

Bank Regulatory Reform

Housing Finance Beyond Subprime
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European Commission
Internal Market & Services DG



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CRD changes - summary

October 2008 - CRD II

- ➔ 1st set of amendments to the CRD (own funds, large exposures, supervisory arrangements, securitisation) adopted by the COM

July 2009 - CRD III

- ➔ 2nd set of amendments (trading book, re-securitisation, disclosure of securitisation exposures and remuneration) adopted by the COM
- ➔ Consultation on dynamic provisioning, options & discretions, incl. mortgage lending

February 2010 - further possible changes – CRD IV

- ➔ Public consultation on further possible amendments to the CRD: liquidity standards, definition of capital, leverage ratio, counterparty credit risk, countercyclical measures, including dynamic ‘through-the-cycle’ provisioning, systemically important institutions, single rule book

February-April 2010

- ➔ Public consultation + impact assessment (both at Basel and the EU level)

End 2010

- ➔ COM proposal on CRD IV

Latest amendments

Further amendments

Not to scale

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CRD II changes – October 2008

- Lack of harmonisation with regard to an important source of **own funds** for banks (hybrid capital);
- Regulatory differences in the treatment of **large exposures** to any single counterparty / borrower (interbank lending);
- Shortcomings in the **supervisory arrangements for cross-border banking groups** (colleges, home/host);
- Lack of rigour and due diligence amongst both originators and investors in the **securitisation** markets (5% retention);
- **Liquidity risk management** – qualitative requirements
- To be implemented as of 31 December 2010

CRD III changes – July 2009

Trading book

- Increased capital requirements for banks' exposure to market risk
- Removing arbitrage by aligning rules of trading and banking books

Re-securitisation

- Increased capital requirements for complex re-securitisation (=a securitisation of an underlying securitisation)

Transparency of securitisation markets

- Tightening up disclosure requirements of securitisation exposures to increase the market confidence

Remuneration

- A binding obligation on credit institutions to have sound remuneration policies subject to review by national supervisors

Implementation foreseen as of 1 January 2011 [to be confirmed, depending on the negotiations in the EP]

Commission's July 2009 consultation

Trough the cycle expected loss provisioning

- Possible changes to current provisioning rules aimed at reducing the cyclicity of provisioning for credit risk

Removal of national options and discretions

- Removal of more than 100 national options or discretions to achieve « single rulebook » from 2012

Mortgage lending

- Adjusting the preferential treatment of exposures secured by mortgages

All the above issues will be likely part of the CRDIV package.

Further possible changes to CRD ('CRD IV')

Public consultation – February 2010

Liquidity standards

- Developing global quantitative standards for liquidity regulation

Definition of capital

- Raising the quality, consistency and transparency of the capital base

Leverage ratio

- A supplementary measure to the Basel II risk-based framework

Counterparty credit risk

- Enhanced soundness of counterparty credit risk management and measurement

Further possible changes to CRD (CRD IV)

Public consultation – February 2010 (cont)

Countercyclical measures

- Through-the-cycle provisioning for expected credit losses
- Capital buffers and the cyclicity of the minimum requirements

Systemically important financial institutions

- Consulting on appropriate measures to deal with the risk posed by such institutions

Single rule book

- Areas where more stringent requirements might be necessary
- Appropriate prudential treatment of mortgage lending

CRD IV – timetable / next steps



CRD IV - Public Consultation Feedback

- One size does not fit all
- Cost and benefit for the wider economy
- Interaction of the proposals
- Process - implementation, phasing in, grandfathering
- International level playing field

CRD IV - Assessing the impact

- Cumulative impact of the various contemplated measures might be substantial, which is why...
- **Critical importance of thorough impact assessments:**
 - Quantitative Impact Study conducted by the Basel Committee
 - European Quantitative Impact Study conducted by CEBS
- Implementation - G-20 Leaders Declarations: New prudential regulatory standards should be phased in *“as financial conditions improve and economic recovery is assured, with the aim of implementation by end-2012”*