



REGULATORY DEVELOPMENTS

EUROPEAN UNION, BANKING UNION AND BEYOND

Associates Meeting 17 December 2015





EU Regulatory Change since 2007

- Enhanced supervision (ESAs/SSM)
- More and better capital and liquidity (CRD/CRR)
- Ending Too Big To Fail (BRRD, SRM)
- Greater responsibility for market operators (CSDR, AIFMD, UCITS)
- Market transparency/discipline (MIFID/R, MAD/R, Short Selling)
- Robust framework for complex financial instruments (EMIR)
- Increased consumer/investor protection
(DGSD, PRIIPS, MIFID2)

EU Secondary Legislation

- Over 100 Technical Standards for banking and financial regulation (EBA, EIOPA and ESMA)
- Plus supplementary guidelines and reports
- Commission delegated acts



More Resilient EU Banking Sector

- AQR/Stress Test Results positive
- Capital and liquidity fully loaded
- Strengthened governance and supervision
- ECB credible Single Supervisor
- Single Resolution Board and Single Resolution Fund breaking the link between sovereigns and banks



Banking Union priorities going forward

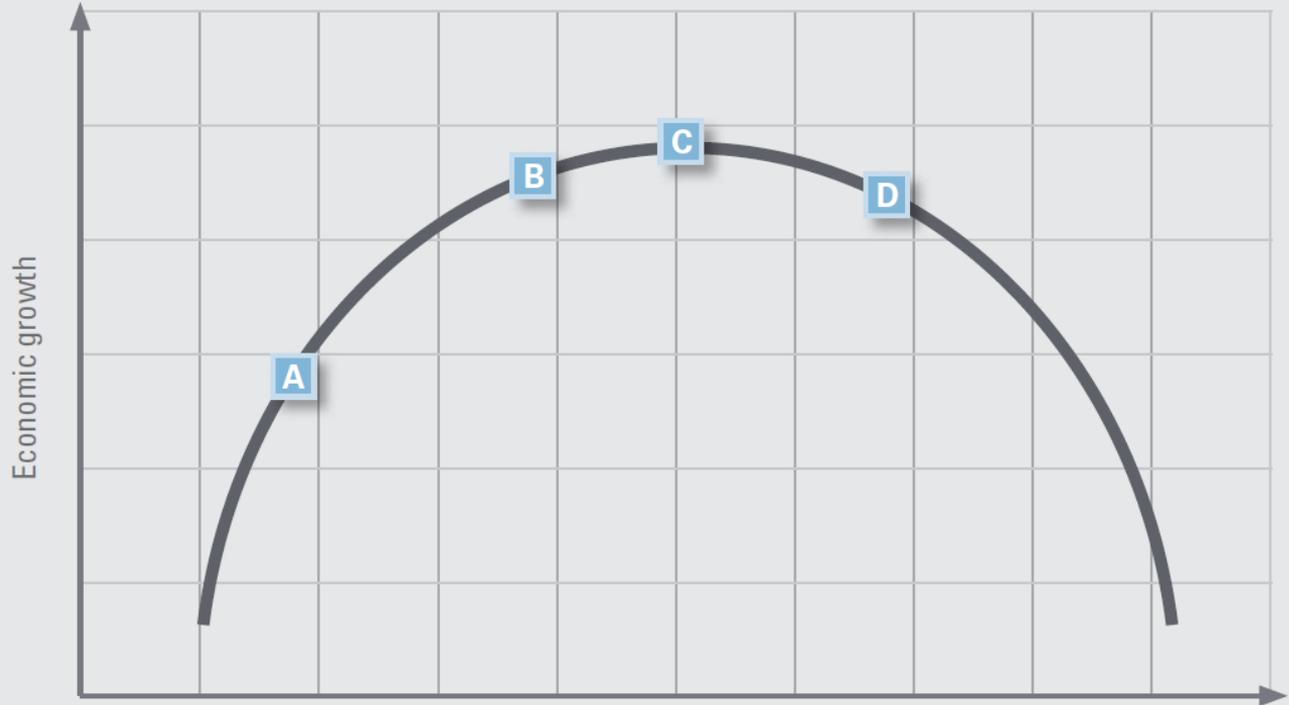
- Viability and resolvability of banks (SREP)
- Non-performing loan exposures
- National Discretions
- Next EU-wide stress test
- Strategic review of Basel capital framework
- Implementing BRRD
 - Resolution Plans
 - Bail-in (MREL/TLAC) / Resolution Funding

PRIORITIES

- 1.
- 2.
- 3.



