ACPR
BANQUE DE FRANCE

Key Issues in Banking Regulation

CRÉDIT AGRICOLE
CORPORATE & INVESTMENT BANK

Investor meeting

London, 21 September 2016 Frédéric VISNOVSKY Deputy Secretary General

Key Issues in Banking Regulation

1. **Stress Test and integration into the SREP**

2. **TLAC, MREL and French Non-preferred Bonds**

3. **Finalization of Basel 3**

1. Stress Test and integration into the SREP (1/7)

EU-wide EBA Stress Test

- **37 ECB Banking Supervision Significant Institutions**[1]
- **Publication** of results
- EU-wide exercise under **EBA coordination**, in cooperation with EU-COM, ESRB, ECB and NCAs
- Launch of the exercise: **End of February 2016**

ECB Banking Supervision SREP Stress Test

- **56** other **ECB Banking Supervision Significant Institutions**[1]
- Results are **not public**
- Under **ECB Banking Supervision coordination**
- Launch and methodology **broadly aligned with EBA Stress Test**

Objectives

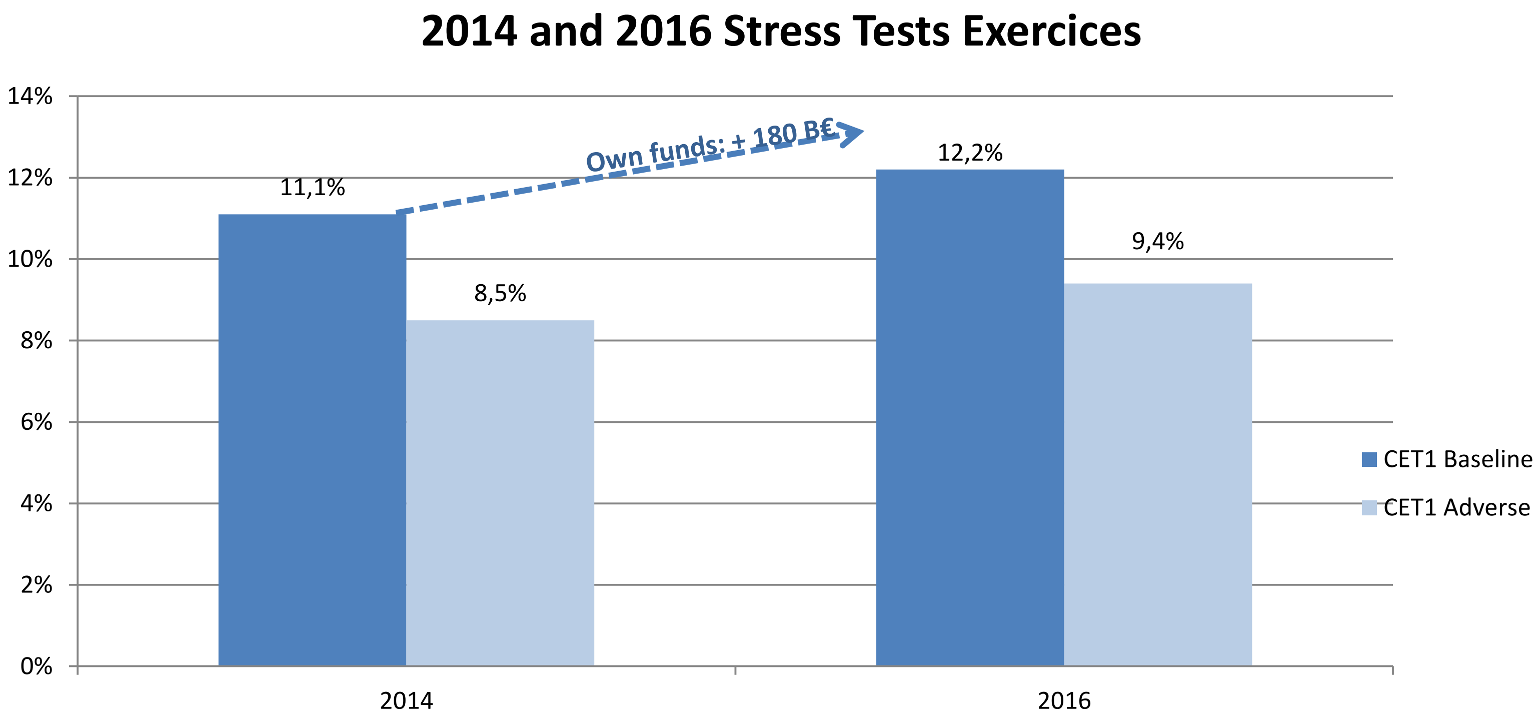
- Assess the **resilience of financial institutions** to adverse market developments
- **Contribute to the overall SREP** to ensure institutions' capital and liquidity adequacy, as well as sound risk coverage and internal processes.
- Ensure a **consistent treatment** of all SIs supervised by the ECB Banking Supervision

