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SUPERVISION AND REGULATION FROM THE PERSPECTIVE OF EUROPEAN REGULATOR: LESSONS LEARNT and NEW VISION

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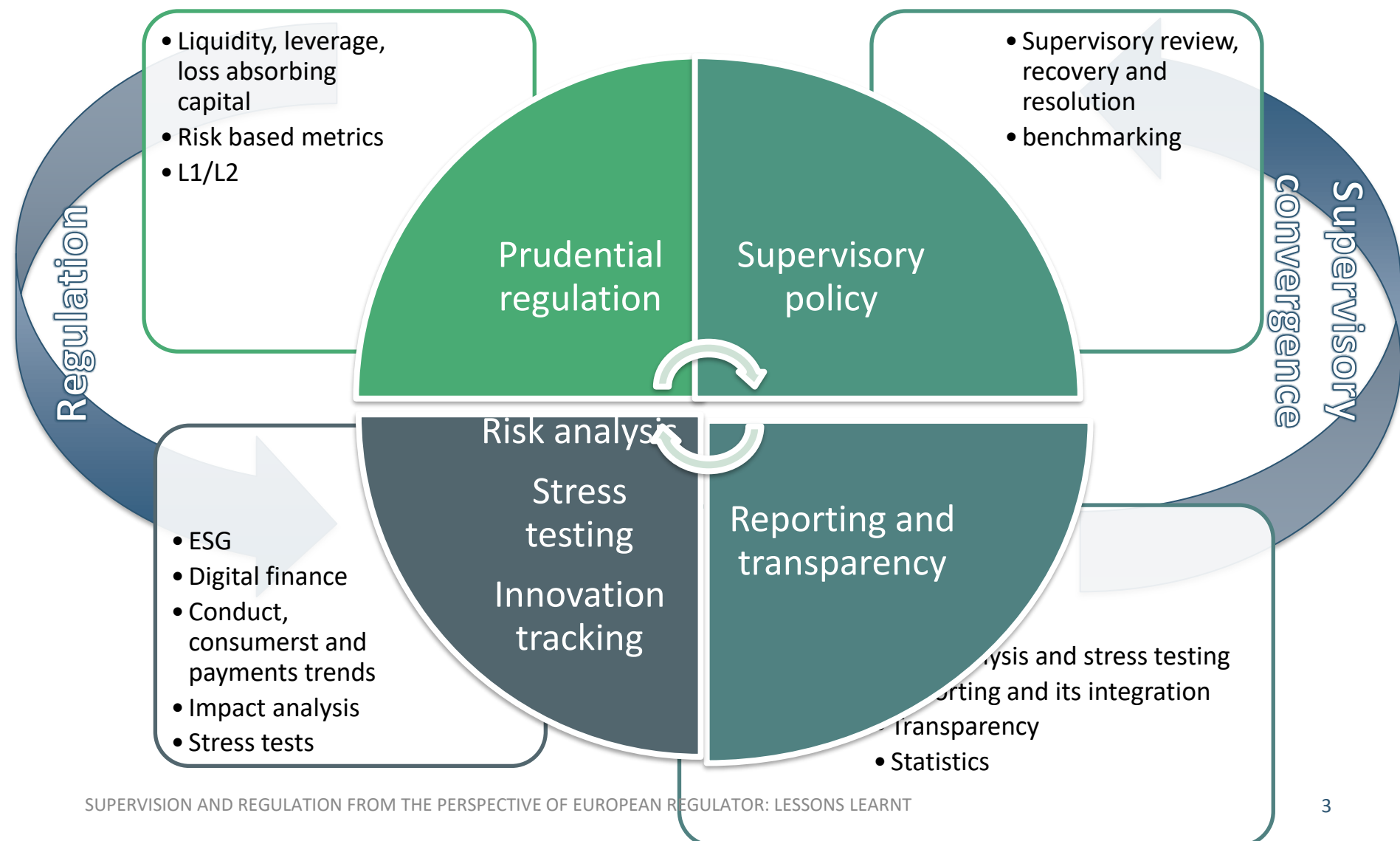
AERF SEMINAR ON SUPERVISORY IMPACTS ON REGULATION
10 January 2023

P1/ P2 lessons learnt from experience and new vision :