Regulation vs Economic Growth



Source: KPMG International, May 2013.

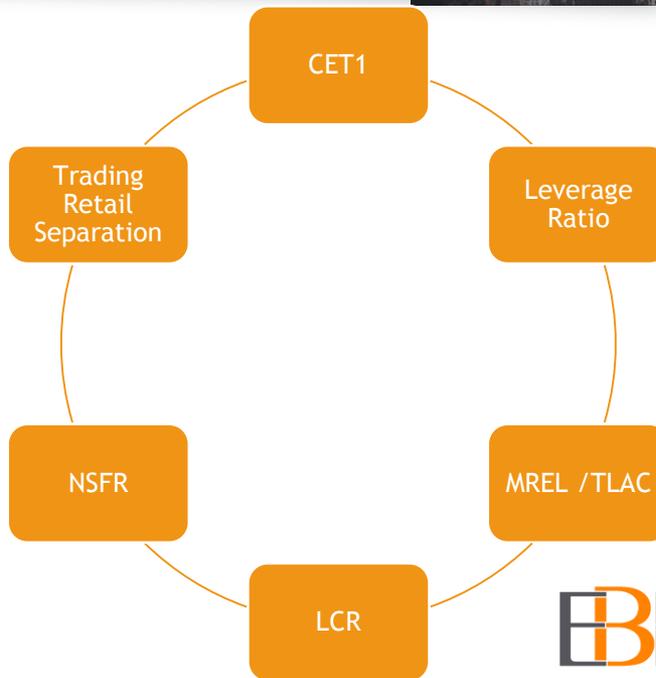
Regulation



Adaption of the balance sheet

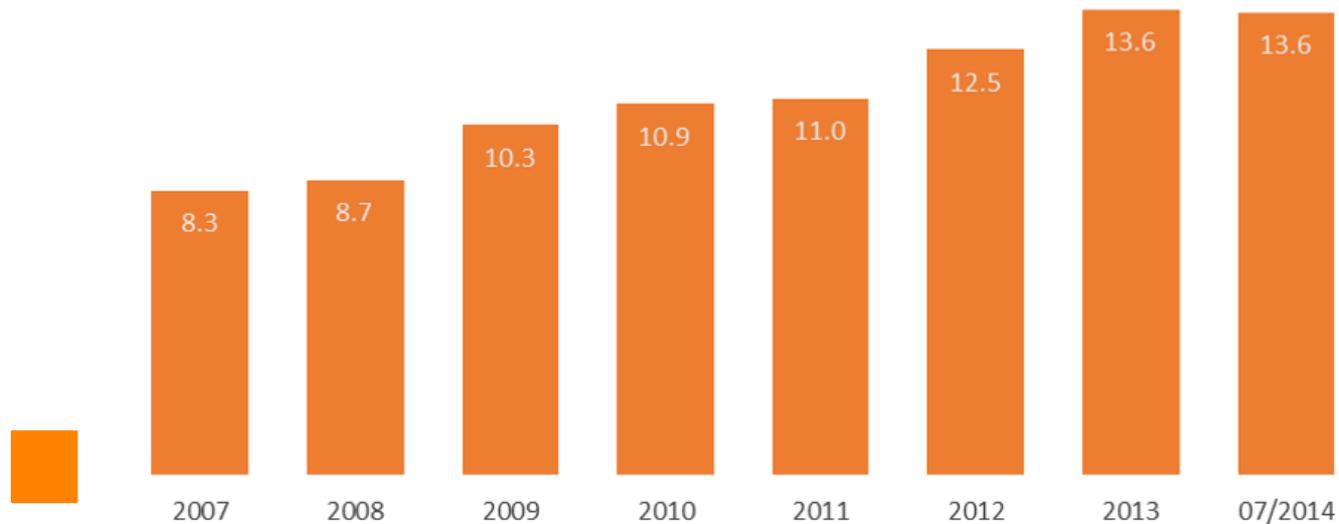


- Derisking and downsizing
- Reduce short-term funding
- Replace low-yielding investments
- Balance sheet optimisation

