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European Congress of EFBS
"Financial stability, consumer protection, long-term financing"

Recent developments in EU banking regulation – impacts for bausparkassen

October 20th, 2016

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Agenda

1 Introduction

2 Recent EU banking regulation

   – CRD IV/CRR (Pillar 1, Pillar 2 Supervisory Review and Evaluation Process/SREP; Pillar 3)

   – Other topics (Analytical Credit Dataset – "Anacredit", Consumer protection, MREL)

3 Outlook Basel IV

4 Impacts for bausparkassen – main challenges

Ultimate goal of regulation

Global financial system

- financial stability
- protection of investors and depositors

Key elements are:

- robust regulatory framework
- solid capital planning
  - Determination of appropriate level, form and composition of capital to comply with a longer-term strategy for pursuing business objectives and to challenge stress events
- Solid liquidity management

*CRD IV & CRR**
Regulatory content

* Valid since January 1st, 2014, including numerous transitional arrangements, EBA RTS/ITS/Guidelines

CRR (Regulation)		CRD IV (Directive)
Part 1	General provisions	Competent authorities
Part 2	Own funds	Conditions and procedures of authorization
Part 3	Capital requirements	Freedom of establishment and to provide services
Part 4	Large Exposures	Supervision of the institutions
Part 5	Exposures to transferred credit risk	Governance
Part 6	Liquidity	Capital buffers
Part 7	Leverage	Disclosure by competent authorities
Part 8	Disclosure	Transitional and final provisions
Part 9	Delegated and implementing acts	
Part 10	Transitional provisions	
Part 11	Final provisions	

http://www.eba.europa.eu/regulation-and-policy/single-rulebook/interactive-single-rulebook

The SREP assessment includes the business model, governance, capital risks and liquidity risks

1 — Categorization of institutions (every 1-3 years)

a	b	c	d
Large and systemically important banks **Regular examination cycle: every year**	Medium to large banks, multi-national bank, universal banks **Regular examination cycle: every two years**	Small to medium, nationally operating universal banks **Regular examination cycle: every three years**	Small nationally operating universal banks with few complex business models **Regular examination cycle: every three years**

2 — Supervision of key indicators
(i.a. Benchmarking based on financial and non-financial ratios, quarterly examination)

3 — Scoring 1 - 4 in the categories mentioned below (every 1-3 years)

a	b	c	d
Business model analysis	Assessment of internal governance and institution-wide controls	Capital risks **Capital adequacy assessment**	Liquidity and financing risks **Liquidity adequacy assessment**

4 — SREP assessment; Overall SREP assessment

5 — Supervisory measures (early intervention)

a	b	c
Quantitative capital measures	Quantitative measures referring to the liquidity situation	Other supervisory measures

Source: Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP) (EBA/GL/2014/13)

Previous experiences from SREP

General Assessments

- **Business Models of Banks are** under extreme pressure (low interest rate, profitability, competition)
- Midterm financial planning is not consistent with capital planning process
- **Stress test results** are not considered properly when assessing the risk adequacy
- Insufficient involvement of **risk appetite** and risk culture
- Highlighting the relevance of **liquidity indicators**

Assessments on ICAAP

- Insufficient consideration **of interest rate risk in the banking book**
- Insufficient involvement **of concentration risk**
- Necessary to consider business model risks
- Appropriateness of confidence intervals in **Pillar II capital models**
- Highlighting the importance of **liquidation approach** in the determination the risk factors

Major Challenges for Banks (German experience)