3 main topics and new balances to reach

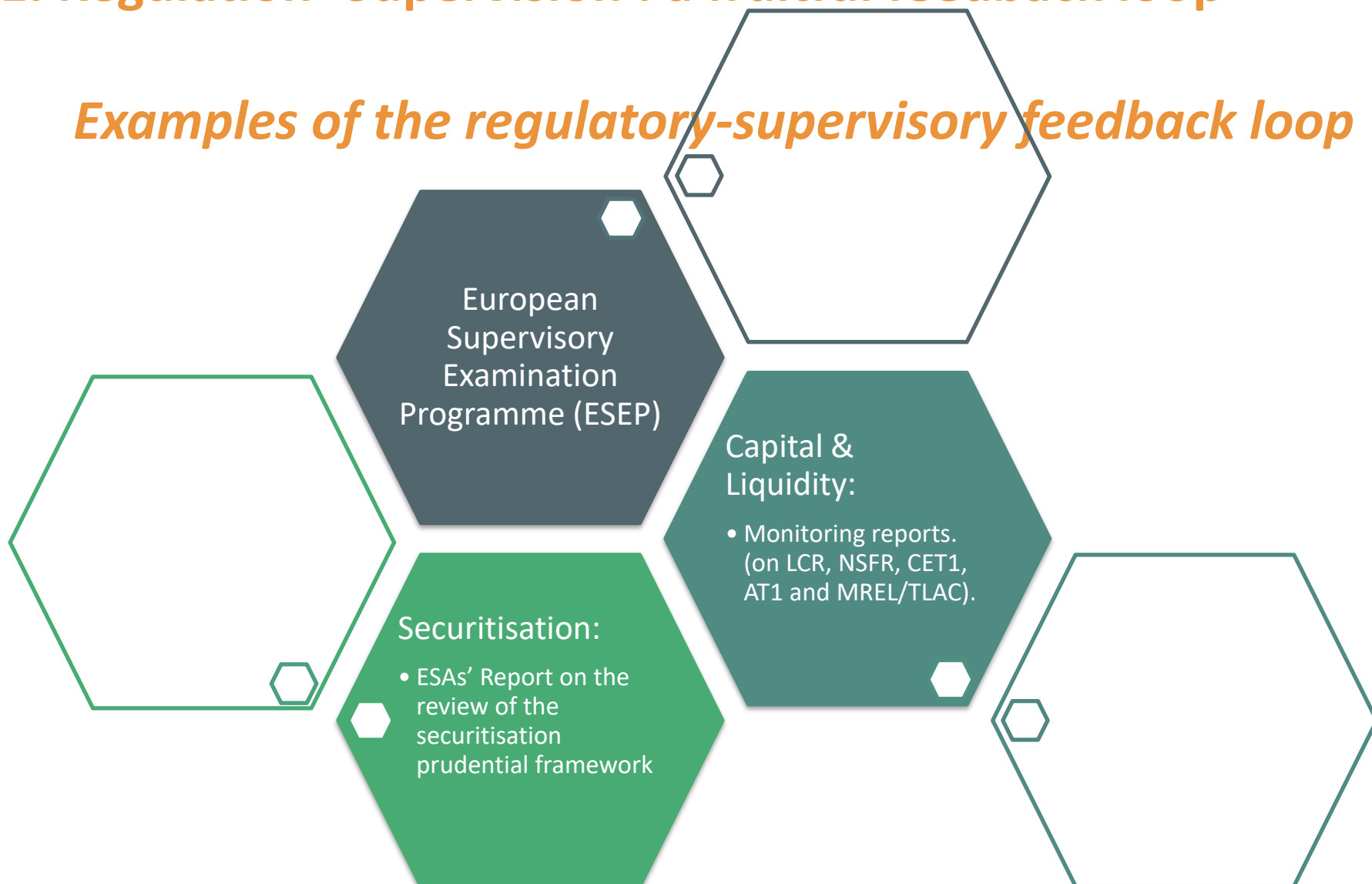
1. Enhancing pillar 1: the benefits of the regulatory-supervisory loop
2. Balancing P1-P2 : reconsidering respective roles and interactions
3. A new vision : taking the benefits of the banking union and 10 years of ST experience

1. Regulation- Supervision : a fruitful feedback loop



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Examples of the regulatory-supervisory feedback loop



