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# Overview of the presentation

- 1 EBA mission and scope of action
- 2 EBA Single Rulebook
- 3 Regulatory implementation and monitoring
- 4 Proportionality issues
- 5 Preparation of the new regulation

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## EBA mission and scope of action

# EBA objectives

- Sound, consistent, effective level of regulation
- Preventing regulatory arbitrage and promoting equal conditions of competition

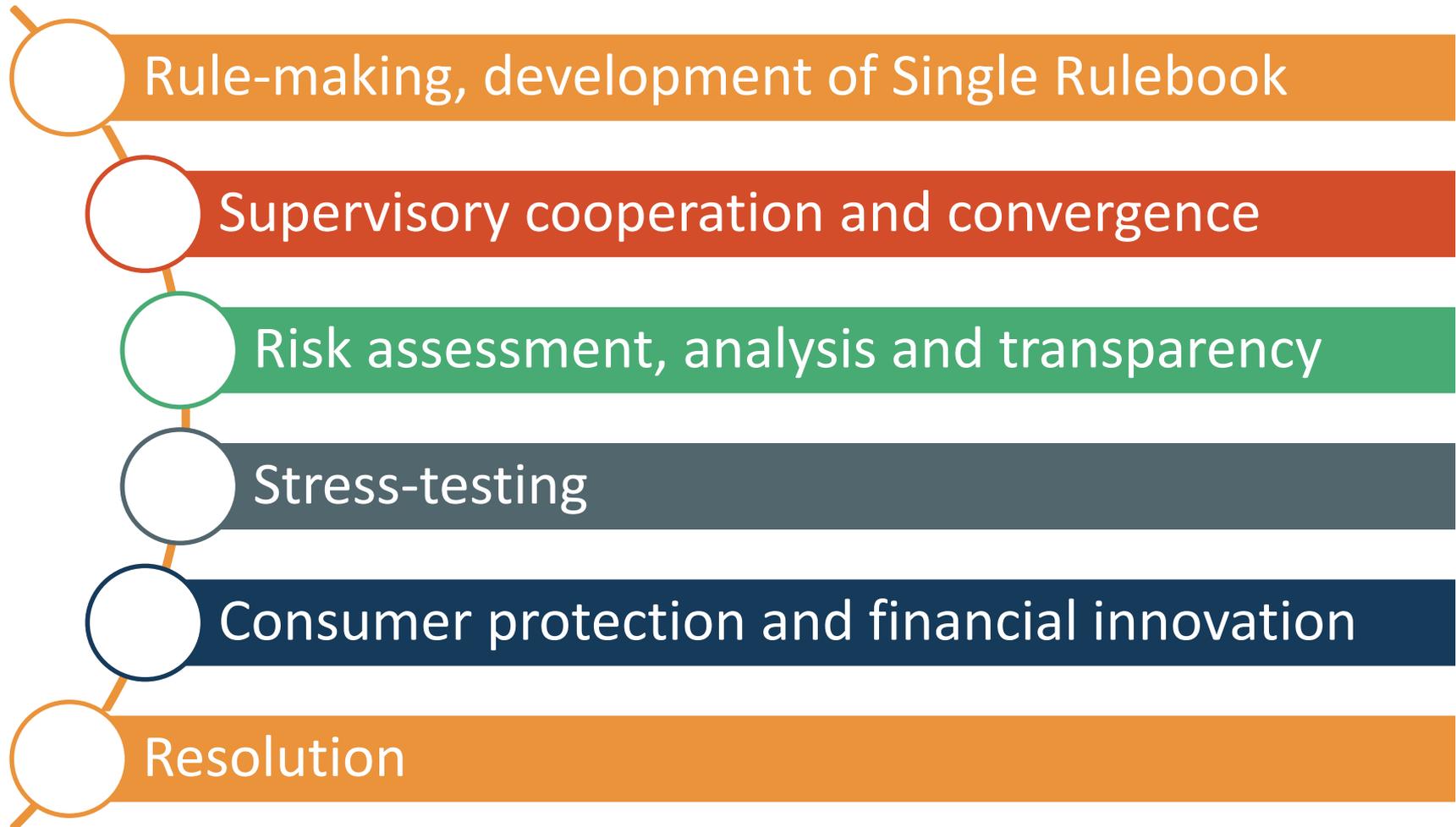
- Integrity, transparency, efficiency and orderly functioning of financial markets
- Ensuring the risks taking of institutions are appropriately regulated and supervised

**Contributing to the short, medium and long-term stability and effectiveness of the financial system, for the Union economy, its citizens and businesses**