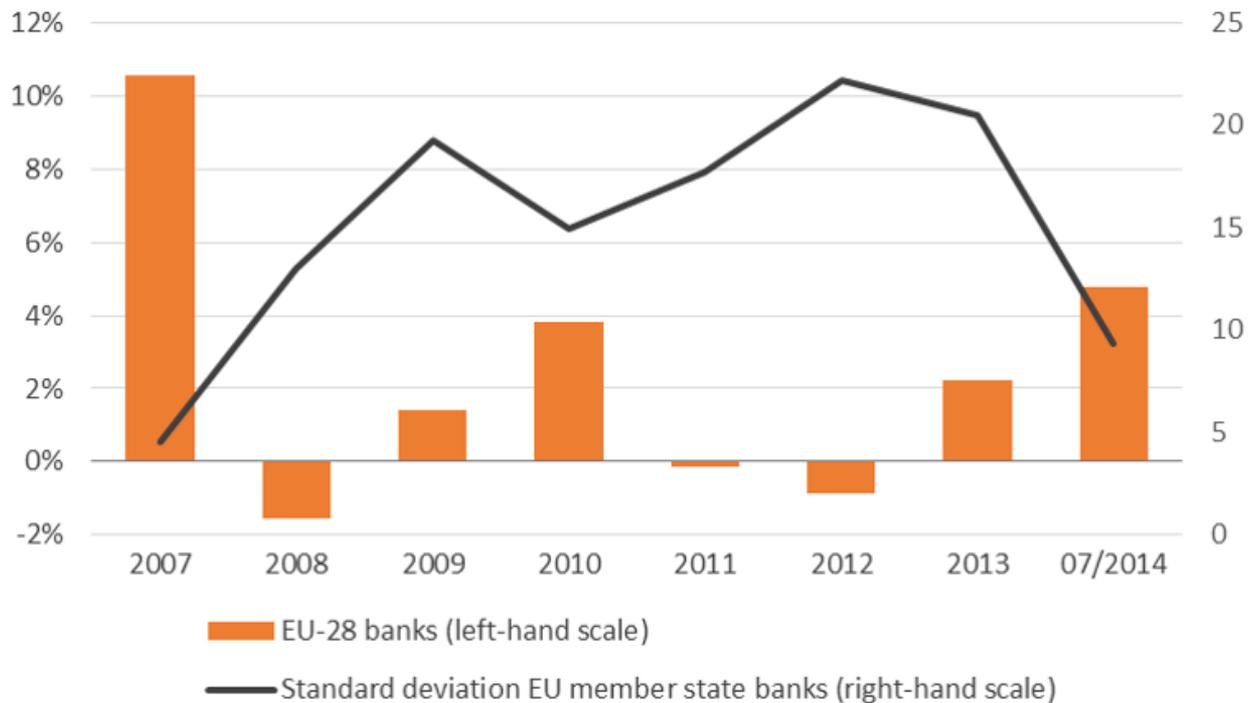


Tier 1 Capital Ratio – fully loaded

EU-28, %



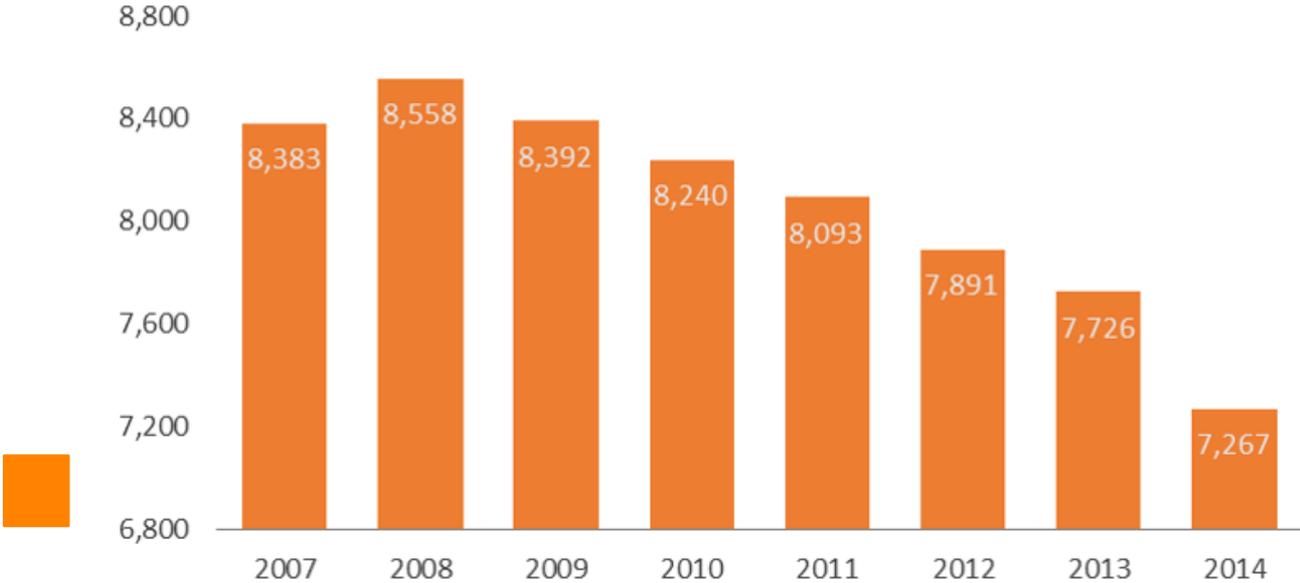
Subdued Returns on Equity



Contraction of Banking Licenses

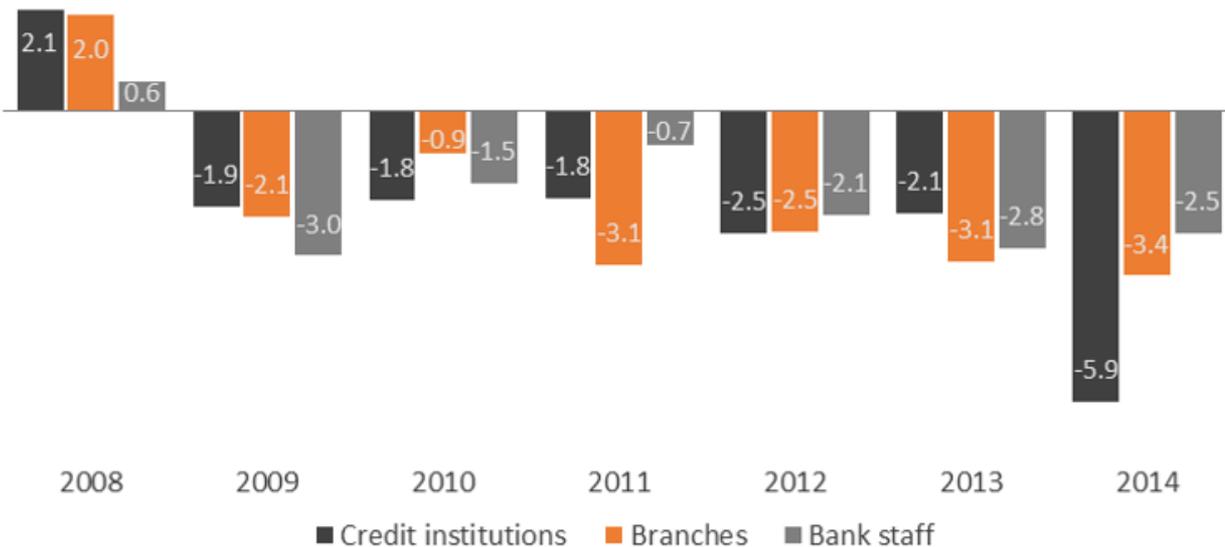
Total number of credit institutions

EU-28



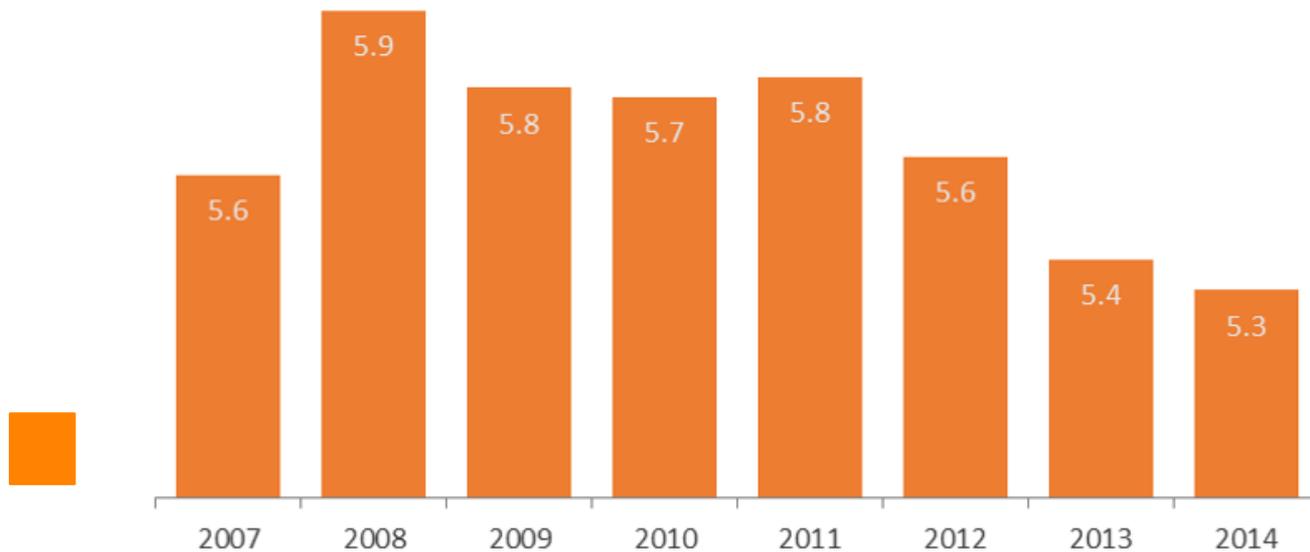
Banks are slimming down

Growth rates of total numbers
EU-28, %



Decline of credit supply to corporates

Loans to non-financial corporations
EU-27, € trillion



New Commission Agenda

- Jobs and Growth
- Better Regulation
- Proportionality
- Long term financing
- Capital Markets Union
- Digital Economy



Outstanding EU Banking Reform

- Banking Structural Reform
- Completing Banking Union – Single Deposit Insurance
- SME Supporting Factor
- Net Stable Funding Ratio (legislative proposal 2016)
- Financial Transaction Tax
- CCP Resolution
- Reporting and transparency of securities financing transactions
- Indices used as benchmarks in financial instruments and financial contracts
- Money Market Funds
- Implementing TLAC





BANK FOR INTERNATIONAL SETTLEMENTS



FINANCIAL
STABILITY
BOARD

Remaining International Reform Agenda

- Net Stable Funding Ratio (NSFR) and Leverage Ratio calibration
- Fundamental Review of the Trading Book /Credit Valuation Adjustment
- Total Loss Absorbing Capacity (TLAC)
- Supplementary Leverage Ratio
- Interest Rate Risk in the Banking Book
- Review of internal model-based approach (IRB) simplicity v complexity
- Revision of Standardised Approach (Credit Risk)
- Revisions to the Operational Risk framework
- Capital Floors
- Sovereign Risk

