



Banking Package (EIFR)

Alain Laurin, Associate Managing Director, FIG Team Paris

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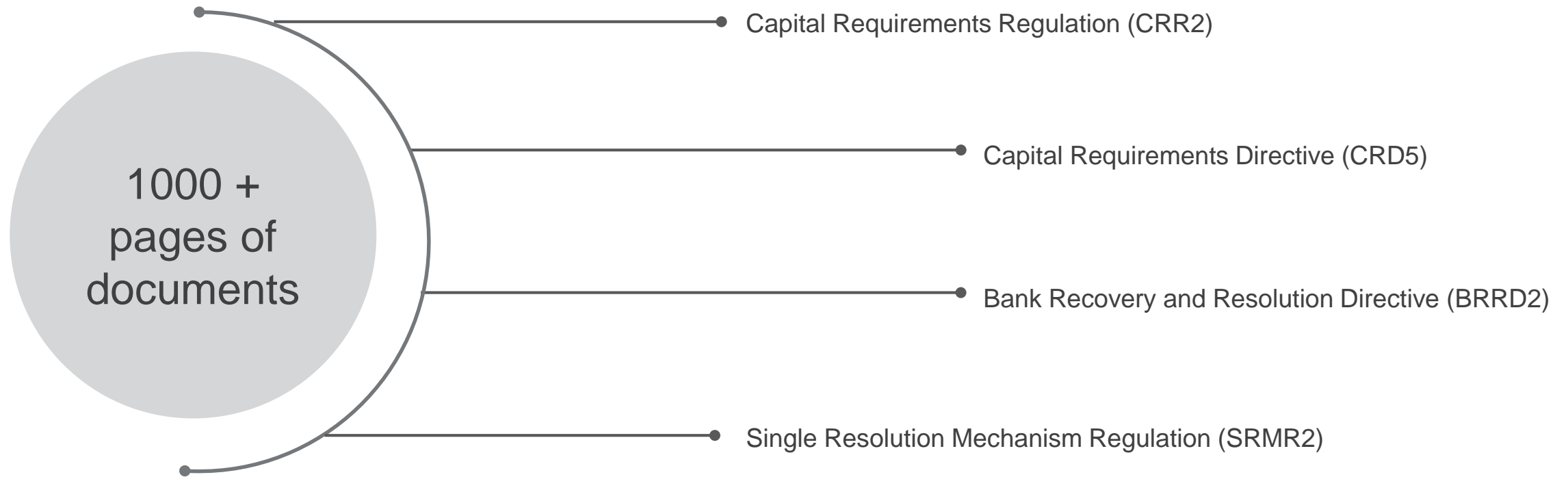
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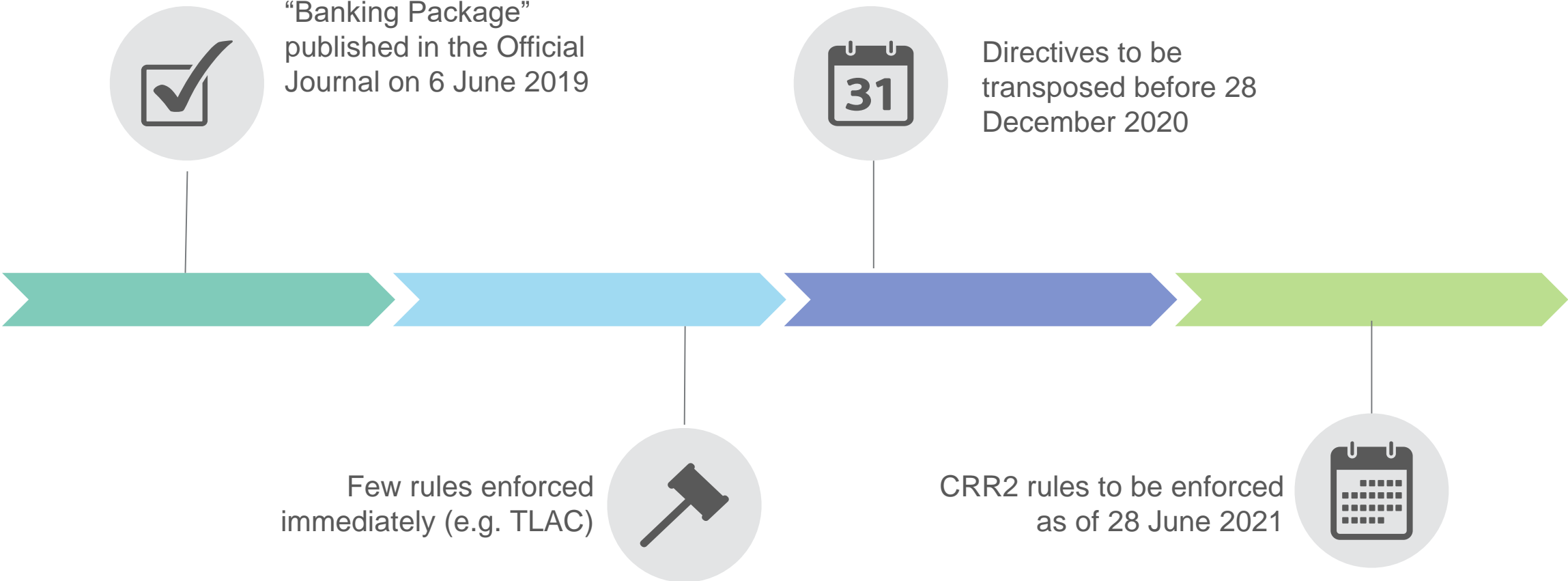
“Banking Package”

