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# Outcomes of the latest EBA Basel III monitoring exercise

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Paris, 28/11/2023

## Timeline – EBA work on assessing the impact of the Basel III reforms



2017 BIS published the finalised Basel III standards

2018 EBA received a Call for Advice (CfA) from the EC on the impact and implementation of BIII

2019 - 2020 The EBA answered the EC's call for advice (*Several products: Quantitative impact assessment (Jun-18 data) and key policy recommendations, additional analysis on the application of the output floor at all levels and updated impact study on Basel III based on Dec-19 data*)

2021 - 2023 EC, EP and Council published their proposals to implement Basel III in Europe (CRR3/CRD6)

2022-2023 EBA's **Basel III monitoring reports** assessing the impact of implementing Basel III in the EU (including the CRR3/CRD6 proposals): **Last report published in September 23 (reference date December 2022).**

2023 ★ Trilogue discussion

2024 - ... Implementation phase (several mandates to EBA included in the CRR3/CRD6)

# EBA Basel III report (reference date 2022)

## Sample, methodology and scenarios



### Sample

157 Banks at the highest level of consolidation in the EU

### Two metrics

#### Increase in T1 minimum required capital (MRC)

The increase in the amount of capital that Banks will need to hold to comply with regulatory requirements after Basel III.

$$\frac{T1 \text{ MRC Basel III}}{T1 \text{ MRC CRR2}} - 1$$

Where:  $MRC \text{ Basel III} = RWAs \text{ (Basel III)} \times \text{Capital Requirements}$ .  
 $MRC \text{ CRR2} = RWAs \text{ (CRR2)} \times \text{Capital Requirements}$

#### Regulatory capital shortfall

Shortfall of capital to comply with the regulatory requirements after Basel III.

$$\text{Min}((\text{Available capital} - \text{MRC Basel III}), 0)$$

### Two scenarios

#### Basel III (ILM =1)

- Pure implementation of the Basel III framework (without any EU adjustment)
- ILM = 1 for Operational Risk
- Capital requirements considered: P1, CCB and G-SII buffers only.

#### EU – Specific (ILM = 1)

- Basel III framework + EU adjustments<sup>1</sup> considered as more impactful
  - Part of the CRR2/CRD 5 (such as SME SF)
  - Part of the CRR3/CRD 6 proposals (such as the proposal for equity exposures)
- ILM = 1 for Operational Risk
- Capital requirements considered: scenario replicating the BIII methodology + scenario with P2R and all buffers.

(1)The features of the EU scenario are further explained in Annex 1.

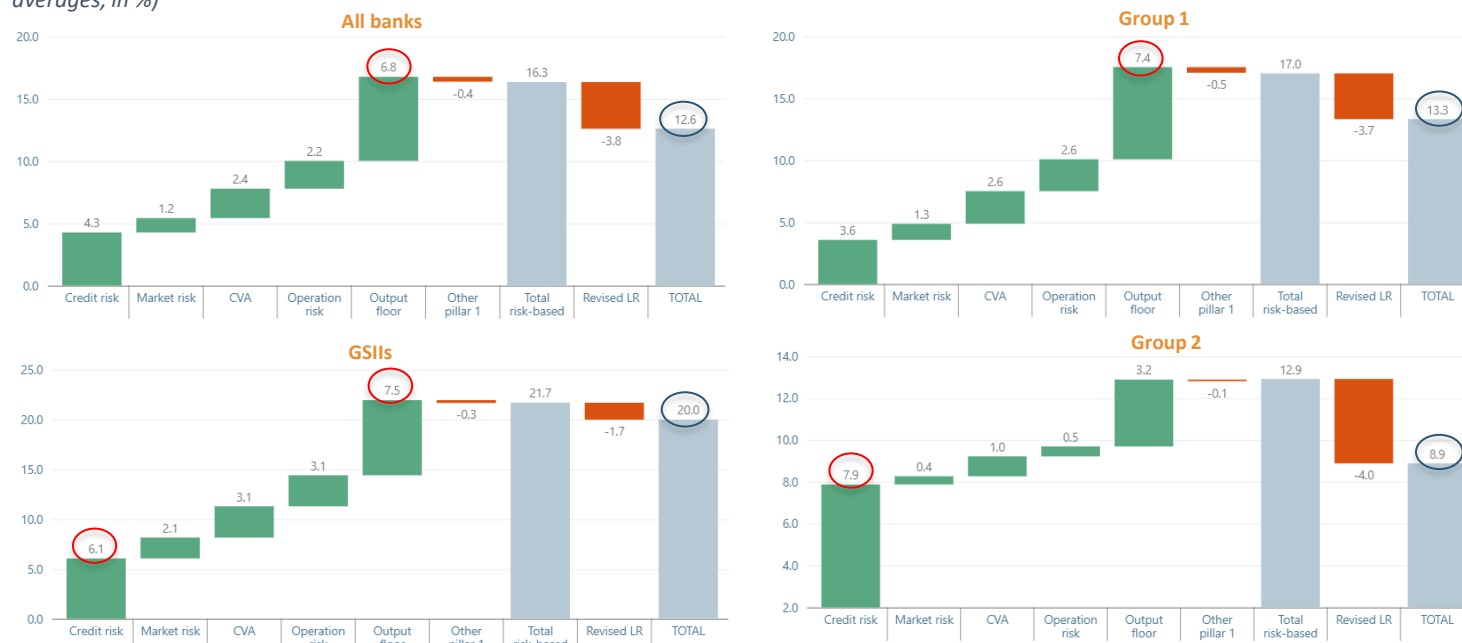
# EBA Basel III report (reference date 2022) - Results