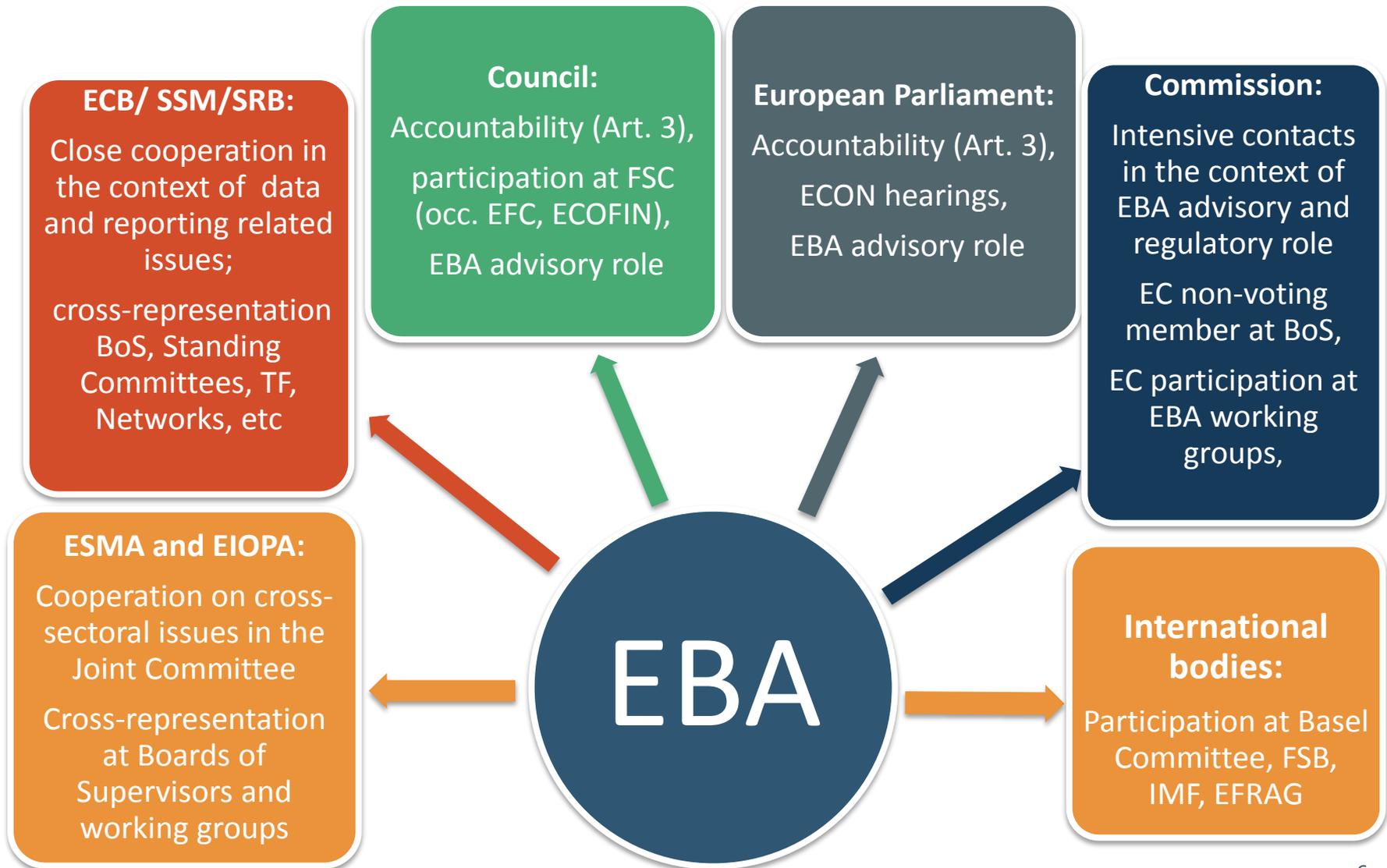
- Enhancing customer protection

- Promoting supervisory convergence and strengthening international supervisory coordination