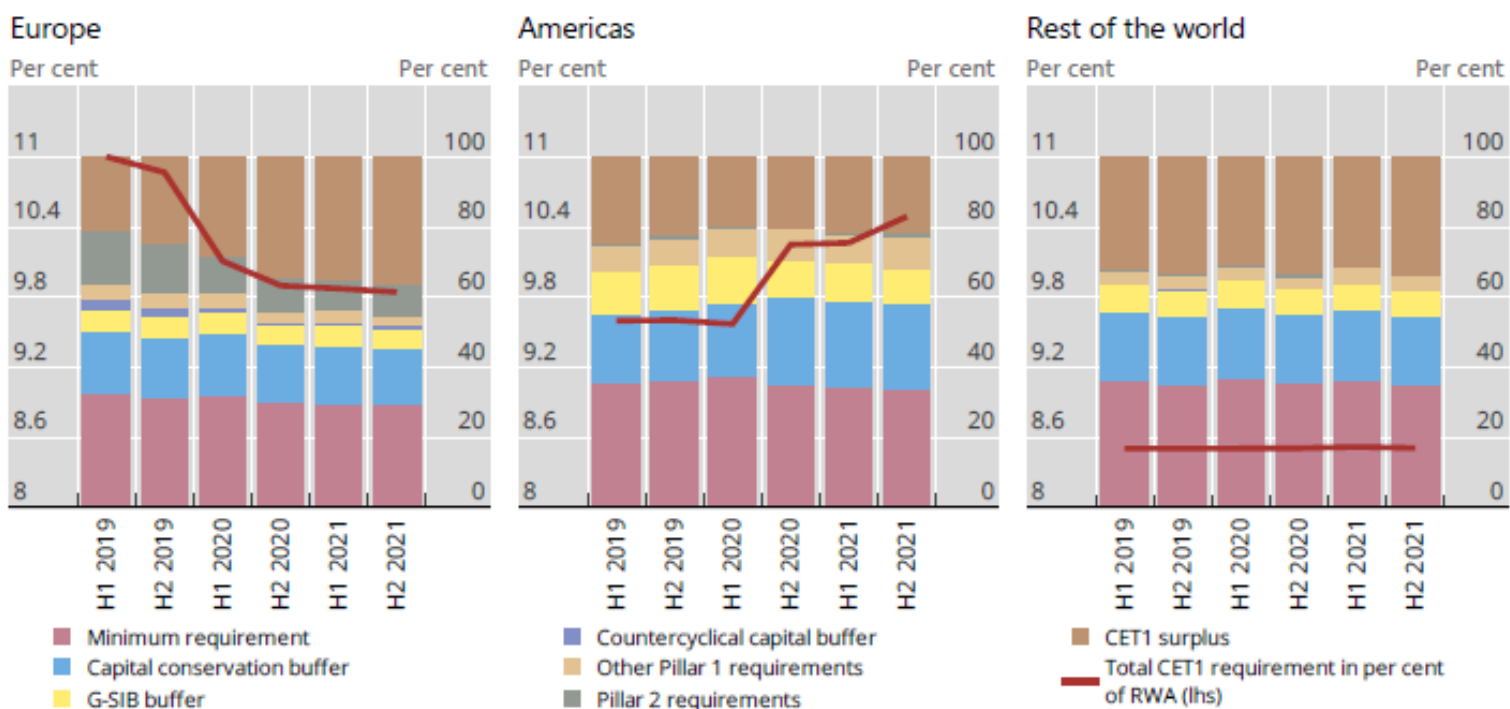
2. Balancing P1-P2 : Reconsidering respective roles and interactions

Robustness in Capital and liquidity could not help enough

Evolution of CET1 stack in percent of CET1 capital held and total CET1 requirement

Group 1 banks by region, balanced data set

Graph 3



Source: Basel Committee on Banking Supervision. See the Excel data file for underlying data and sample size.

- The red lines (lhs) show the evolution of CET1 requirements.

- The bars (rhs) show the average share of CET1 capital held to fulfil the various requirements. The brown part of the bars represents surplus capital (~35% in the EU).