The results of both exercises will feed into the ECB Banking Supervision SREP

1 Two banks have been excluded based on Supervisory Board decision due to specific reasons, e.g. ongoing merger

1. Stress Test and integration into the SREP (2/7)

The outcome of 2016 Stress Test demonstrates resilience in the EU banking sector as a whole thanks to significant capital raising



Source : EBA 2014 and 2016 Stress Test reports

1. Stress Test and integration into the SREP (3/7)

SSM SREP methodology: a uniform framework

SREP Decision

Quantitative capital measures	Quantitative liquidity measures	Other supervisory measures

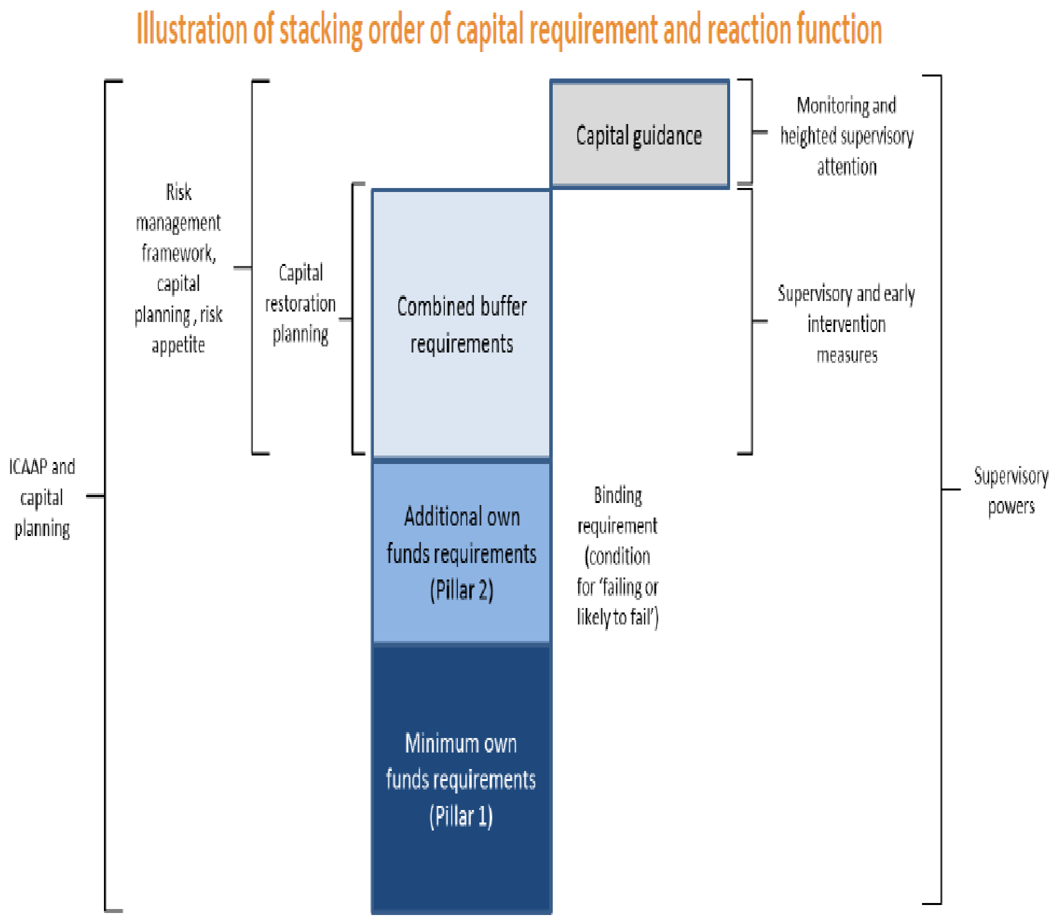
Overall SREP assessment - Holistic approach
→ Score + Rationale/main conclusions