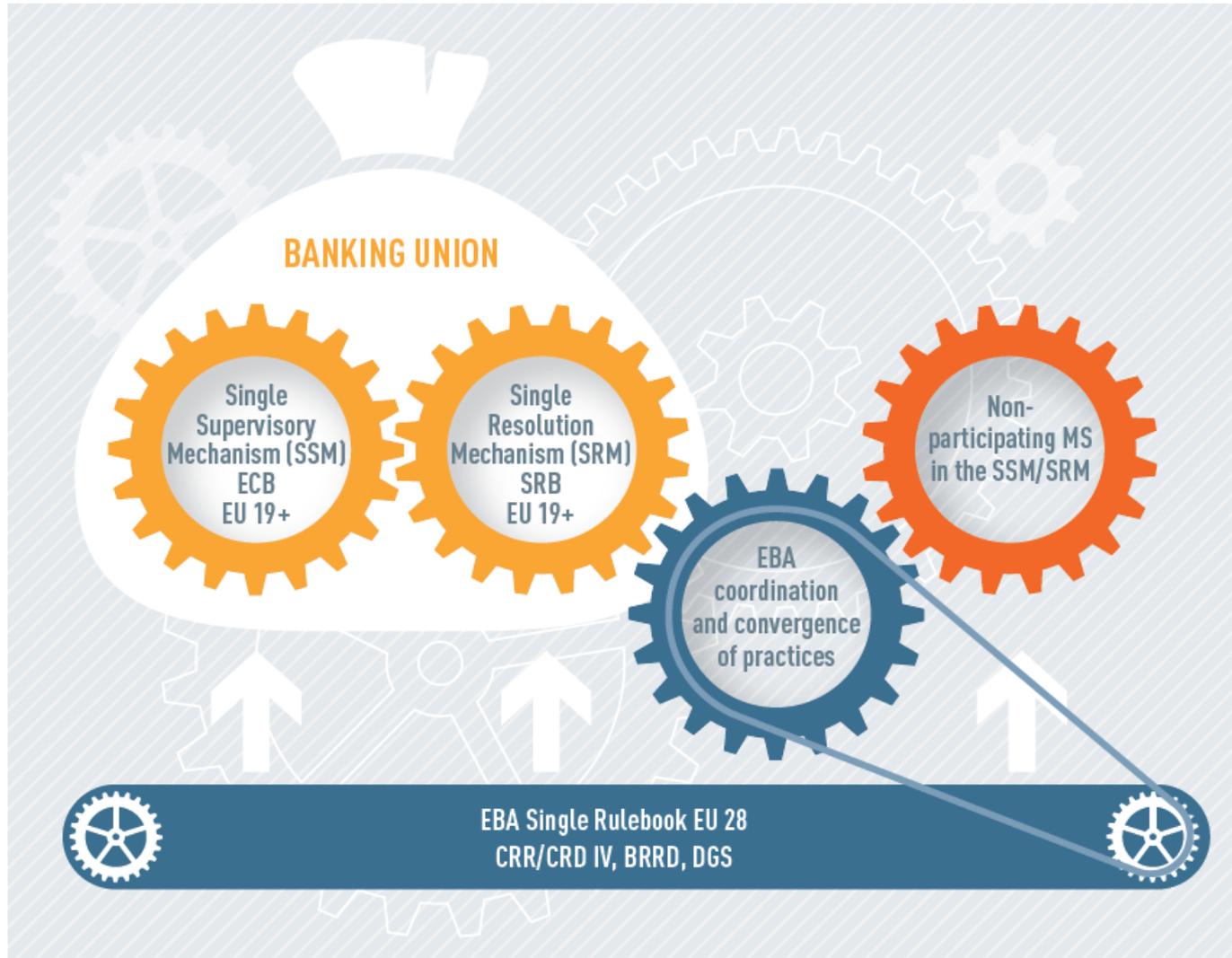
# EBA main areas of work



# EBA interactions with other EU actors



# EBA in the context of the Banking Union



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## EBA Single Rulebook

# The Single Rulebook uses a variety of tools

## **Binding**

- Level 1 mandates
- Level 2 regulations (BTS: RTS – ITS)

## **Comply and Explain**

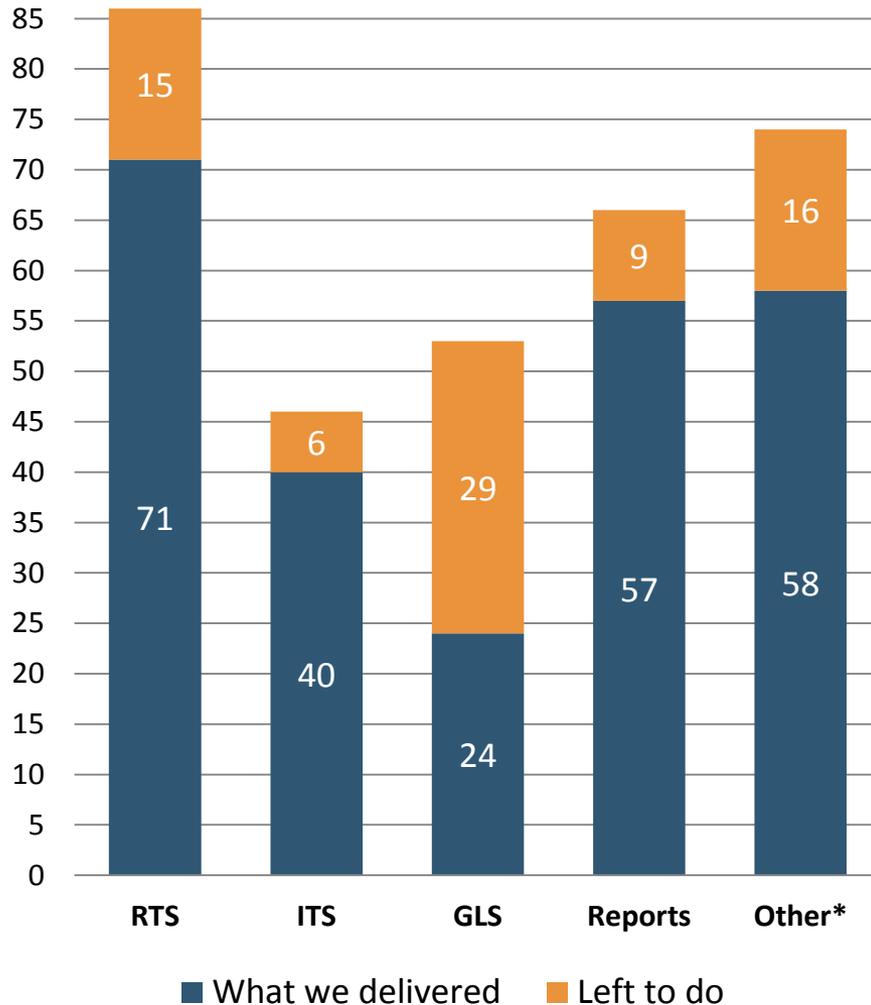
- Guidelines mandated
- Guidelines own initiative
- Recommendations