## Increase in bank's capital requirements



Results show a significant increase in the amount of capital that Banks will need to hold to comply with capital requirements, in particular for G-SIIs and mainly driven by the output floor.

Graph: Change in total T1 MRC, as a percentage of the overall current Tier 1 MRC, under full implementation of the Basel III scenario (2030) (weighted averages, in %)



Source: EBA Basel III monitoring report (December 2022 reference date)

(\*) Group 1 banks are banks that have Tier 1 capital in excess of EUR 3 billion and are internationally active. All other banks are labelled as Group 2 banks.

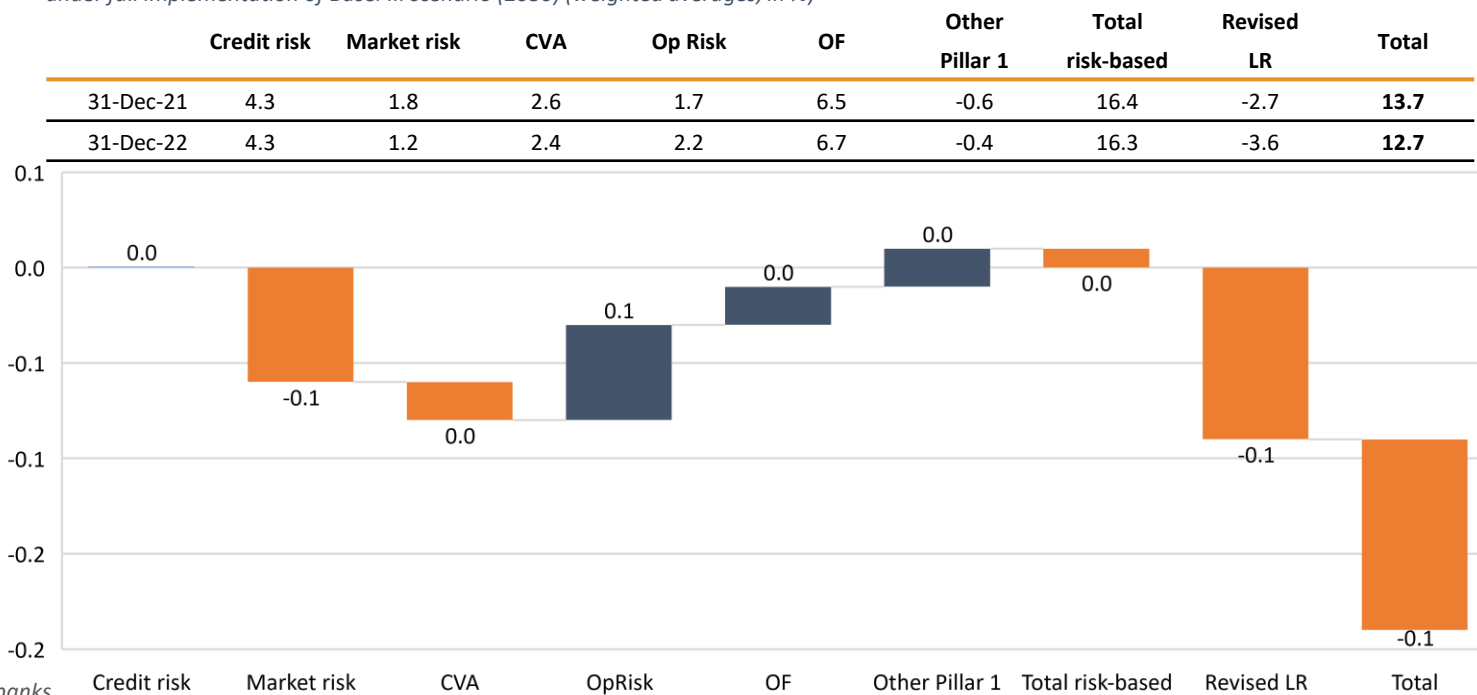
# EBA Basel III report (reference date 2022) - Results

## Evolution of the change in T1 MRC



However, there is a decreasing tendency in the increase in capital requirements reported by Banks...