Banking package's scope



Other texts were “fast tracked” including new class of debt (SNP), IFRS 9, NPL.

Timetable



CRD 5



A Few Highlights

Macro prudential framework : institution-specific capital add-ons should not be used to address macro-prudential or systemic risks

Risk of excessive leverage should not amend the minimum risk-based ratio (CET1) ; should be addressed by increasing the leverage ratio requirement

Failure to repeatedly comply with P2G could result in additional capital requirement (P2R)

Supervisory authorities are invited to have AML/CFT included in their SREP

CRR 2 (I)



A Few Highlights

Leverage ratio set at 3% (add-on imposed on G-SIBs will not be applied to O-SIBs at this stage)

MREL : senior debt should be recognized to some extent in line with TLAC standards

Deductions of banks' investments in MREL/TLAC eligible assets

Large exposures of G-SIBs vis a vis other G-SIBs will be lowered (15%)

ESG : EBA tasked with a report on how supervisors should review and evaluate ESG risks

CRR 2 (II)



A Few Highlights

NSFR : consolidated and solo basis (unless waiver)

NSFR : calculation amended presumably to account for EU “specificities” (e.g. required stable funding “RSF” on repos / RSF on Level 1 HQLA are lowered)

NSFR : simplified framework for small banks (not less conservative)

NSFR : supervisory measures in case of breach should not be automatic

FRTB : banks will have to report the calculation of the revised standardized approach one year after the EBA has developed a template (end-2019) ; EC to submit a proposal on the EU market risk framework by 30 June 2020

CRR 2 (III)



A Few Highlights

- SME factor : exposures up to € 1,5 million currently gives a 23,8% RWA reduction ; SME exposures up to € 2.5 million will benefit from the same preferential treatment ; above €2,5 million -15% RWA reduction; impact will be material at many banks
- Investments in public infrastructures : lowered RWAs ; measure could be extended to private infrastructures based on EBA's review (to be completed in three years)
- P2G : disclosure is neither mandatory nor prohibited

BRRD 2 (I) : a few highlights

1

TLAC (on G-SIIs) is embedded into CRR to achieve harmonization and ensure appropriate implementation of bail-in rules across borders

2

Introduces the concept of “resolution entity/group” which will be required to hold sufficient loss absorbing and recapitalization capacity.