Viability and Sustainability of Business Model	Adequacy of Governance and Risk Management	Categories: e.g. Credit, Market, Operational Risk and IRRBB	Categories: e.g. Short Term Liquidity Risk, Funding Sustainability
1. Business model assessment	**2. Governance and Risk Management assessment**	**3. Assessment of risks to Capital**	**4. Assessment of risks to Liquidity and Funding**

In line with the EBA guidelines on SREP, more details in the SSM SREP Methodology Booklet

1. Stress Test and integration into the SREP (4/7)

Implementation of general EBA Guidance



As communicated by the [EBA as of 1 July 2016](), SREP decisions of 2016 will be composed of a **Pillar 2 Requirement (P2R)** and a **Pillar 2 Guidance (P2G)**

– Banks are expected to meet the P2G which will be set above the level of binding capital (minimum and additional) requirements and on top of the combined buffers

– If a bank will not meet its P2G, this will not result in automatic action of the supervisor and will not be used to determine the MDA trigger, but will be used in fine-tuned measures based on the individual situation of the bank

1. Stress Test and integration into the SREP (5/7)

ECB banking Supervision approach for integration of Stress Test

- The Stress Test will be used as a crucial input into the SREP process to be finalised by end 2016:
  - **Qualitative outcome** of the Stress Test will be **included in the determination of the P2R**, especially in the element of risk governance;
  - **Quantitative impact** of the adverse Stress Test will be one **input factor into determining the level of P2G**.

- When setting P2G different elements are taken into account in a **holistic view**, for example:
  - In general the **depletion of capital** by the Stress Test in the hypothetical **adverse scenario;**
  - The **specific risk profile** of the individual institution and its **sensitivity towards the stress scenarios;**
  - **Interim changes in its risk profile** since the cut-off date (31.12.2015) and **measures taken by the bank** to mitigate risk sensitivities such as relevant sale of assets etc.

