

EBA's Regulatory Priorities and their Alignment with the Basel Process

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# **EBA's 2016 Regulatory Priorities**



	Key priorities	Main deliverables
Development of the Single Rulebook	Enhancing the framework for credit risk / review of internal models	<ul> <li>Finalisation of a number of regulatory products (e.g. 3 RTS on the assessment methodology for IRB approach, RTS on risk weights for specialised lending exposures)</li> </ul>
		<ul> <li>Advice on the review of own funds requirements for exposures to central counterparties</li> </ul>
	Providing advice to the Commission on different Market Risk topics	<ul> <li>Report on the implications of the introduction of the Fundamental review of the trading book (FRTB) in the EU</li> </ul>
		<ul> <li>Report on the implementation of the new standardised approach used for the calculation of the exposures value of derivatives (SA-CCR) and its implication for the Current Exposure Method (OEM)</li> </ul>
	Enhancing consistency on RWAs	<ul> <li>Products on credit (retail, SME, etc.) and market risk (VaR, sVaR,) benchmarking</li> </ul>
	Droposing a common ELL wide	<ul> <li>Report on leverage ratio for its calibration and impact on business models</li> </ul>
	approach to the calibration of the leverage ratio	<ul> <li>Report on Net Stable Funding Requirements (NSFR)_to examine whether and how institutions use stable sources of funding and the impact of such requirement</li> </ul>
	Providing advice to the Commission on the Remuneration topic	<ul> <li>Opinion on the application of the principle of proportionality to the remuneration provisions</li> </ul>

# **EBA's 2016 Regulatory Priorities (2)**



	Key priorities	Main deliverables
	Reviewing the large exposure framework	<ul> <li>Call for advice for the purpose of revising the large exposure framework as part of the Commission's CRR review</li> </ul>
Development of the Single Rulebook	Facilitating the implementation and understanding of IFRS 9 in relation to banks in the EU	<ul> <li>Quantitative and qualitative analysis of impact of IFRS 9</li> </ul>
	Ensuring a consistent implementation of the Resolution framework	<ul> <li>Reports on the implementation of the MREL and possible legislative initiatives to remedy inconsistencies and fill gaps</li> </ul>
	Operating the Q&As tool to ensure consistency of interpretation	<ul> <li>Integration of the Deposit Guarantee Schemes Directive in the Q&amp;As tool</li> <li>Review of Q&amp;As for Commission's CRR-CRD review</li> </ul>
	,	
Consumer Protection & Payments	Developing rules for payment	<ul> <li>Development of RTS on the separation of payment card schemes and processing entities under the IFR; and</li> </ul>
	services	<ul> <li>Development RTS on strong authentication and communication under PSD2</li> </ul>
	Enhancing consumer protection	<ul> <li>Delivery of RTS and ITS on disclosure documents under the PRIIPs Regulation (Joint Committee of the ESAs)</li> </ul>

# **EBA's Regulatory Work – Stretching into 2017**



	Key priorities	Main deliverables						
Development of the Single Rulebook	<ul> <li>Complete the resolution framework</li> </ul>	<ul> <li>Report on the implementation of the MREL and assisting COM or legislative initiatives to remedy inconsistencies and fill gaps</li> <li>Draft RTS on simplified obligations criteria &amp; Report on the implementation of simplified obligations and waivers</li> <li>Report on reference point for resolution financing target level</li> <li>Review GL on methods for DGS contributions</li> </ul>						
	<ul> <li>Ensure the consistent implementation of the resolution framework</li> </ul>	<ul> <li>Promoting &amp; monitoring efficient and consistent practices through participation to resolution colleges</li> <li>Review and benchmarking of resolution plans</li> <li>Mediation (where needed) on resolution matters</li> </ul>						



# The EBA has undertaken a bottom-up approach to repairing the drawbacks of internal modelling: excessive RWA variability and lack of comparability across modelling outcomes