## **Market discipline**

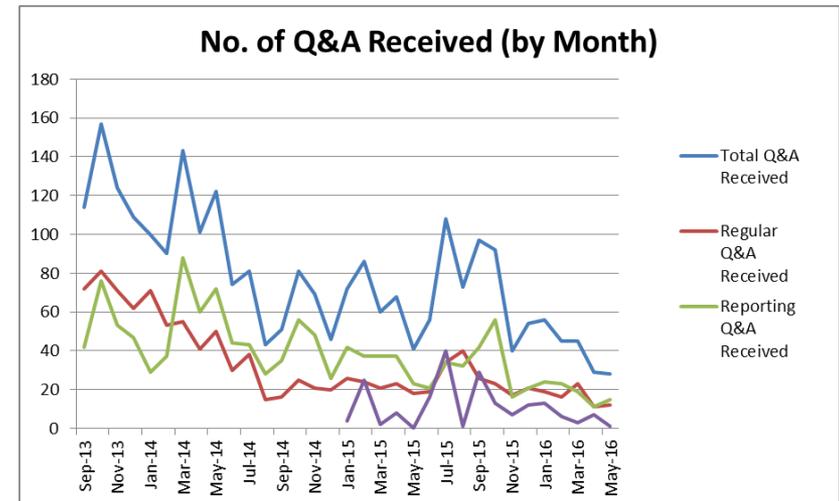
- Opinions
- Q&As
- Peer reviews and Monitoring Reports

# The first Single Rulebook is (nearly) completed

CRR/CRD mandates (as of June 2016)



\*opinions, advices, recommendations, publications



Q&A (as of June 2016)	Total
<b>Total Q&amp;As</b>	<b>2750</b>
- Of which: BRRD	(187)
- Of which: Reporting	(1352)
Regular (CRR-CRD) Q&As	1211
- Rejected	(539)
- Deleted	(73)
- <b>Published</b>	<b>(418)</b>

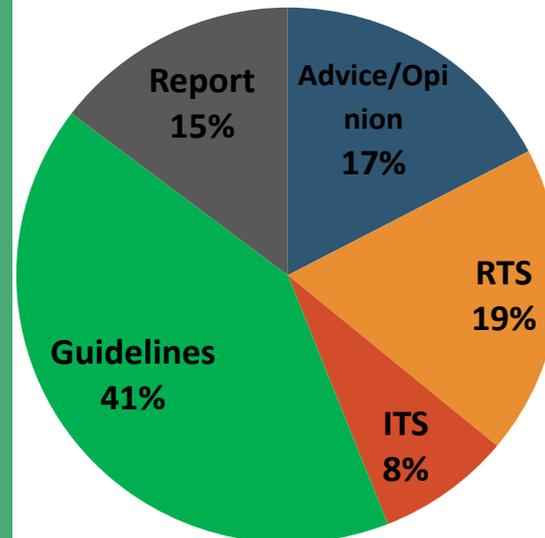
# What are the big remaining pieces?

