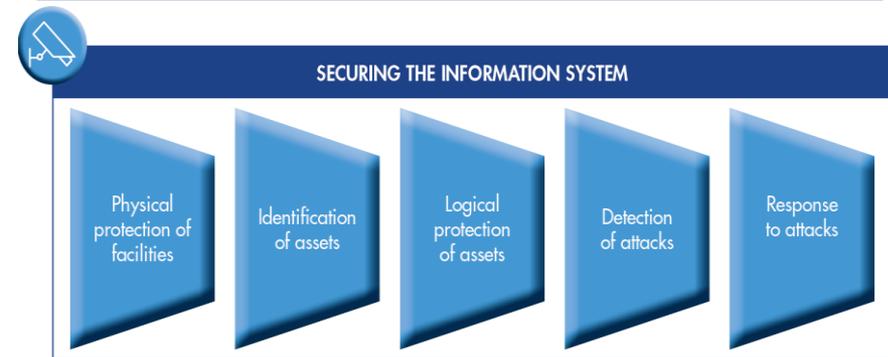
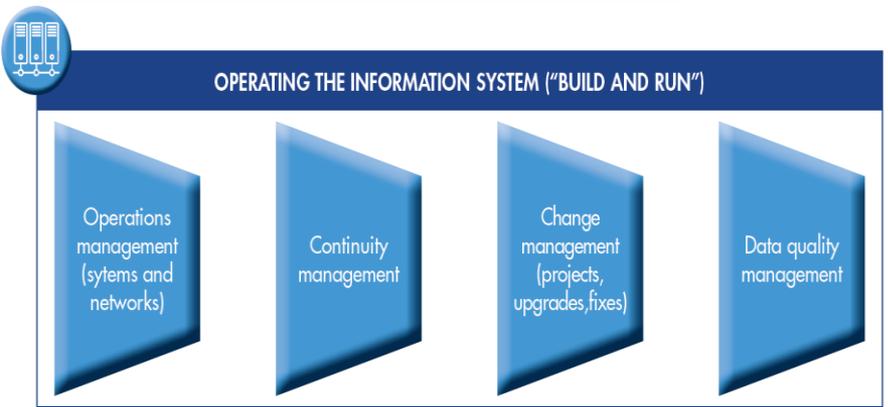
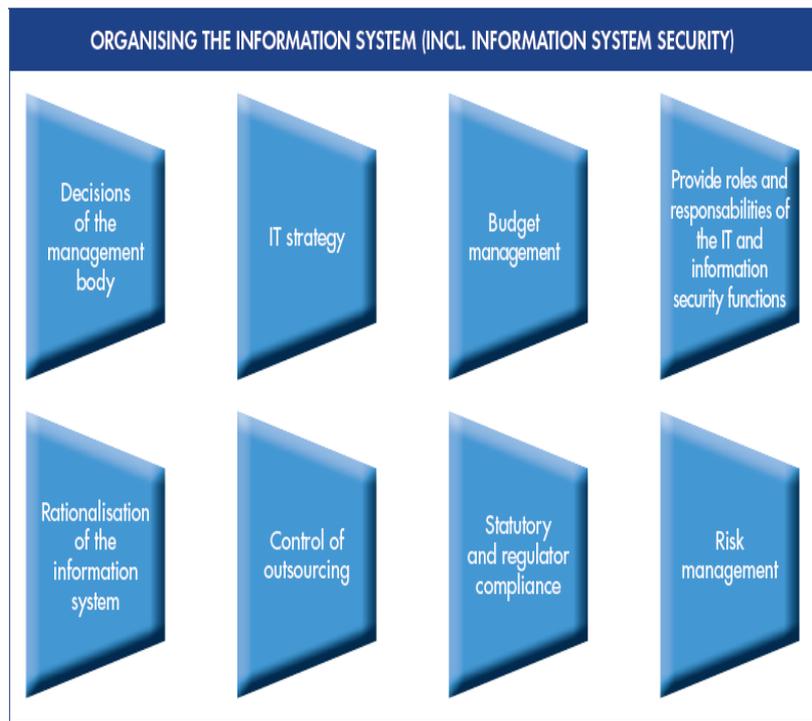
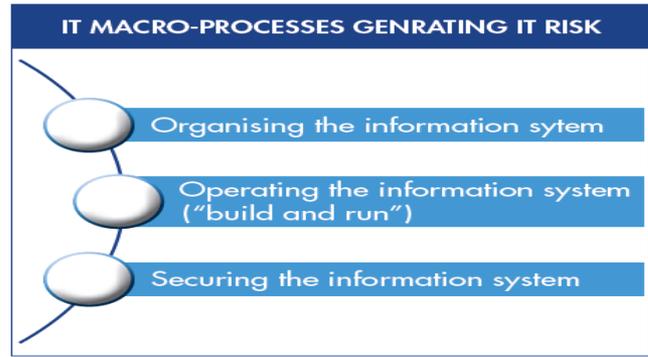
The digital revolution creates opportunities but also leads to **strategic, operational and compliance risks**:

1. Brings strategic risks that threaten business models and profit margins
2. Increases the level of operational risks from information systems
3. Fuels new compliance risks, particularly in consumer protection, anti-money laundering and data protection

# 5. IT risks and cybersecurity: key challenges



March 2018  
IT Risk  
Discussion Paper



## Brexit: key challenges

Brexit = end of EU passport:

147 UK banks => EU

42 EU banks => UK

Delocalization in the EU:

- One subsidiary
- Non EU Branch
- Intermediate holding

Key challenges / points of attention

- No empty entity
- Governance
- Outsourcing
- “Back-to-back model”
- Use of internal model for capital requirement