1. Stress Test and integration into the SREP (6/7)

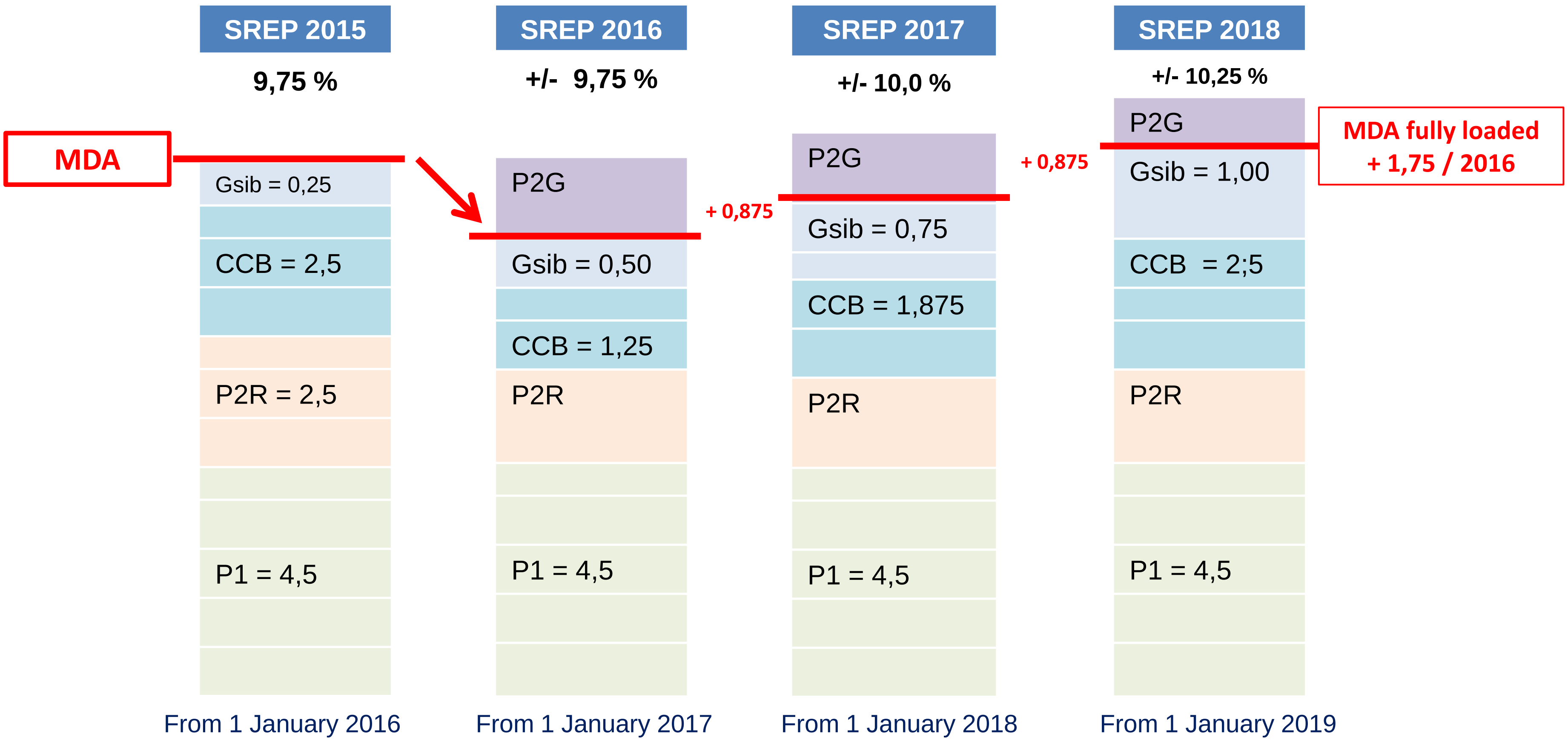
ECB banking Supervision approach for integration of Stress Test

- The **Stress Test is not a pass fail exercise.**
- To **define** the **Pillar 2 guidance** the ECB will use a **wide range of information**. **One benchmark** will be a **bank's post adverse scenario result** in relation to a capital ratio of 5.5% – or 5.5% plus the GSIB Buffer for a bank that is a global systemically important bank (GSIB).
- The **final calibration of P2R and P2G** for each individual bank will be **based on a holistic assessment of the risks** of the banks - taking into account the effects of the hypothetical adverse scenario - and the **right combination of supervisory measures** for decision by Supervisory Board.
- **All things being equal**, the SREP capital demand can be expected to remain **broadly stable** over the phase-in period: this means for instance that the overall SREP 2016 (Pillar 1 CET1 requirements, Pillar 2 Requirement, Pillar 2 Guidance and Capital Conservation Buffer requirements) should be broadly at the same level of the SREP 2015 CET1 requirements (Pillar 1 CET requirements, Pillar 2 CET1 requirement and Capital Conservation Buffer). <u>This does not take into account the potential phasing-in impact of the systemic buffers</u>.

1. Stress Test and integration into the SREP (7/7)

What does it mean in practice ?

