Key regulatory issues

Breakfast on
Banking Regulation

London, 23 October 2018 Frédéric Visnovsky Deputy Secretary General

1. - Need to finalize the regulatory framework (1/2)

International Standards

- Leverage ratio
- NSFR
- SA-CCR
- TLAC
- Large exposure
- Interest rate risk
- Exposure to CCP
- FRTB (reporting)

European specificities

- Proportionality
- Perimeter
- Macro prudentiel tools
- IPU
- Pillar 2
- Remuneration
- Supporting factors
- Waivers

CRR / CRD 4

négociation

CRR 2 / CRD 5

RTS/ITS/GL/Q&A

1. - Need to finalize the regulatory framework (2/2)

CRR 2 / CRD 5: important topics under discussion within the Trilogue

	ECOFIN proposals	Parliament proposals
Waivers	Commission proposals have been deleted	Commission proposals with an exemption limited to 25% of minimal requirement
FRTB	Reporting requirement and delegated act by 2019	Application date 1st January 2022 based on previous FRTB framework in case of no Commission proposal
Green finance	*Green supporting factor*	New criteria to evaluate if the credit has a positive impact on sustainability
Credit risk		(i) Residential mortgages: reduction of risk weights; (ii) NPL : possibility to exclude from LDG calibration; (iii) Guaranties to funds
Own funds		Non deduction of software

Next step: implementing December 2017 Basel 3 agreement

=> Importance of the call for advice to EBA

ACPR BANQUE DE FRANCE

2. - Need to complete the Banking Union second pillar

The Single Resolution Mechanism (SRM) is still incomplete.

The common backstop to the Single Resolution Fund is the key.

- The euro area agreement on the backstop reached on the 29th of June is a crucial first step.
- Two key issues remain:
  - how to fund the backstop at a sufficiently high level to be credible,
  - how to create a swift decision-making process to deal with emergencies
- The euro area also needs a system for providing liquidity to financially sound banks after resolution

3. - Need to operationalize the resolution tools

We need to ensure a closer relation between supervision and resolution

A TEAM

Continuity and consistency

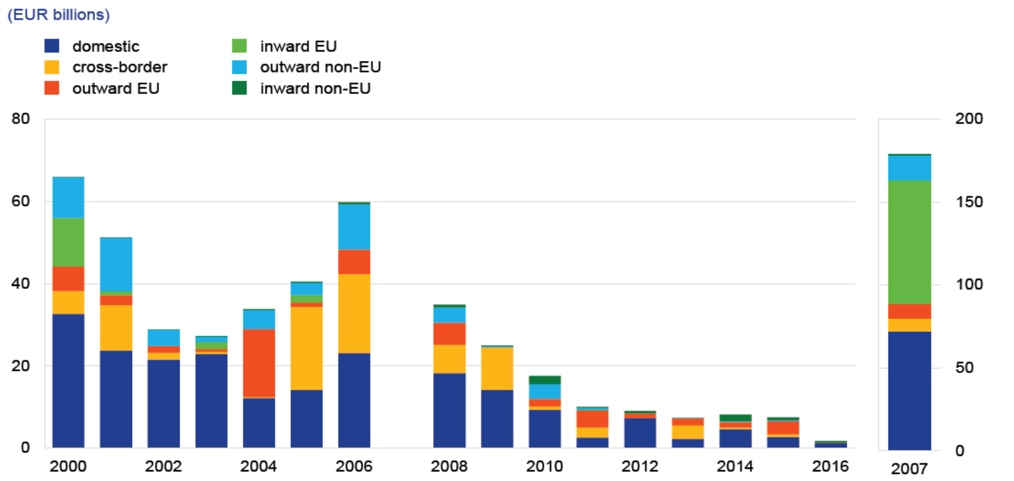
1 – Better link between recovery plans and resolution plans

2 – MREL targets to take into account banks specificities (Pillar 2 approach)

4.- The banking system in Europe is still fragmented

The introduction of the euro in 1999 and the development of the single market have made a contribution to increasing bank MNA activity

Bank M&As involving euro area banks – value of transactions



Sources: Dealogic and ECB calculations.

- Ever since the financial crisis in 2008, these transactions have slumped

- Very diverse concentration of banking systems

Market share for the 5 lead banks	
USA	40 %
Europe	20 %

5.- Need to remove obstacles to the emergence of truly cross-border banking groups

- A safer and more integrated banking system would better support the currency union

- It would foster a more effective allocation of resources across the EU

- It would restore and improve savings allocation mechanisms to address productive investment opportunities

- BUT faced with uncertainties regarding the level capital and liquidity at the local level in case of crisis, authorities have a tendency to implement ring-fencing measures:

    - Ex ante requirements by supervisors: minimum level of capital and liquidity, activation of macro prudential tools, imposing the creation of subsidiary instead of a branch…

    - Similar decisions taken by resolution authorities where there is a doubt over the effective implementation of a single point of entry (SPE) strategy: internal TLAC, internal MREL

6.- Need to foster trust between home and host countries

To ensure an effective resolution regime in Europe, one should consider possible solutions to tackle the lack of trust between home and host authorities:

- The banking Union has strengthened the European cooperation for supervision and resolution. This framework should now fully deliver confidence that there will be no national/home bias, thanks to a centralized power

- Joint decisions on the adoption of resolution plans and of MREL requirements: these are binding obligations which force to find a common approach

- **Confidence of host Member states can be ensured by more robust ex-ante arrangements: intra-group arrangements could be requested to reinforce the protection given by the parent banks to their subsidiaries**