3

SPE : one entity is resolved and will involve internal MREL

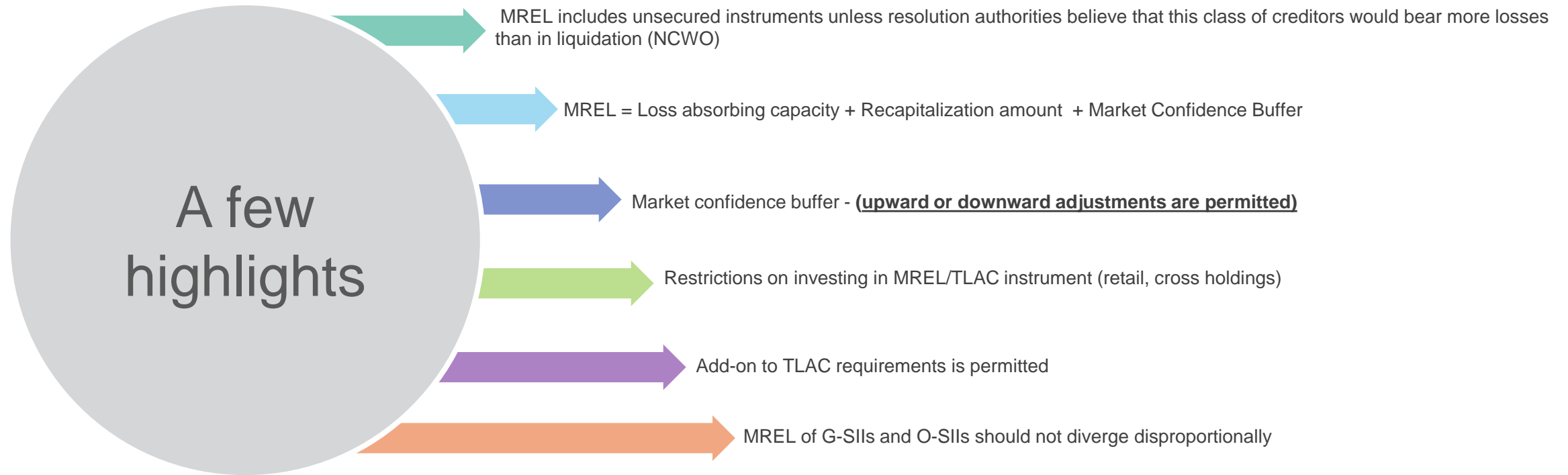
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MPE : more than one entity may be resolved (intra group funding will be limited)

5

MREL’s denominator is expressed as a percentage of total risk exposure

BRRD 2 (II)



BRRD 2 (III)



A few highlights

MREL waivers can be extended to non-resolution entities or requirement can be met with collateralized guarantees between parent and subsidiaries

Restrictions (e.g. dividends) could be considered where the combined requirement buffer (CBR) is breached

MREL requirements, level of eligible and bail-in able liabilities and the breakdown of those instruments should be reported to the public. Duration of moratorium limited to 2 days

Suspension of contractual obligations (moratorium) : up to two business days

Timetable : 18 months to transpose and apply from the date of entry of BRRD 2 (public disclosure on MREL from 1 January 2024)

2

NPL Regulatory Framework

What is its rationale ?