Prioritisation	Regulatory products	Current status		
Phase 1: Assessment methodology	RTS on IRB assessment methodology	Finalisation stage $\checkmark$		
Phase 2: Definition of default	RTS on materiality threshold GL on default of an obligor	Finalisation stage $\checkmark$		
Phase 3: Risk parameters	GL on PD estimation GL on LGD estimation GL on treatment of defaulted assets RTS on downturn conditions	Preparation stage		
Phase 4: Credit risk mitigation	RTS on conditional guarantees RTS on liquid assets RTS on master netting agreements	Planning stage		

# **EBA's Work on the Leverage Ratio**



### The EBA report on the leverage ratio was published on 3<sup>rd</sup> August 2016. Findings include:

- The results of the quantitative analyses performed by the EBA suggest that a 3% level of calibration for the LR is generally consistent with the objective of a "backstop" measure which supplements risk-based capital requirements. In particular, a (Tier 1 capital-based) LR calibrated at a level of 3% would constitute a higher capital requirement than a risk-based Tier 1 capital requirement of 8.5% for around 33% of the analysed credit institutions;
- The results of a simulations-based analysis suggest the potential impact of introducing a LR requirement of 3% on the provision of financing by credit institutions would be relatively moderate when put into the context of the overall size of the banking sector. For building societies the impact is not significant;
- EU Commission legislative proposal to follow by the end of the year.

## Leverage Ratio by business model



			Business Models											
		Full sample	Cross-border universal banks	Local universal banks	Automotive, consumer credit banks	Building societies	Locally active savings and loan associations, cooperative banks	Private banks	Custody banks	Merchant banks	Leasing and factoring banks	Public development banks	Mortgage banks including passthrough financing mortgage banks	Other specialised banks
Number of entities in the sample		246	34	71	8	7	68	3	5	3	4	12	12	19
Leverage ratio	Weighted average	4.4%	4.2%	4.9%	8.0%	4.1%	5.3%	6.4%	8.4%	8.3%	7.4%	4.6%	3.7%	3.8%
	Median	5.5%	4.5%	5.5%	8.7%	4.0%	6.6%	4.8%	5.2%	8.5%	4.1%	2.8%	3.9%	5.3%
<b>3%</b> LR requirement	Tier 1 shortfall (€on)	6.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.4	2.1	0.8

#### Source: EBA QIS (June 2015)

 Business model categories resemble those of the EBA report on the NSFR, with the addition of the category of public development banks as per Article 511(4)(a)(iii) CRR.

# **Overview of the Basel (BCBS) 2016 deliverables**



New credit risk framework	<ul> <li>New Standardised Approach to credit risk (Dec 2014, Dec 2015)</li> <li>Constraints to Internal Model Approaches (March 2016)</li> </ul>
New operational risk framework	<ul> <li>New standardised measurement approach (March 2016)</li> <li>Advanced Measurement Approach (AMA) is abolished</li> </ul>
Review of the CVA risk framework	<ul> <li>Earlier consultation (July 2015)</li> <li>Constraints to Internal Model Approaches (March 2016): proposal to drop IMA-CVA</li> </ul>
Capital (output) floors	<ul> <li>Earlier consultation (Dec 2014)</li> <li>Constraints to Internal Model Approaches (March 2016): mentions possibility of SA-based output floors covering credit/market/counterparty credit risk</li> </ul>
Leverage ratio	<ul> <li>Publication April 2016</li> <li>All Banks: LR = 3%</li> <li>LR surcharge for G-SIBs -&gt; calibrations option on the table</li> </ul>
Fundamental Review of the Trading Book	<ul> <li>Already finalised (Jan 2016) – subject to monitoring</li> </ul>

# **Basel 2016 Proposal on Modelling Approaches**







## Summary

- 1) The 2016 round of global regulatory reforms closes the efforts of global standard setters to enshrine in the regulatory framework the fundamental lessons of the financial crisis;
- 2) The implementation of the post-crisis reforms in the EU is leading to a more stable and resilient financial system. Lenders and borrowers will operate in an environment where regulatory certainty is enhanced, but the implementation is far from over. Applying the principle of proportionality in the EU framework is a key objective of the EBA;
- 3) The ongoing review of the RWA framework is expected to result in a more risk-sensitive, simple and comparable regulatory architecture allowing banks to better perform their function of lending to the real economy.



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