Risk Bearing Capacity	✓ Capital determination by pillar-1-plus approach and by considering credit, market- and operational risk as well as other major risks (interest rate risk in the banking book) ✓ If necessary, enhancement with additional capital for model weaknesses as well as for control, governance and process deficiencies ✓ Consideration of results from low-interest-rate survey as stress components
Interest Rate Change	✓ Supervisor plans publishing a general ruling on interest rate risk in 2016, which will oblige institutes to cover the potential net present value change resulting from a (negative) Basel interest rate shock any time with capital
Other Risks	✓ i.a. reputation risk, business risk, refinancing risks, …
Stress Components	✓ Development of stress tests in a low interest rate environment and their implementation in the ICAAP concept
Liquidity Assessment	✓ A qualitative review is in focus ✓ Liquidity provisions met as long as the LCR minimum requirement of 70 % is held in 2016 ✓ Methodological Development notified for 2017/18

Analytical Credit Dataset
AnaCredit

Regulation (EU) 2016/867

ECB motivation	• Establishment of a central granular credit register with highly granular data on an individual loan level • Data base for statistical analysis • Support to fulfill the supervisory objectives • Reduction of Ad-hoc-queries at banks
Subject to reporting requirements	*Phase I – beginning 2018* • First master data and test reports can be requested by national central banks *Phase II – as of 09/2018* • Credit institution including legally depending branches within and outside the Euro-Area • Only loans to legal entities are to be reported *Further Steps?* • No subject matter of the regulation are: Consolidated report Further transaction types Further counterparties
Reporting obligations	All loans with an cumulative amount of at least € 25.000 per client (only legal entities) are to be reported
Reporting threshold	• Elimination of the separate reporting threshold for Non-performing Exposures • Clear restriction on the reporting clients to legal entities • Credit derivatives are to be reported only as received collaterals • Transaction types representing only off-balance-sheet business (like guarantees) are not to be reported • 95 AnaCredit-attributes (instead of 101 in the Draft of the Regulation) • Clarifications of reportable transactions and definitions of attributes

Minimum Requirements for Eligible Liabilities (MREL)

Scope	• Credit institutions / entities belongig to the group
Eligible instruments	• Subordination may be required by EU or third countries • Maturity > 1 year • Exceptions: deposits, taxes and duties, wages and salaries
Requirements	• Insitutional specific level (Pillar II) • Dependant on risk profile (inter alia)
Buffer	• Separate calculation of MREL and Pillar I capital requirements
MREL-Ratio	$\frac{Own\ Funds + Eligible\ Liabilities}{\sum Total\ Liabilites\ including\ Own\ Funds^{*}}$
Entry into force	• January 1^{st}, 2016; application of § 46f para. 5 and 6 German Banking Act as of January 1^{st}, 2017 • Transitional arrangement until 2020

Challenges

- Complexity in the management of equity and borrowing capital will probably tend to increase
- From the investor`s point of view (asset side): revision of risk management necessary
- Investments in TLAC-eligible instruments~ Tier 2-instruments (bcbs 342) … if necessary capital deduction is required

* Derivatives shall be considered under the premise that netting arrangements are accepted; MREL-rate amounting to 8% in acc. with Regulation (EU) 806/2014 Art. 27 para. 7.

Basel IV in a nutshell

Calculation of the capital ratios according to Basel III/CRR…

Common Equity Tier 1

Additional Tier 1

Tier 2 Instruments

> 8% + capital buffer

Credit risk | Market risk | OpRisk | Add. risks

…and topics covered by Basel IV:

SA | IRBA | SA-CCR | Securitisations | CVA | FRTB | OpRisk | Step-in Risk

Basel IV
selected topics

Impact on capital requirements

Credit risk

- Modified risk weights for exposures to banks, corporates, SL (specialised lending) and equity
- Modified risk weights for mortgage loans
- Modified risk weights for off-balance sheet items
- Floor regarding IRB Approaches

Market risk

- Trading book – banking book boundary to be more objective
- Additional tools for supervision
- New standardised approach includes higher risk sensitivity of RWA calculation