*Graph: Comparison of the change in total T1 MRC, as a percentage of the overall current Tier 1 MRC, between Dec 21 and Dec 22 reference date, under full implementation of Basel III scenario (2030) (weighted averages, in %)*



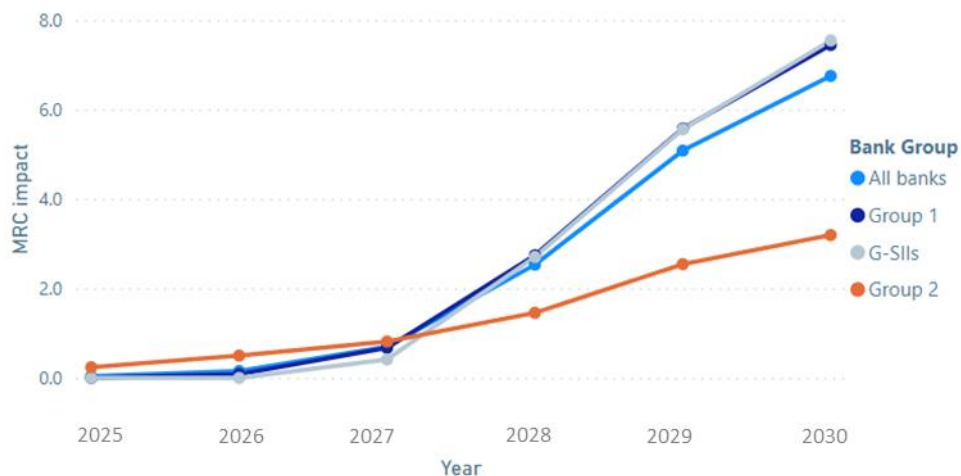
## EBA Basel III report (reference date 2022) - Results

### Transitional implementation of the Output floor



... and the transitional implementation of the output floor (main driver of the impact for G-SIIs and Group 1 Banks) will temporarily alleviate the pressure on Banks as they will have more time to adapt to the new required capital.

Graph: Cumulative output floor impact during the implementation phase (% of total CRR 2/CRD 5 Tier 1 MRC), Basel III scenario, by implementation year and type of bank



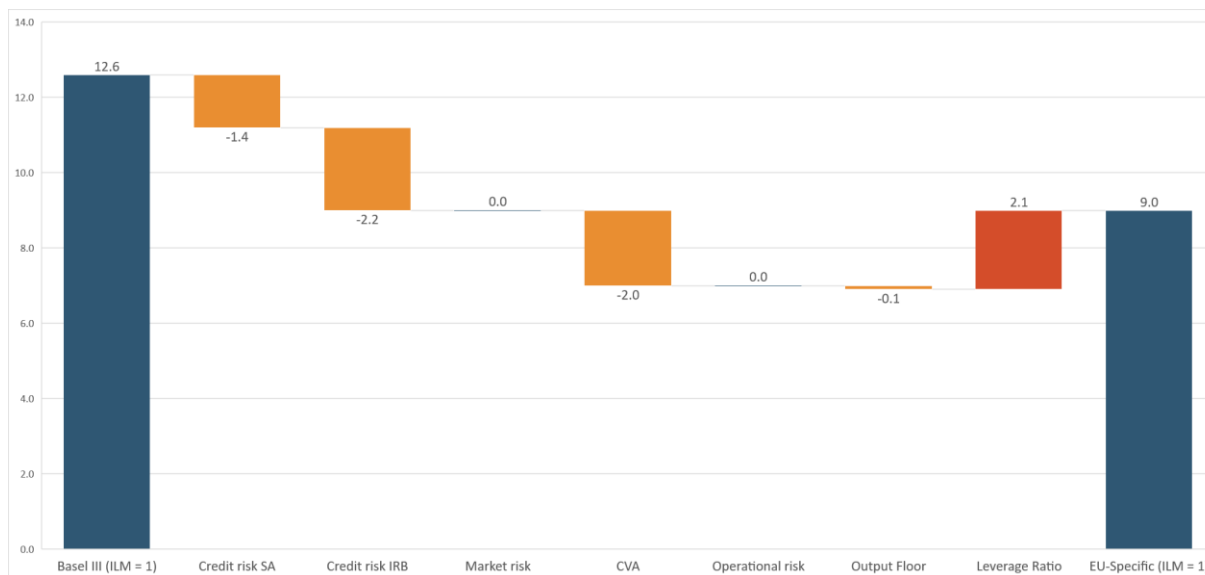
Source: EBA Basel III monitoring report (December 2022 reference date)