- Annual report on securitisation retention rules 2017
- Report on significant risk transfer (SRT)
- own funds requirements for exposures to a central counterparty
- Report on interaction with EMIR
- Report on reliance on external ratings 2017
- Report on reliance on external ratings 2019
- Annual Report on High Earners
- Bi-Annual Report on the Remuneration Benchmarking Exercise
- Follow- Up on Report on NSFR

- **GL on implicit support**
- **GL on Qualified Holdings**
- **GL on accounting for expected credit losses**
- **GL on disclosure of LCR**
- **GL on corrections to modified duration for debt instruments**
- **GL on benchmark diversity practices**
- **GL on review of the permission to use internal approaches**
- **GL on LGD in default ELBE and IRB shortfall calculation**
- GLs on PD estimation
- GL on the use of estimates of PD and LGD as inputs
- **GL on downturn LGD for calculation**
- GL on integrity of the modelling process
- **GL on netting**
- **GL on stressed VAR**
- **GLs on Structural FX**
- **GL on Connected Clients**
- **5 GLs on the assessment of the suitability of members of the management body - fit and proper**
- **GLs on Internal Governance**
- GL on Stress in correlation trading portfolios
- **GL on Intraday Liquidity Risk**
- GL on Incremental default and migration risk
- GL based on the outcome of the Benchmarking Exercise
- GL on Supervision of designated credit institutions and CSDs authorised to provide banking type of ancillary services
- GL on concepts of activities that are a direct extension of banking
- GL on Supervisory Formula Method

- Covered Bonds Opinion on national waivers
- Quantitative and qualitative analysis of IFRS 9 – 2017
- Risk weights for mortgage lending 2017
- **Quantitative and qualitative analysis of IFRS 9 – 2016**
- 8 Calls for advice received in 2016 (**7 to be delivered by end of this year**)

- RTS on consolidation methods
- RTS on Authorisation of credit institutions
- RTS on relevant indicator under accounting standards different from Dir 86/635
- RTS on Immaterial Portfolios
- RTS on conditions for conditional guarantees
- RTS on the combined use of different approaches
- RTS on Eligible collateral within CRM framework
- RTS on Prudent Valuation (COREP Templates)
- **Update RTS on Proxy spreads for CVA**
- **2 RTS on economic downturn conditions for LGD**
- **RTS on Exclusion of CVA for 3rd country NFC**
- **RTS on disclosures of unencumbered asset**
- **RTS on Definition of default – Thresholds of past due items**



- **ITS amending Commission Implementing Regulation on additional monitoring metrics amending ITS on AMM**
- **ITS amending Commission Implementing Regulation (ITS on supervisory reporting) with regard to the Liquidity Coverage Ratio (LCR)**
- **ITS on Authorisation of credit institutions**
- **ITS on principles for business line mapping**
- **ITS on updating future liquidity requirements**
- **ITS on common procedures, forms, templates**

\*products highlighted in yellow will be delivered by end of 2016

# Lessons to draw

## Prescriptiveness / level of detail

Maximum harmonisation

Regulate only what has a prudential impact

## Flexibility / adjustability

RTS – L2 regulation can be updated

Mandate wordings – Interpretation

## Single but not Uniform

Same prudential regulation for the same risk

Adequate differentiation and proportionality

## Limitations and loopholes

ONDs persistence

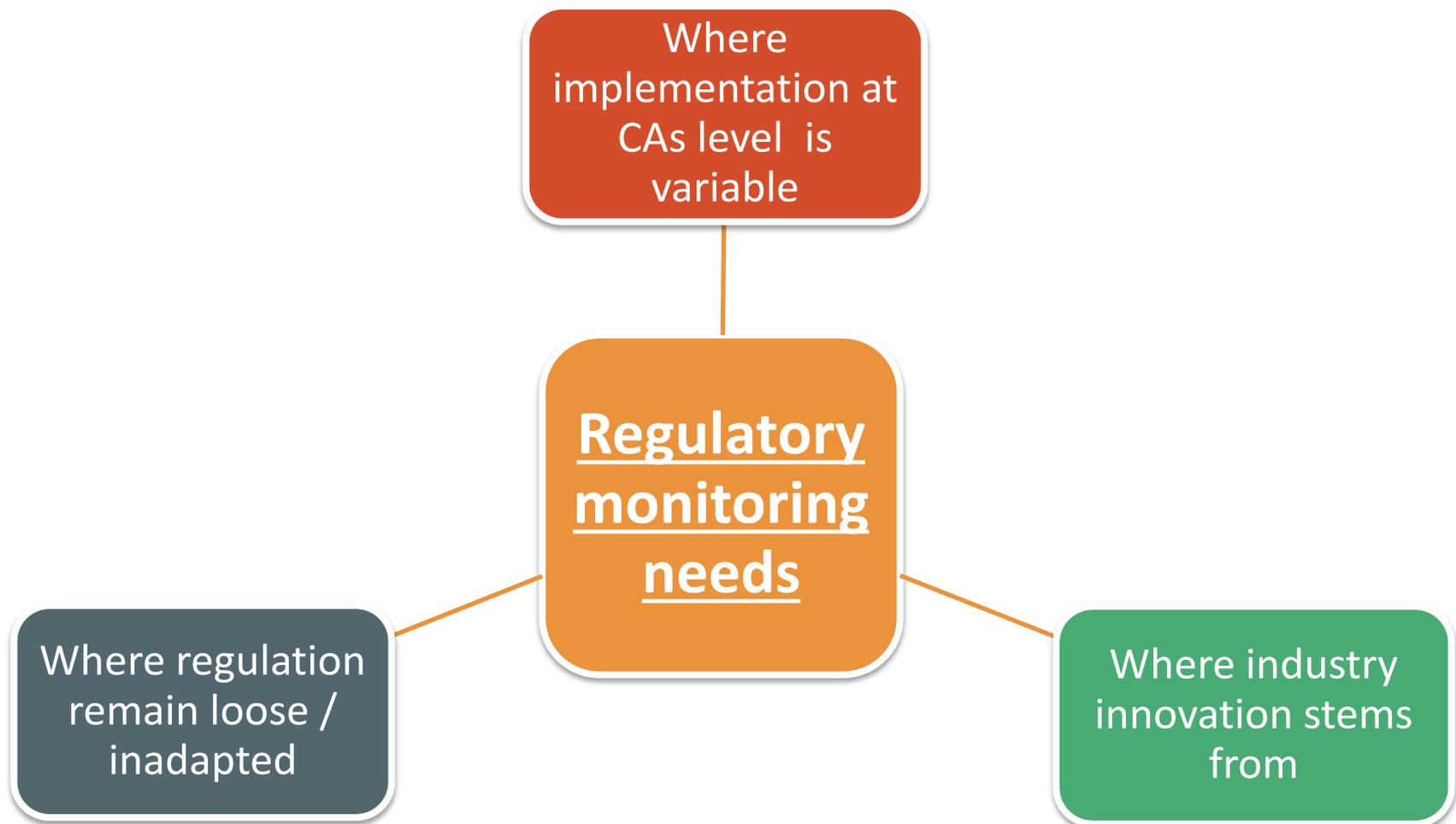
National Laws (Accounting, labour and corporate laws)