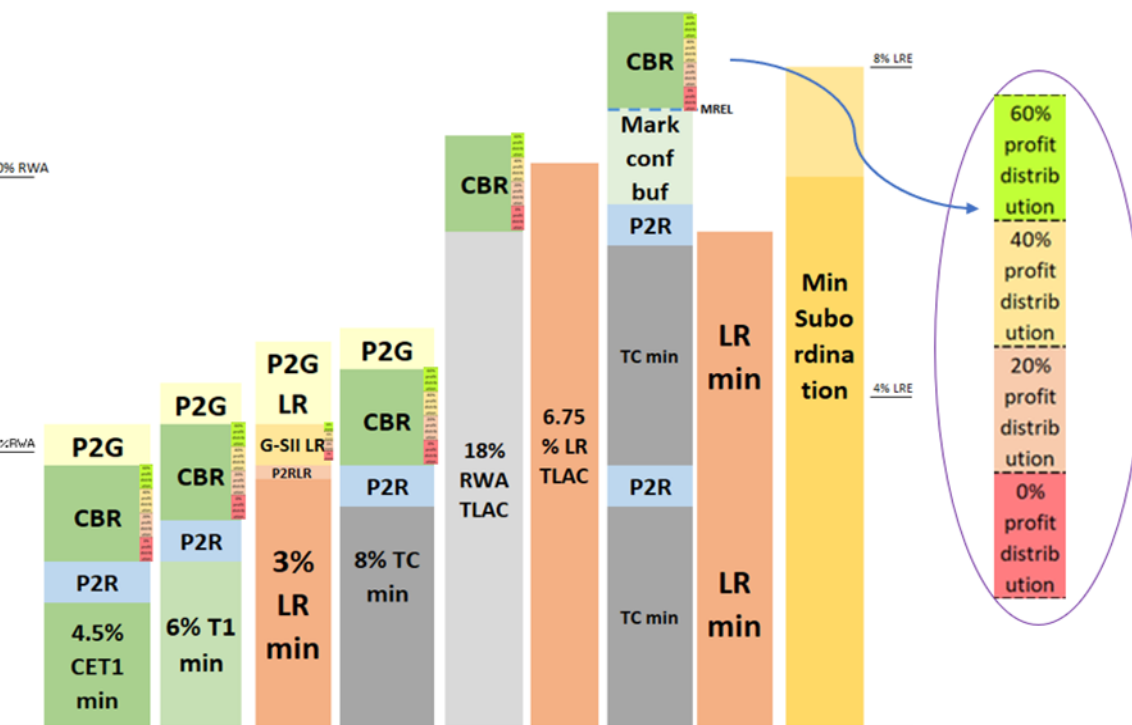
- Release/reduction during Covid of CCyB and CET1 denominated P2R in Europe. 5