Example for a Gsib with 9,5 % requirement for 2016 and a 1 % systemic buffer

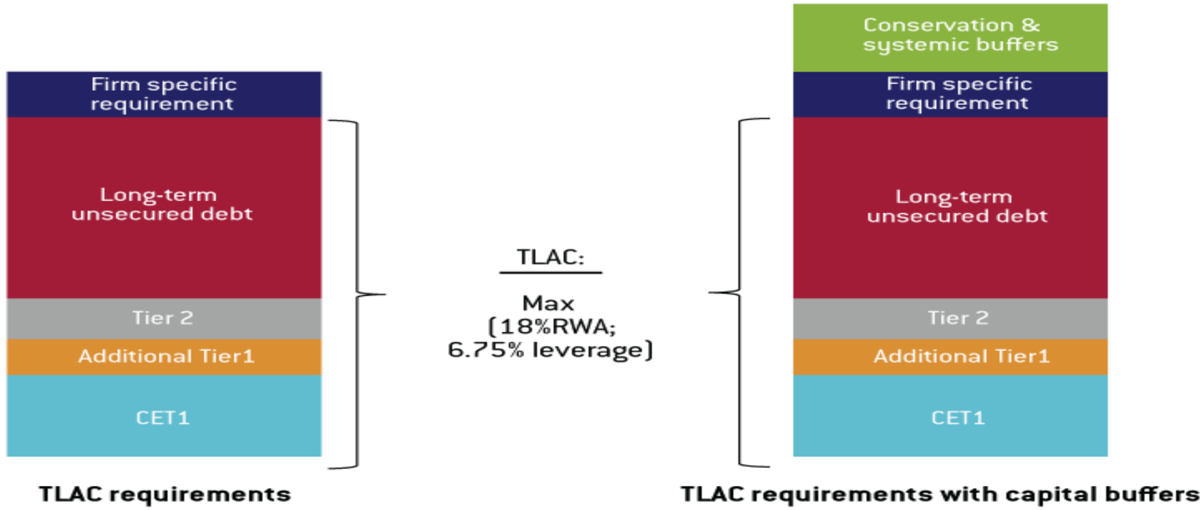


CCB not front loaded
Decrease P2R / 2015
New P2G not MDA relevant

Some compensation between CCB and P2G

2. TLAC, MREL and French Non-preferred Bonds (1/4)

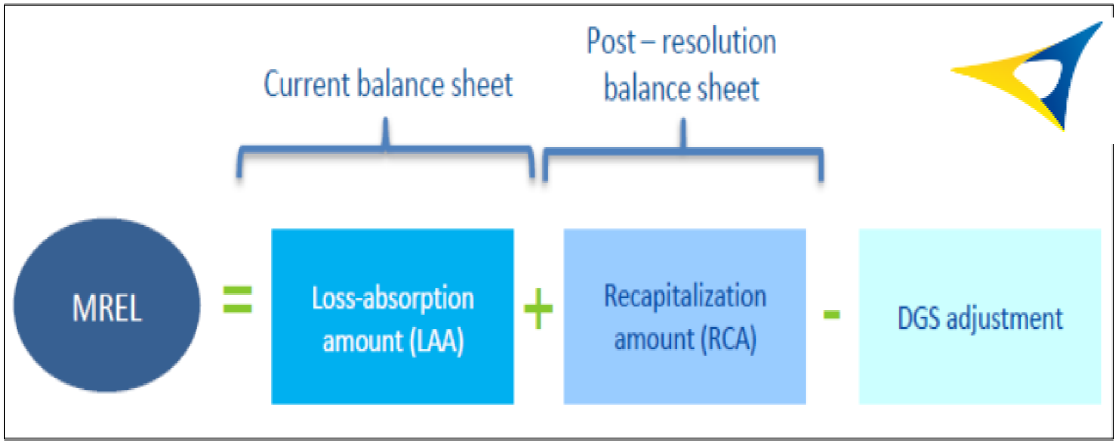
The Financial Stability Board's Total Loss-absorbing Capacity (**TLAC**) standard has set minimum levels of loss absorption and recapitalization capacity at the largest, globally systemically important banks (GSIBs).