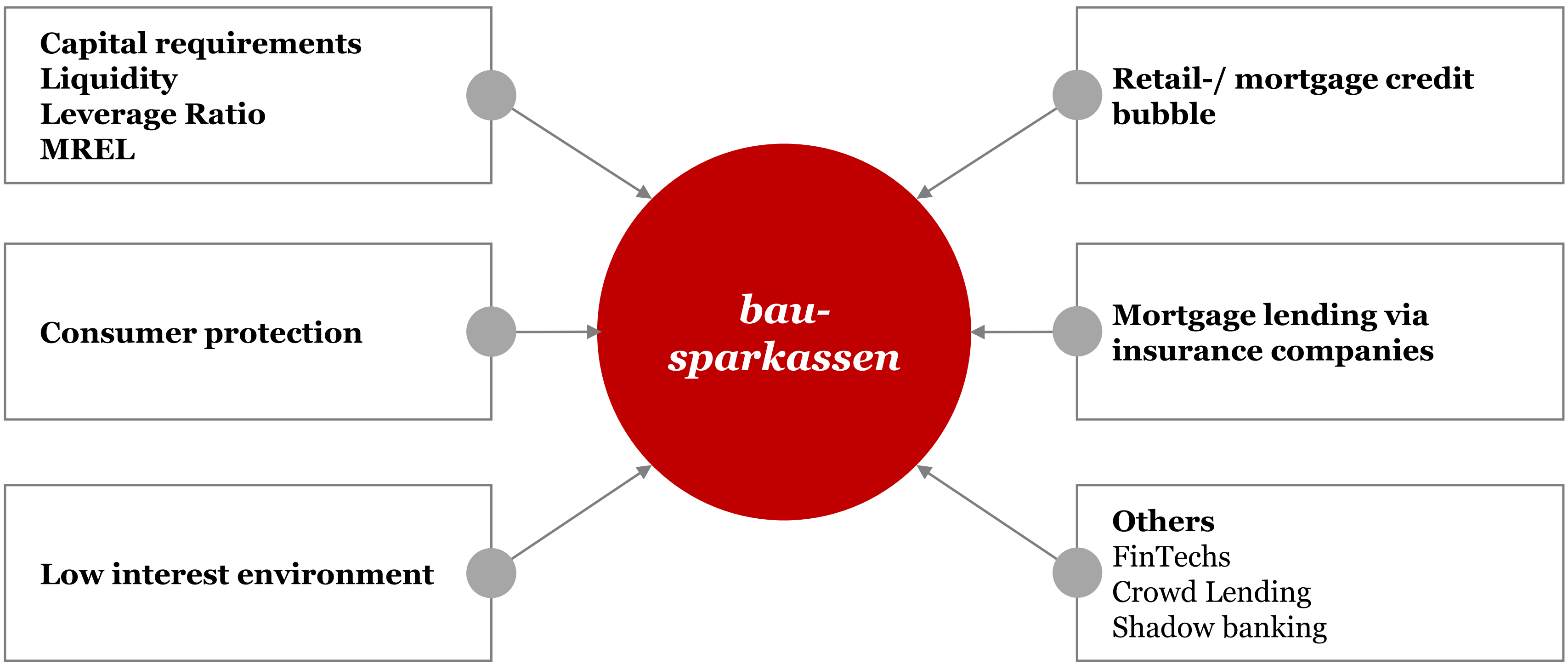
Counterparty credit risk

- Introduction of a supervisory factor of 1,4 and a multiplier (accounts for over-collateralization and negative mark to market values)

Operationelles Risiko

- Removal of AMA (Advanced Measurement Approach)
- New standardised approach for all banks (SMA – Standardised Measurement Approach)
- Taking account of internal loss data as a relevant indicator

bausparkassen - impacts



bausparkassen - strengths

1 ***Strong business modell***
Resilient, sustainable, reliable, benefits risk adverse depositors/savers

2 ***Capabilities for sufficient profitabiliy***
Standardised processes (technologies, digitalisation, outsourcing…)

3 ***Specific liquidity requirements***
As a function of the activities of the bausparkasse

Thank you.

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