1

“Too little too late”

2

The need for a regulation is not obvious

3

IFRS 9 standard leaves room for interpretation

4

A « backstop » to accounting standards

5

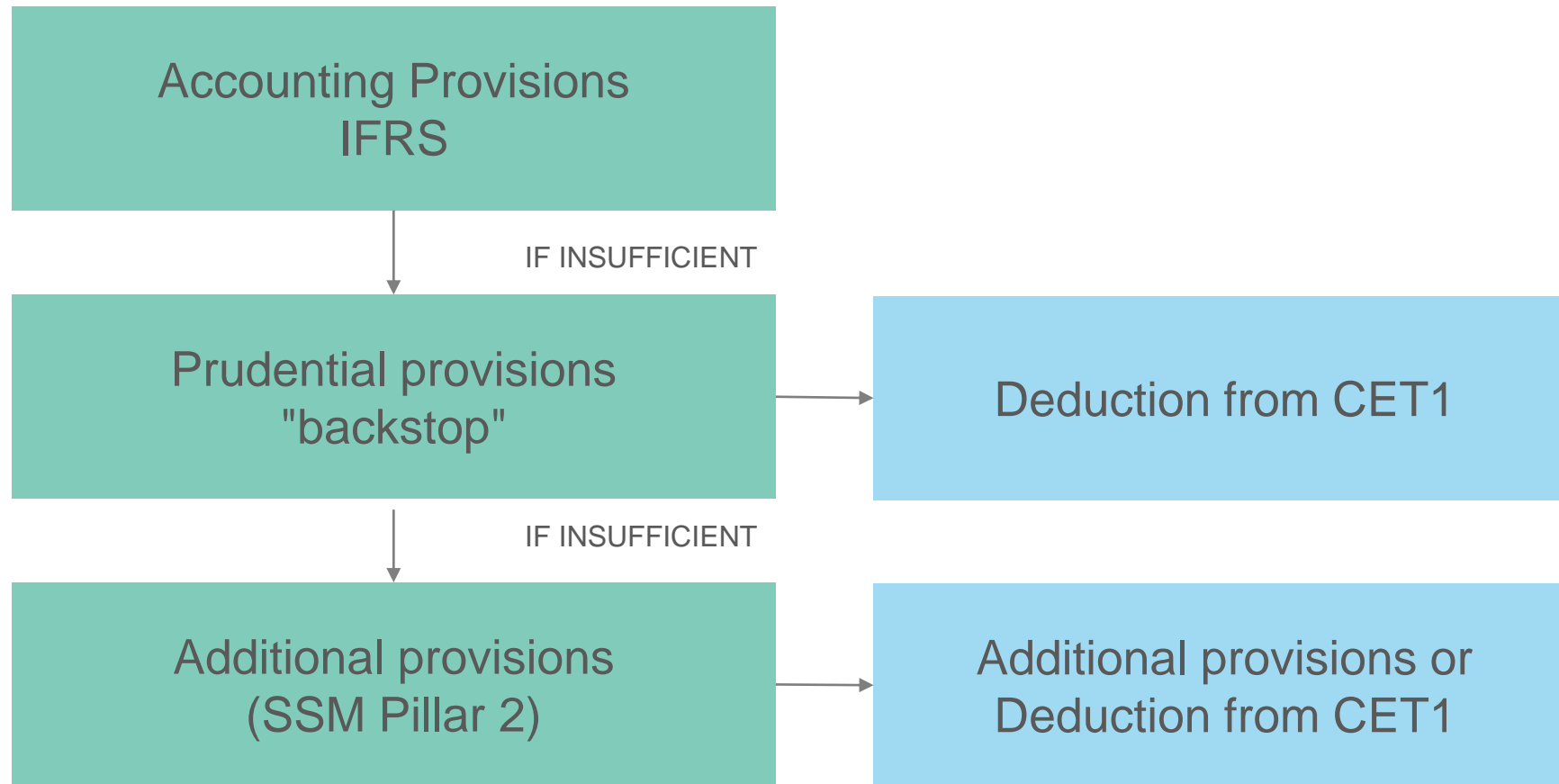
All EU banks will be subject to the same “standard”