2. Balancing P1-P2 :

Reconsidering respective roles and interactions 2-

Continuous turbulence challenges

EU stacking order (illustration) and buffers usability

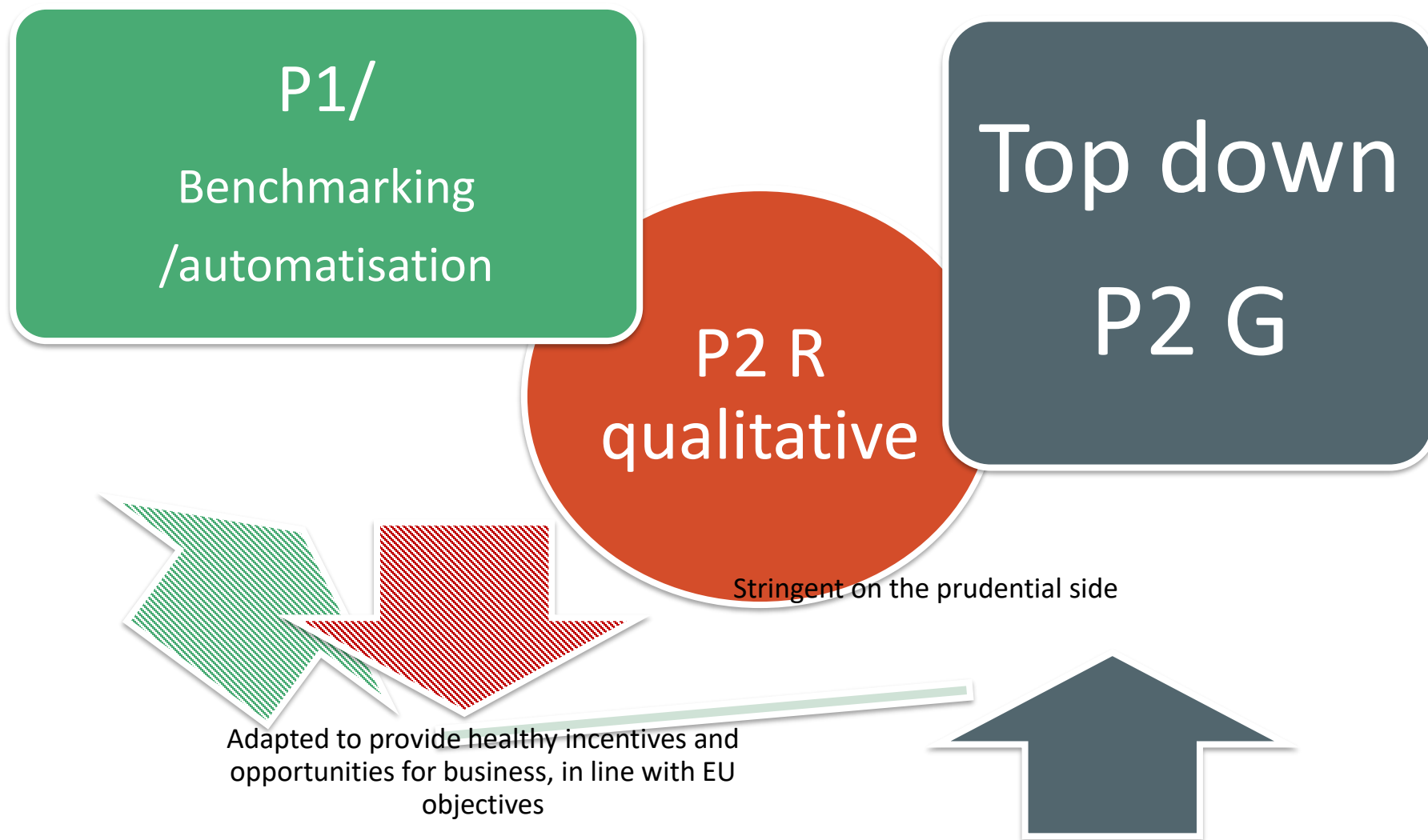


- 6 stacks have MDA triggers in their buffer requirements part. Many components can influence buffer headroom.
- For example the density ratio (which is relatively low for EU banks meaning the LR stack is high), or the P2 requirement.

	T1 ratio	LR	Density ratio	P2R(T1)
Mean 8 EU G-SIs	15.7%	4.8%	30.8%	1.3%
Median 117 O-SIs	17.7%	6.5%	39.0%	1.5%
Mean 117 O-SIs	17.0%	5.7%	33.2%	1.4%