Macro Prudential Measures

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## Regulatory implementation and monitoring

## A shift towards regulatory monitoring since 2015



# EBA works on regulatory monitoring

## Capital Definition

- **CET1 list**
- **AT1 monitoring report**
- **AT1 standard templates**
- => *Promote effective compliance with CRR eligible criteria for own funds*
- => *Support further convergence in EU capital issuances*

## Remuneration Policies

- **Benchmarking report on High Earners**
- **Bonus enforcement: Allowances Report and Opinion**
- => *Follow-up on the use of role -based allowances and corrective measures taken by NCAs since the publication of EBA Opinion*
- => *Ensure a high level of transparency regarding the remuneration practices*

## Securitisation

- **Risk Retention Report and Guidance**
- => *Assess compliance with EBA recommendations on enhancing regulation on risk retention, due diligence and disclosure requirements*

## Counterparty risk

- **CVA Benchmarking**
- => *Compare the outcome of internal models and identify the most relevant variations/ deviations across firms*

# EBA works on regulatory monitoring-cont.

## Market Infrastructure

- **JAT analysis and report**
- => *To assess the compliance on the different initial margin models to the requirements on the joint RTS on EMIR and BCBS IOSCO framework*
- => *To give some clarifications on the supervisory expectations of the models to developers*
- => *To improve the models*

## Monitoring of supervisory options and discretions

- **NCA's published information on the implementation of options and national discretions**
- => *Compare different approaches across EU Member States*
- => *Enhance transparency concerning the exercise options and discretions*
- => *Monitor the impact*

## Peer reviews

- **Peer reviews of NCA's practices (art. 30 EBA regulation)**
- => *Foster consistency in supervisory practices*
- => *Overview of NCA's adherence to provisions and guidelines*
- => *Recent examples: Guidelines on the assessment of the suitability of members of the management body, ITS on supervisory reporting*

# Assessment of the Q&As

- Very few errors or inconsistencies identified by supervisors and practitioners that prompted a question in the Single Rule Book Q&A tool ;
- 90% of the questions reflects the usual implementation issues that competent authorities encounter in their day-to-day supervision.

■ CRD :

Topic	Total	Errors	Inconsist.	Fundamental	Application / interpretation
Country-by-country reporting	6	-	-	-	6
Remuneration / Governance	16	-	-	-	16
Pillar 2 and buffer related issues	7	-	-	2	5
Other topics	8	-	-	-	8
<b>Total Q&amp;As</b>	<b>37</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>35</b>

■ CRR :

Topic	Total	Errors	Inconsist.	Fundamental	Application / interpretation
Part Two - Own funds*	106	-	3	15	88
Part Three - Market Risk	56	-	-	2	54
Part Three - CCPs	11	-	-	-	11
Part Three - Operational risk	4	1	-	1	2
Part Four - Large exposures	19	2	-	2	15
Part Six - Liquidity	66	-	-	2	64
Part Seven - Leverage	12	-	1	4	7
Part Eight – Disclosures	6	-	-	-	6
Other topics	15	-	1	-	14
<b>Total Q&amp;As</b>	<b>295</b>	<b>3</b>	<b>5</b>	<b>26</b>	<b>261</b>



