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Banking Package (EIFR)

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“Banking Package”

Banking package's scope

1000 + pages of documents

- Capital Requirements Regulation (CRR2)
- Capital Requirements Directive (CRD5)
- Bank Recovery and Resolution Directive (BRRD2)
- Single Resolution Mechanism Regulation (SRMR2)

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

Timetable

“Banking Package” published in the Official Journal on 6 June 2019

Few rules enforced immediately (e.g. TLAC)

Directives to be transposed before 28 December 2020

CRR2 rules to be enforced as of 28 June 2021

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-SIIs 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
4. 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)

A few highlights

- MREL includes unsecured instruments unless resolution authorities believe that this class of creditors would bear more losses than in liquidation (NCWO)
- MREL = Loss absorbing capacity + Recapitalization amount + Market Confidence Buffer
- Market confidence buffer - **(upward or downward adjustments are permitted)**
- Restrictions on investing in MREL/TLAC instrument (retail, cross holdings)
- Add-on to TLAC requirements is permitted
- MREL of G-SIIs and O-SIIs should not diverge disproportionally

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)

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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

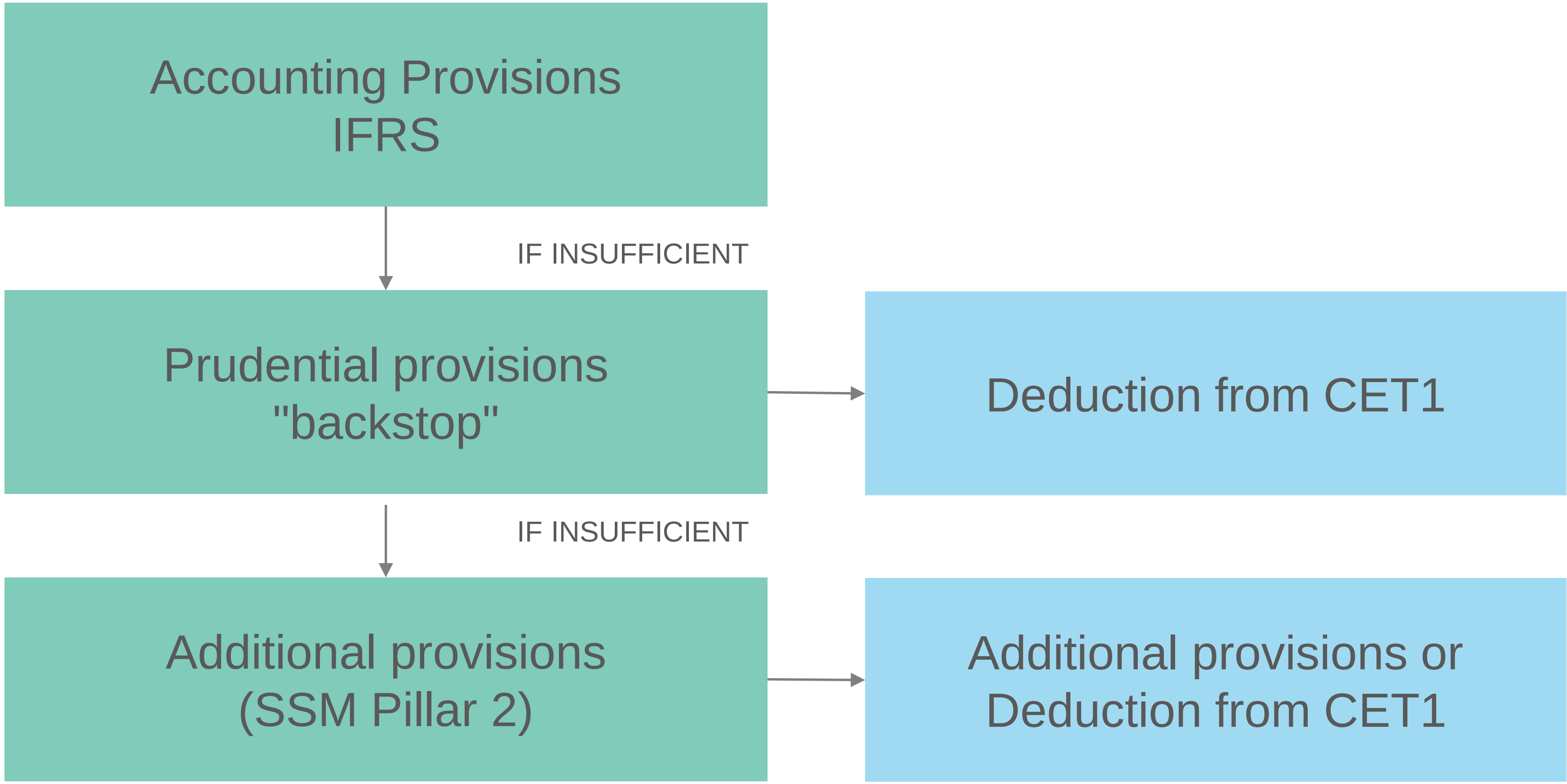
5 All EU banks will be subject to the same “standard”

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

EBA to provide its assessment on credit risk, operational risk, output floor and securities financing by end of July 2019

Technical work to begin in the European parliament with a view to amending CRR2

Implementation to start in 2022 as per the Basel Committee's schedule

Adoption/transposition in the EU is unlikely to occur in 2022

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