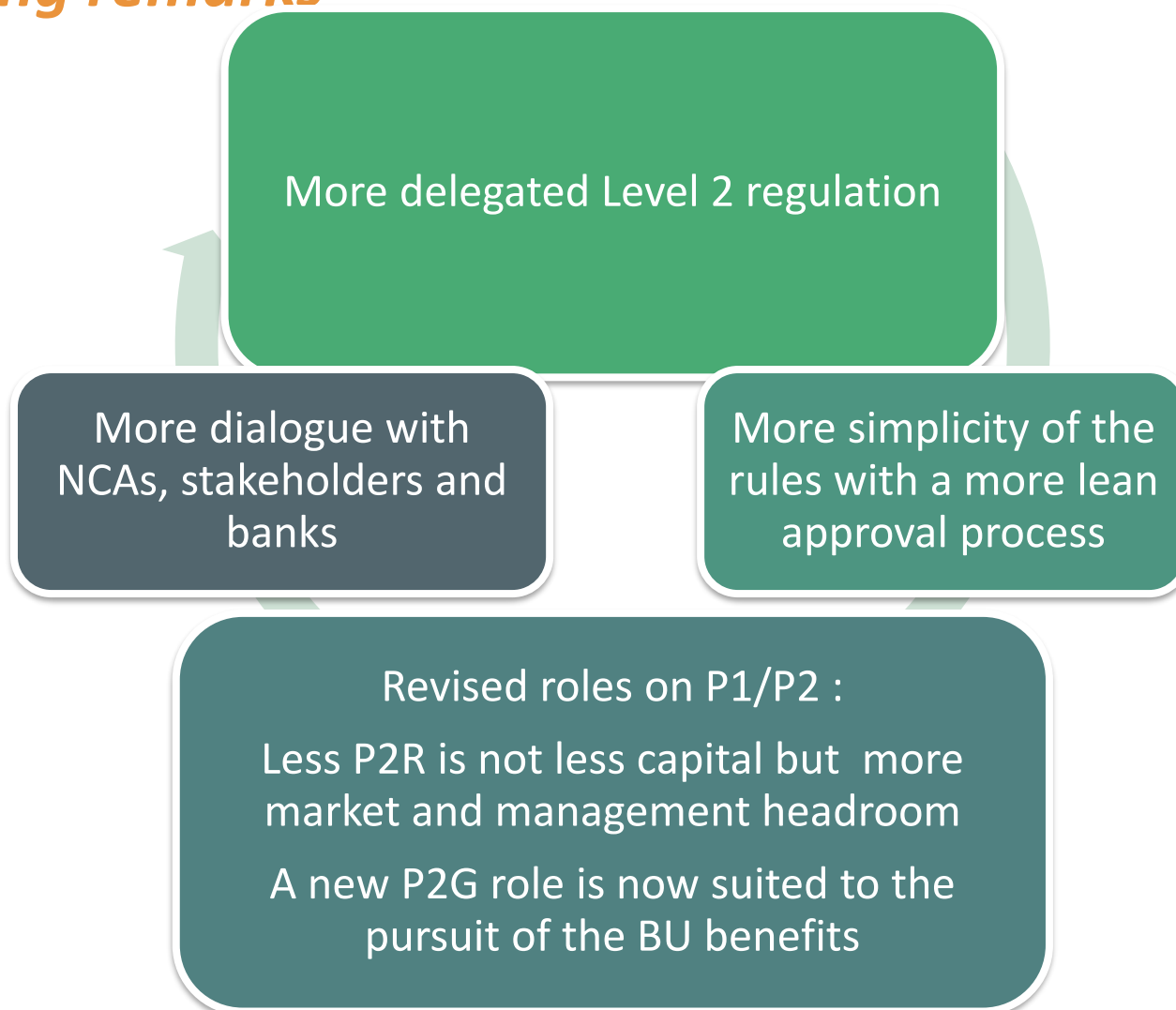
- Also, the countercyclical buffer, systemic risk buffer, O-SII and MREL decisions affect the relative importance of stacks.
- Further, the P2G (typically between 1% and 2%), based on stress testing, is a recommendation that can influence the perception of usability.

3. A new vision : taking the benefits of the banking union and 10 years of ST experience



3. A new vision : taking the benefits of the banking union and 10 years of ST experience

Closing remarks



P1/ P2 lessons learnt from experience and new vision

Annexes

ANNEX

Securitisation: ESAs Response to the Call for Advice on the review of the securitisation prudential framework (published 12 December 2022)

Assessment of the securitisation market trends:

- The **capital and liquidity framework** are **not the key obstacles** to the revival of the securitisation market in EU
- There are **other factors** (i.e. **lacking investor base** and **funding needs to originate securitisation**)
- **Compliance with Basel** is a key issue
- Any changes to the capital framework may have a limited impact on revival of securitisation market. **SRT market – in particular STS synthetic market – is an exception**

EBA proposals:

- **Liquidity framework** and eligibility criteria to be categorized as Level 2B of HQLA) **should be kept unchanged**
- **Capital framework could be improved by:**
 - **Technical fixes** to the prudential framework to improve its clarity
 - **Targeted recommendations – with appropriate safeguards** – to improve risk sensitiveness of the framework **for SRT market, by recognising the reduced model and agency risk associated to originators, to stimulate the origination of securitisation by credit institutions.**

ANNEX Liquidity and Capital monitoring reports



ANNEX Enhancing supervisory convergence: ESEP: European Supervisory Examination Programme

- Enhance supervisory convergence in the context of SREP
- Provides common directions and focus areas for EU supervisors
- Helps shape prudential supervisory priorities and practices

Role

- Macroeconomic and geopolitical risks
- Operational and financial resilience
- Transition risks towards sustainability and digitalisation
- Money-laundering and terrorist financing (ML/TF) risks in the supervisory review and evaluation process (SREP) and internal controls/governance

Priorities 2023

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