4 Proportionality issues

# EBA approach to proportionality

## Proportionality IS:

- Ensures that requirements are suitable calibrated for smaller institutions /certain business models/specific risk profiles so as to avoid imposing excessive compliance costs, stifle innovation or inhibit growth
- Facilitates a balanced regulatory framework to support the functioning of the internal market

## Proportionality IS NOT:

- A two-tier approach, nor carving out stakeholders from the single rulebook
- A way of granting national options and discretions

# EBA approach to proportionality – cont.

## What is the most appropriate approach?

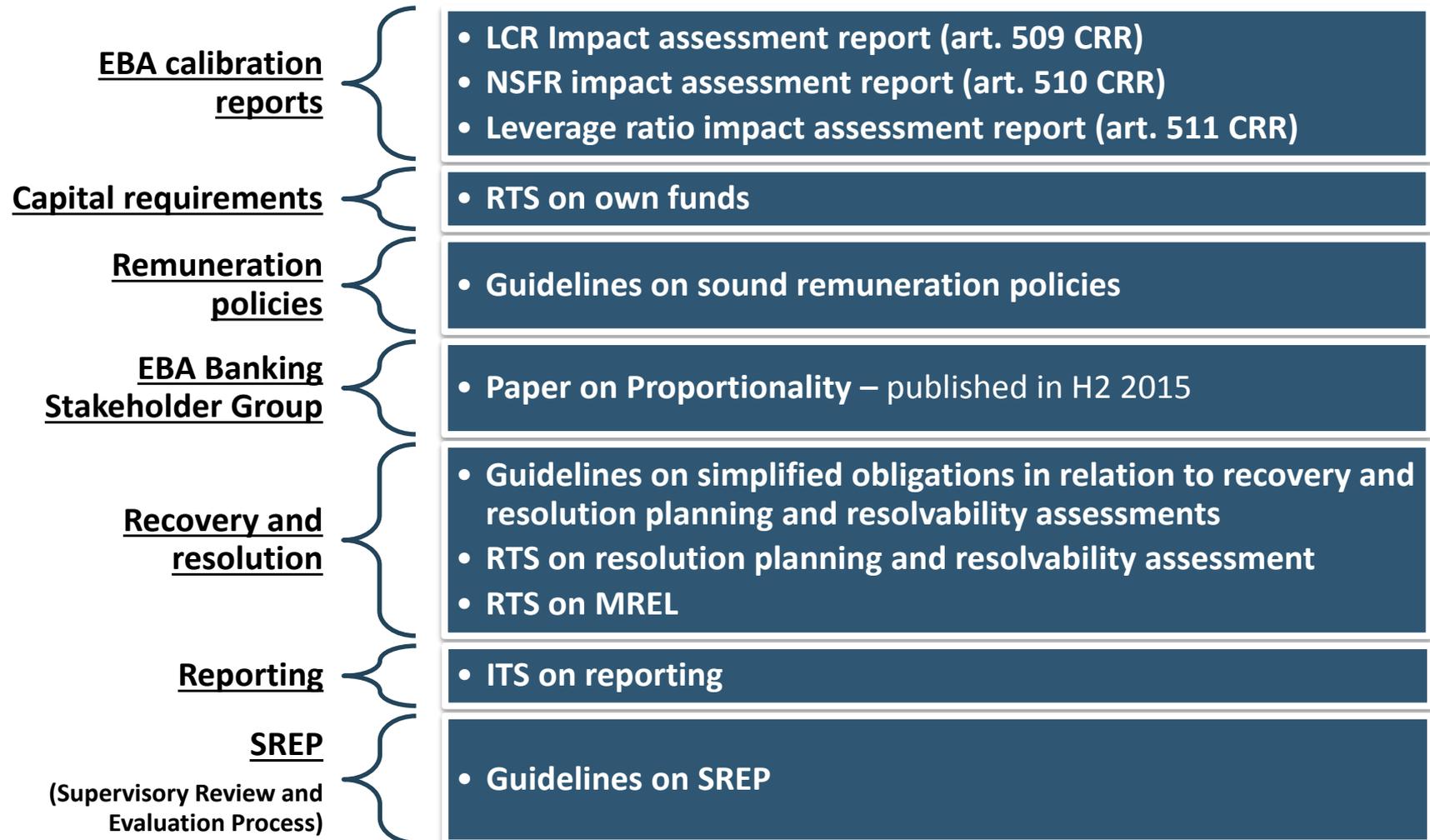
**Compliance costs/ macro costs reduction**: Easy to implement but needs to be evidence based (e.g. QIS).