Minimum Loss Coverage for NPLs

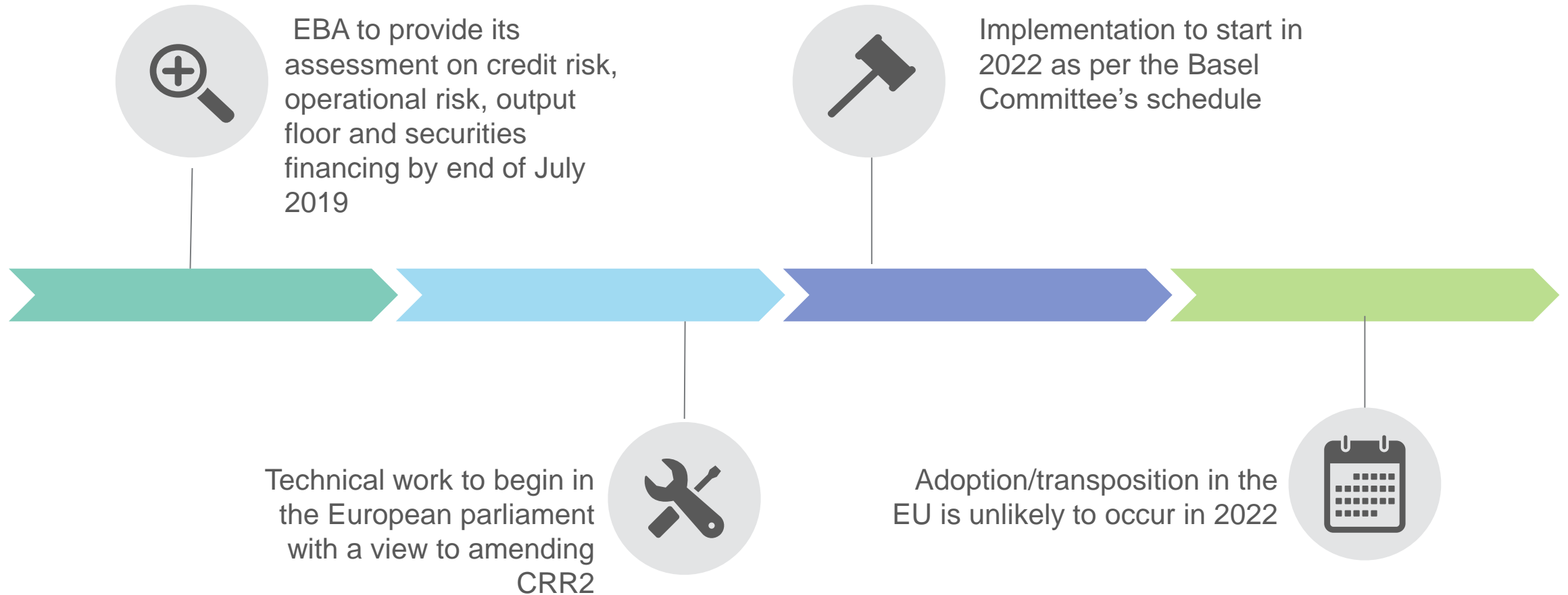
- 1 Legislation voted by the European Parliament/EU council
- 2 Schedules (unsecured/secured) are less demanding than originally planned
- 3 NPL regulation will not apply to outstanding loans
- 4 Implementation : effective immediately on new loans
- 5 ECB/SSM continues to rely on its guidance/addendum

NPL/minimum provisioning requirement

Process



Conclusion : Basel “IV” is to be transposed



Nick Hill
nick.hill@moodys.com
+33.1.5330.1029

Alain Laurin
alain.laurin@moodys.com
+33.1.5330.1059

Guy Combet
guy.combet@moodys.com
+33.1.5330.5981

Guillaume Lucien-Baugas
guillaume.lucien-baugas@moodys.com
+33.1.5330.3350

Laurent Le Mouel
laurent.lemouel@moodys.com
+33.1.5330.3340

Fabio Ianno
fabio.ianno@moodys.com
+33.1.5330.3356

Yasuko Nakamura
yasuko.nakamura@moodys.com
+33.1.5330.1030

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