In Europe, the Single Resolution Mechanism Regulation requires to determine the Minimum Requirement for own funds and eligible Liabilities (**MREL**) for entities and groups that are under the direct supervision of the ECB as well as cross-border groups.

2. TLAC, MREL and French Non-preferred Bonds (2/4)

Main pillars of MREL



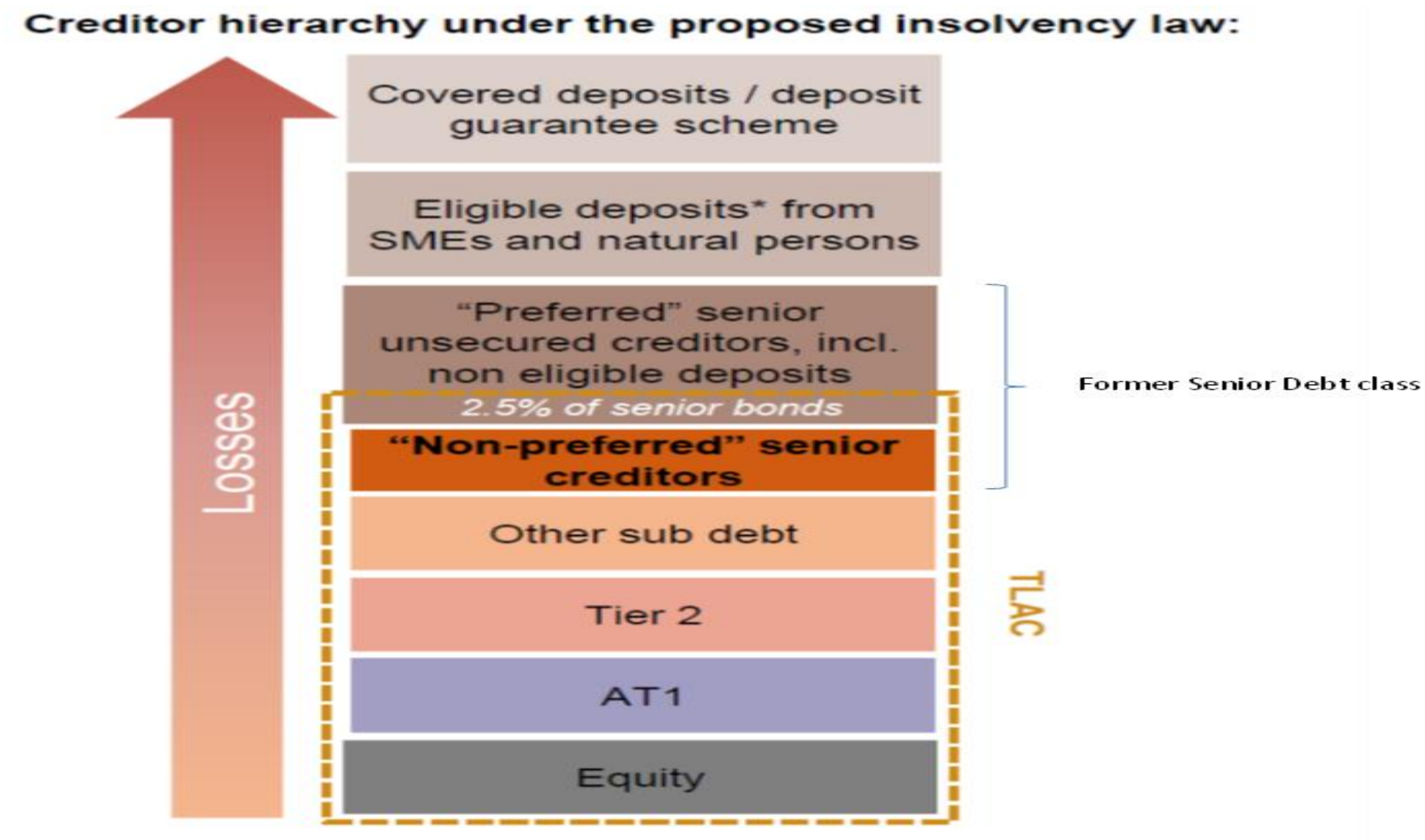
Single Resolution Board

Source: SRB

- In 2016, MREL will be set at consolidated level only
- Based on the outcome of the analysis of the Liability Data Template (LDT), SRB is discussing indicative target levels of MREL and implementation plans
- MREL final decision will be taken by year-end (together with the final decision on the resolution plan)

2. TLAC, MREL and French Non-preferred Bonds (3/4)

French Non-preferred Senior Bank Bonds Proposal to be adopted end September will facilitate the bail-in of the new category of senior debt instruments



2. TLAC, MREL and French Non-preferred Bonds (4/4)

Main elements of the draft Bill:

- The existing stock of senior <u>debt</u> (claims and negotiable debt instruments) would be maintained in the «preferred senior» category

- Instruments under this category
  - must have a <u>maturity longer than one year</u>
  - and must <u>not be structured</u>

- No retroactivity => Stronger legal certainty
  => Predictability for investors.

- Protects the short term ratings of French banks

- Any «non-preferred senior» issuance would need to contractually specify its ranking (<u>by default, it will be 'preferred senior'</u>)

- After the entry into force of the law, any bank will be able to issue either in the «preferred senior» category or in the «non-preferred senior» category

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3. Finalization of Basel 3 (1/2)

Basel Committee to complete its work to address the problem of excessive variability in risk-weighted assets **by the end of 2016**

Basel Committee on Banking Supervision

Second consultative document

Standards

Revisions to the Standardised Approach for credit risk

Issued for comment by 11 March 2016

December 2015

http://www.bis.org/bcbs/publ/d347.pdf

Basel Committee on Banking Supervision

Consultative Document

Standardised Measurement Approach for operational risk