**Business model differentiation**: Difficult to operate (business model definition?, business lines?).

**Size and threshold approach**: Easy to operate but with cliff effects. Should be complemented with contagion/ interconnectedness/risk criteria.

**Exceptions and exemptions** (article 2 CRD exceptions /exemptions/Waivers): To remain exceptional. Should proceed from an EU policy.

# Examples of EBA work on proportionality



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## Preparation of the new regulation

# Contributions to the ongoing CRR / CRD review

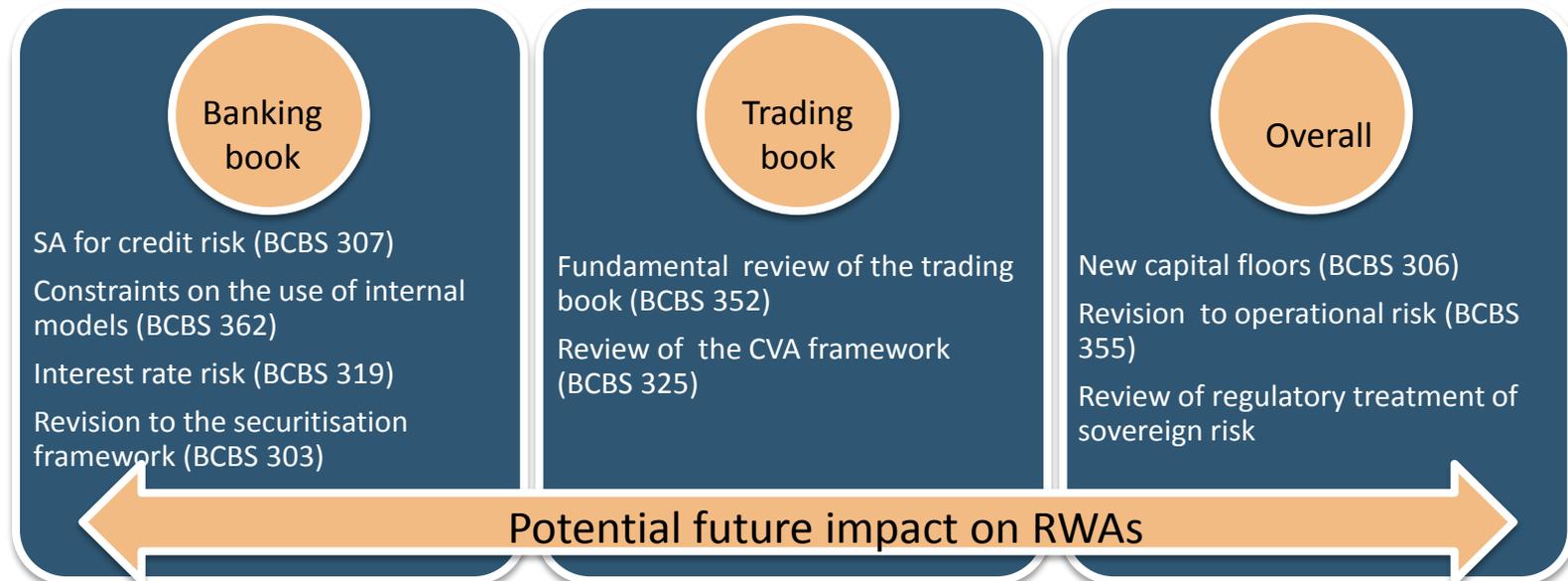
- EBA inputs *via* the calls for advice:

Source	Name	Topic	Work Programme Year
CRR	Advice on the review of own funds requirements for exposures to central counterparties (CCPs)	Market Risk	2016
CRR	Report on NSFR	Liquidity	2016
CRR	Review of Q&As for Commission's CRR-CRD review (part 1)	Q&A	2016
CRR	CfA Opinion on the application of the principle of proportionality to the remuneration provisions	Remuneration	2016
CRR	Report on the implications of the introduction of the FRTB in the EU	Market Risk	2016
CRR	Opinion on the review of the large exposures framework (Call for Advice on the CRR review)	Large Exposures	2016
CRR	Report on the implementation of SA-CCR and its implication for OEM	Market Risk	2016
CRR	Report on Investment Firms	Investment firms	2017
CRR	Review of Q&As for Commission's CRR-CRD review (part 2) for market risk, credit risk	Q&A	2017

- EBA participation in the EC expert groups : Leverage ratio, NSFR, Large exposures, Trading book, Interest rate risk, Pillar 2

# Finalisation of the BCBS revised framework by year-end

- Basel III comprehensive review of RWAs:



- Higher leverage ratio requirements for G –SIBs
- New framework on loss absorbing and recapitalisation capacity (TLAC) and interactions with capital regulation
- More detailed disclosure

Thank you for your attention

# Questions





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