

# Key issues in Banking regulation



Investor meeting



# Summary

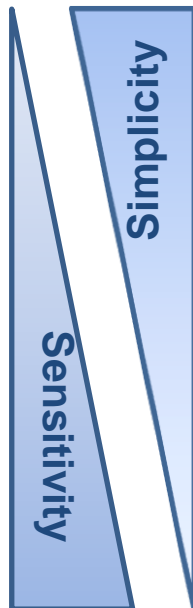
1. **Finalization of Basel 3: key observations**
2. **CRR2/CRD5: latest developments and points of attention**
3. **SSM guiding principles for a “new NPL” provisioning backstop**
4. **Commission proposal to amend the EBA Regulation**
5. **Commission communication on completing the Banking Union**

## Finalizing the post-crisis agenda: key observations

- **The finalization of Basel 3 was expected by the end of 2016:**
  - Discussions are still on-going
  
- **Work of the BCBS driven by a clear mandate from the G20**
  - The reform should be finalized “*without further significantly increasing overall capital requirements across the banking sector, while promoting a level playing field*”
  - The actual increase of banks’ capital requirements is largely behind us.
  
- **The main objective of the Basel 3 on-going work is to reduce the undue variability of RWAs**
  - In practice: what role for internal models in the regulatory framework?

# Different views on the supervision of internal models

- ❑ A broad range of measures can be used to reduce RWA variability
- ❑ Choice between potential measures driven by different objectives, resources and supervisory cultures



<b>BCBS</b>	Limitation to the use of internal models and introduction of strict constraints (like floors)
<b>EBA</b>	Harmonization of banks' and supervisors' practices in relation to internal models and clarification of the rules
	Close monitoring and understanding of the use of internal models, via notably regular benchmarking
<b>SSM and ACPR</b>	Robust and intrusive supervision of internal models (e.g. TRIM)

- ❑ Effective implementation of the reform in all jurisdictions needed to keep a level playing field

2.1.

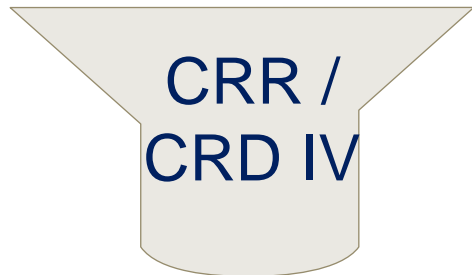
# CRR2 and CRD V: content of the package

Comprehensive legislative proposal published by the EU Commission in November 2016 (« Risk reduction package »)



International sources

- Leverage
- NSFR
- FRTB
- SA-CCR
- TLAC
- Large exposures
- Provisioning



EU negotiation



CRR 2 /  
CRD V



European issues



- Proportionality
- OND
- Supervisory powers
- Pillar 2
- MREL
- Remuneration
- Supporting factors
- Waivers & derogations
- SSM

- ❑ **First set of measure adopted in June by the Council, to be implemented in 2018 (« fast track » procedure)**
  - Harmonization of creditor hierarchy for TLAC-MREL
  - Transitional arrangements for the impact of IFRS 9 on own funds, and,
  - Transitional treatment for euro denominated sovereign exposures in non Eurozone countries, for large exposures purposes.
  
- ❑ **On-going negotiations at the Council (currently chaired by Estonia)**
  
- ❑ **Objective: council agreement by year-end and final agreement between Council and Parliament around mid-2018.**