Issued for comment by 3 June 2016

March 2016

http://www.bis.org/bcbs/publ/d355.pdf

Basel Committee on Banking Supervision

STANDARDS

Minimum capital requirements for market risk

January 2016

http://www.bis.org/bcbs/publ/d352.pdf

Basel Committee on Banking Supervision

Consultative Document

Reducing variation in credit risk-weighted assets – constraints on the use of internal model approaches

Issued for comment by 24 June 2016

March 2016

http://www.bis.org/bcbs/publ/d362.pdf

The Committee will focus on not significantly increasing overall capital requirements.

3. Finalization of Basel 3 (2/2)

What's new?

11 January 2016

The Governors and Heads of Supervision GHOS agreed that the Committee would complete its work to address the problem of excessive variability in risk-weighted assets by the end of 2016. This programme will include the following key elements:

– consultation on the removal of internal model approaches for certain risks (such as the removal of the Advanced Measurement Approach for operational risk); and

– consultation on setting additional constraints on the use of internal model approaches for credit risk, in particular through the use of floors.

The GHOS will review the Committee's proposals on the risk-weighted framework and the design and calibration of capital floors at or around the end of 2016. The Committee will conduct a quantitative impact assessment during the year. As a result of this assessment, the Committee will focus on not significantly increasing overall capital requirements.

11 September 2016

Governors and Heads of Supervision announce progress in finalising post-crisis regulatory reforms

Progress is being made in finalising post-crisis regulatory reforms to reduce excessive variability in risk-weighted assets (RWAs), the Group of Central Bank Governors and Heads of Supervision (GHOS) announced today.

The GHOS endorsed the broad direction of the Committee's reforms. The GHOS discussed the Basel Committee's ongoing cumulative impact assessment and reaffirmed that, as a result of this assessment, the Committee should focus on not significantly increasing overall capital requirements.

Thanks for your attention

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