## EBA Basel III report (reference date 2022) - Results Implementation of the EU specificities



Also, the introduction of EU specificities that are foreseen in the CRR3/CRD 6 proposals will further alleviate the increase on bank's capital requirements mainly arising from the credit risk reform.

*Graph: Delta of the change in total T1 MRC, as a percentage of the overall current Tier 1 MRC, between the Basel III and the EU specific scenario (full implementation of Basel III (2033) considering P1, CCB and GSII buffers)*



Source: EBA Basel III monitoring report (December 2022 reference date) – Annex analysing the impact of EU specificities

## EBA Basel III report (reference date 2022) - Results

### Are banks ready? – Capital shortfalls



In terms of estimated capital shortfall, the comparison with previous reports shows a decreasing tendency with the impact of the reform being nearly fully absorbed as of December 2022. Only 2 (Group 2) banks in the sample show a capital shortfall.

EU specific  
implementation  
(with P2R and all  
buffers)

- Only 2 (Group 2) banks in the sample with shortfall.
- Decreasing tendency in shortfall levels, almost fully absorbed in Dec 2022:
  - ▶ CET 1 capital shortfall: EUR 0.3 billion (EUR 0.6 billion CET1 as of Dec-21 )
  - ▶ Tier 1 capital: EUR 0.7 billion (EUR 1.4 billion T1 as of Dec-21 )
  - ▶ Total capital: EUR 6.4 billion (EUR 10.1 billion TC as of Dec-21 )

Basel III pure  
implementation  
(P1, CCB and G-  
SII buffers only)

- CET 1 capital shortfall: EUR 0.2 billion (EUR 0.5 billion CET1 as of Dec-21 )
- Tier 1 capital: EUR 0.6 billion (EUR 1.2 billion T1 as of Dec-21 )
- Total capital: EUR 1.1 billion (EUR 1.7 billion T1 as of Dec-21 )



# Annex: Comparison between the Basel pure scenario and the EU scenario



Risk Area	Main report - Basel III (applying ILM = 1)	Annex analysis of EU specific adjustments - Basel III (applying ILM = 1) with EU adjustments
Credit Risk	<ul style="list-style-type: none"> <li>SA-CR: ECRA framework adopted</li> <li>SA-CR: loan-splitting method adopted on GRRE, GCRE, IPCRE + hard test</li> </ul>	<ul style="list-style-type: none"> <li>SA-CR: ECRA framework adopted</li> <li>SA-CR: loan-splitting method adopted on GRRE, GCRE, IPCRE + hard test</li> <li>SME supporting factor (SA and IRB)</li> <li>Infrastructure supporting factor (SA and IRB)</li> <li>CRR 3 EC proposal for equity (SA and IRB)</li> <li>SFTs Postponement of minimum haircut floors (SA and IRB)</li> <li>CRR3 Council proposal for trade finance CCFs (SA and IRB)</li> <li>CRR3 Council proposal for revaluation of Real Estate (SA only)</li> <li>CRR3 EC proposal for PSE and RGLA (IRB only)</li> </ul>
CVA	<ul style="list-style-type: none"> <li>Final CVA framework (July 2020)</li> <li>No CVA exemptions</li> <li>CVA simplified method (based on EUR 100 billion threshold)</li> </ul>	<ul style="list-style-type: none"> <li>Final CVA framework (July 2020)</li> <li>CVA exemptions</li> <li>CVA simplified method (based on OEM eligibility criteria)</li> </ul>
Transitional arrangements Output floor	<ul style="list-style-type: none"> <li>Output floor calibration (2023-2028)</li> </ul>	<ul style="list-style-type: none"> <li>Output floor calibration (2025-2030)</li> <li>CRR 3 Proposal transitional arrangements for unrated corporates</li> <li>CRR 3 Proposal transitional arrangements for Residential Real Estate exposures</li> <li>CRR 3 Proposal transitional arrangements for the SACCR Calibration</li> </ul>

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