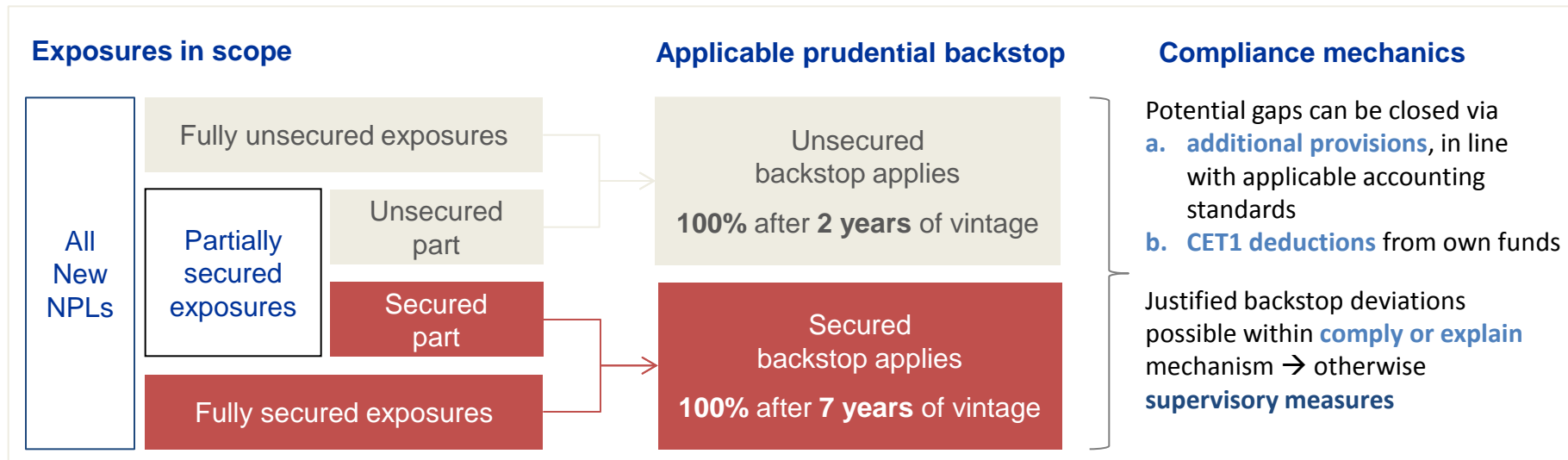
## CRR2 and CRR V: points of attention

- ❑ **New intermediate parent undertaking (IPU) requirement :**
  - Significant measure to strengthen the importance of consolidated supervision in the EU
  - Issue closely linked with overall Brexit discussions
  
- ❑ **Proportionality**
  - Simplified regime for small firms or similar requirements for all but lighter reporting and disclosure requirements ?
  
- ❑ **Strengthening of the banking union**
  - Introduction of cross-border waivers ?
  
- ❑ **Treatment of investment firms**
  - Need to maintain bank-like investment firms under CRR2 regime for level playing field and consistency reasons
  
- ❑ **International level playing field**
  - Removal of the FRTB needed given the current situation in the US

## 3.

## SSM guiding principles for a “new NPL” provisioning backstop

## Overview of key features of the public consultation



- **Applicable to all new NPLs** classified as such from 2018 (including unlikely to pay, excluding foreclosed assets)
- **Prudential credit protection definitions** used to identify secured part of exposures<sup>1</sup>
- **Different backstop categories** for unsecured and secured exposures
- Secured backstop relies on the prudential principle that **credit risk protection must be enforceable in a timely manner**
- Prudential provisioning backstop approach **builds on existing accounting provisions topping them up with CET1 deductions where required**

<sup>1</sup> Modification of CRR criteria to allow IRB collateral and guarantors also for SA banks to ensure level playing field.



# 4. Commission proposal to amend the EBA Regulation

## Limited changes to EBA arrangements

### 1- Tasks and objectives

- "Financial institution" redefined to include all entities covered by banking sectoral legislation are covered
- Strategic Supervisory Plan adopted every 3 years by Executive Board, setting EU-wide priorities for supervision
- Ability to fine financial institutions/entities for failing to provide information, or providing incomplete/misleading information

### 2- Governance

- Executive Board to be established, replaces the Management Board, Breach of Law and Mediation Panels, comprises full-time staff members:

# Commission communication on completing the Banking Union (11 October 2017)

## WHAT IS TODAY'S COMMUNICATION ABOUT?

- ✓ Seeks to increase private risk-sharing to reduce the risk carried by the public sector in times of crisis.
- ✓ Sets out a path for completing the Banking Union with further risk reduction and risk sharing.
- ✓ Suggests a way forward to break the impasse between the European Parliament and the Council on the European Deposit Insurance Scheme.
- ✓ Review of the Single Supervisory Mechanism (SSM) showing overall positive results.
- ✓ Advancing on commitments made concerning the reduction of non-performing loans, the European Deposit Insurance Scheme, the banking package and the fiscal backstop.

## HOW CAN THE LEGISLATIVE PROCESS OF THE EUROPEAN DEPOSIT INSURANCE SCHEME (EDIS) BE ADVANCED?

- ✓ More gradual introduction of EDIS.
- ✓ Reinsurance would only provide liquidity to national deposit guarantee systems, while national deposit guarantee systems have to cover losses.
- ✓ The transition from reinsurance to co-insurance would be conditional on sufficient reduction in banks' non-performing loans.
- ✓ Under co-insurance, EDIS coverage of losses would gradually increase.

## WHY IS THE EU TARGETING NON-PERFORMING LOANS (NPLs)?

- ✓ The Commission will continue to be committed to action as endorsed by European Council (NPL Action Plan).
- ✓ While the overall level of NPLs has gone down, NPLs continue to weigh on the ability of banks to lend, especially in some EU countries.
- ✓ Further reducing NPLs will reduce risks in the financial system.
- ✓ To support banks and Member States in tackling existing NPLs and preventing NPLs in the future.