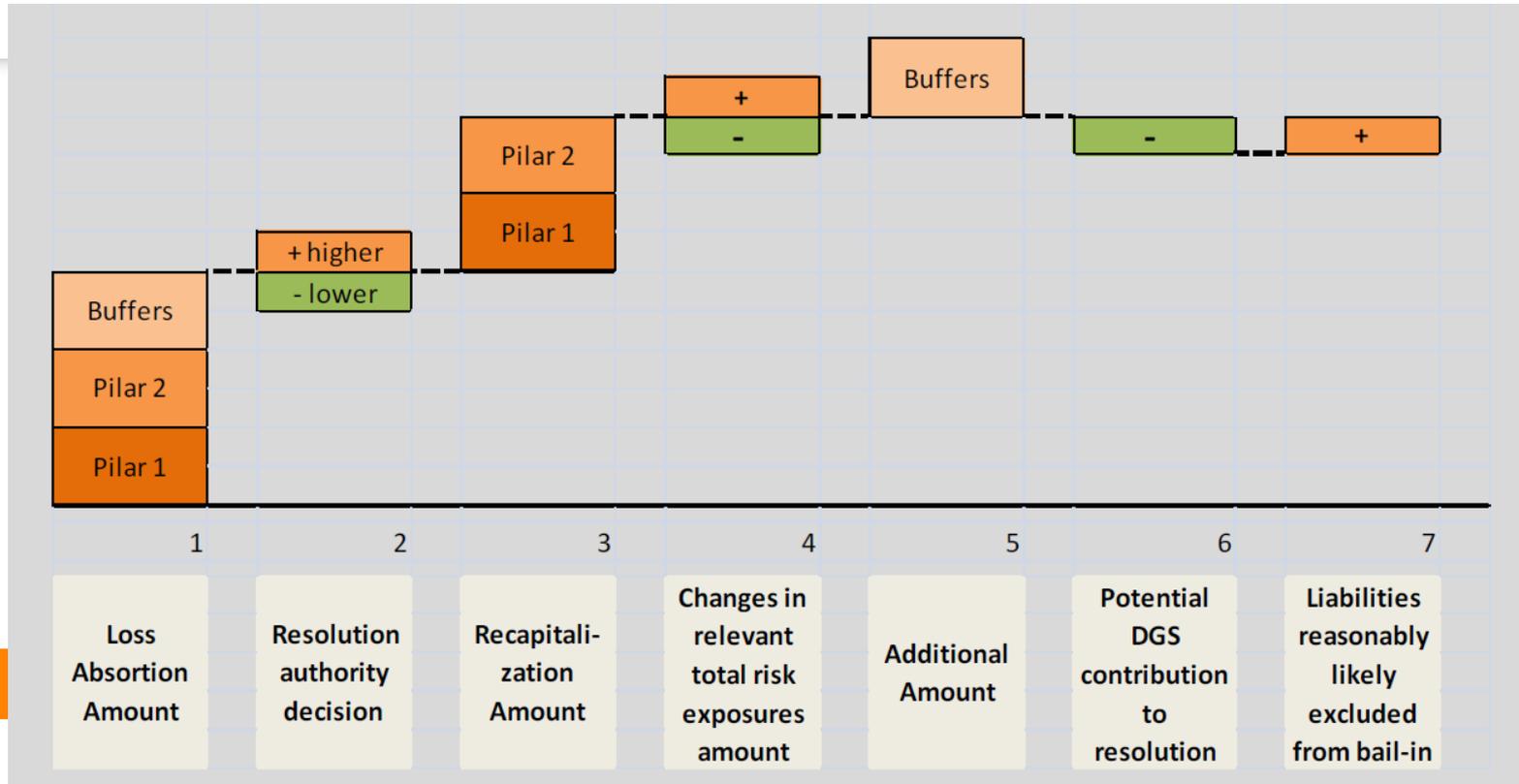
TLAC vs MREL



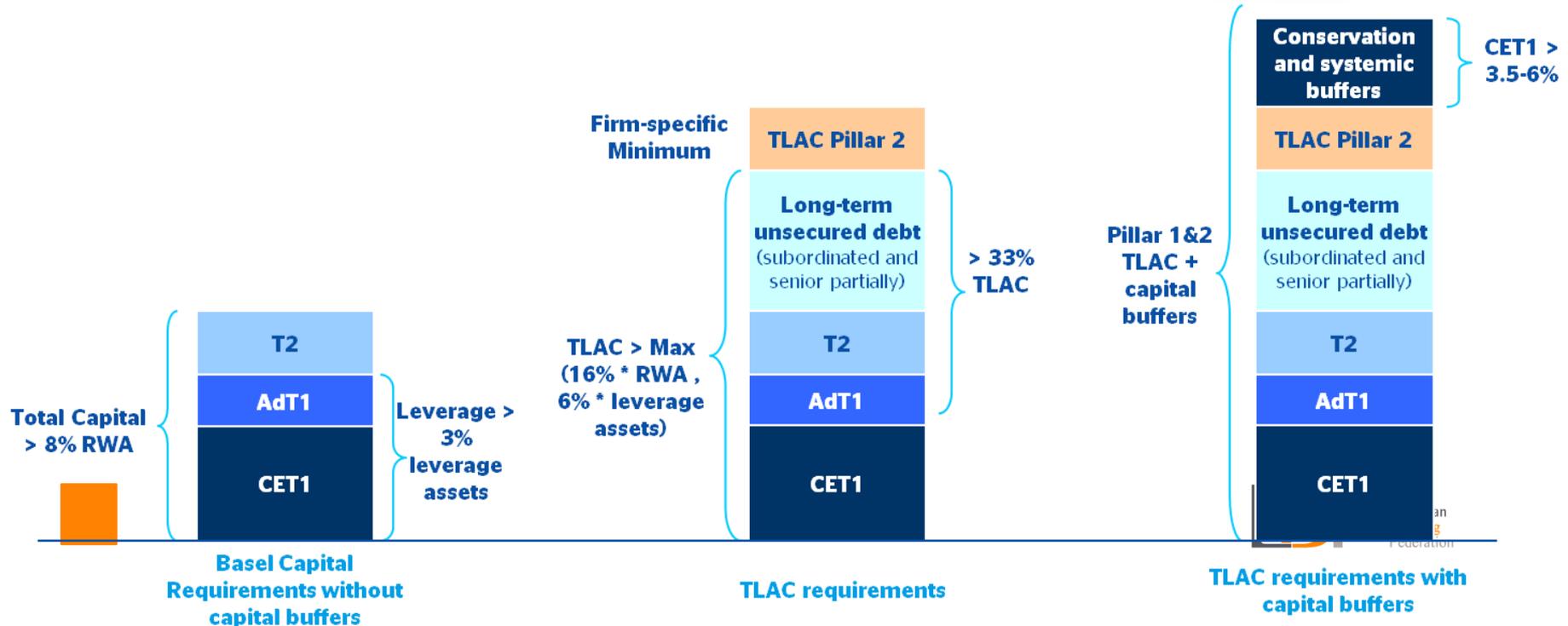
	TLAC	MREL
Scope	G-SIBs	All banks
Composition	Regulatory capital (no buffers) Subordinated debt 2.5/3.5 % of RWA in non subordinated debt accepted	Regulatory capital + combined buffers Bail-inable debt No subordination requirement
Calibration	Pillar1 16/18% RWA; buffers “sit on top” Leverage Ratio = 6 /6.75% +Pillar 2 add on	Case-by-case approach based on each bank’s characteristics: resolvability assessment; Recognition of restructuring=less recapitalisation
Prepositioning	75-90% internal TLAC	No prepositioning in BRRD
Entry into force	1 January 2019 / 1 January 2022	2016 Phase-in period 4 years



Calculation of MREL (draft RTS)

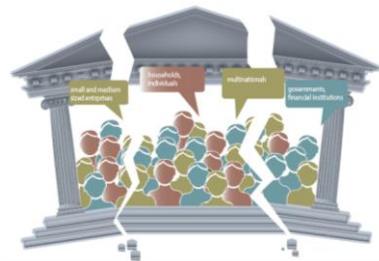


How TLAC fits in capital structure





IT'S ALL ABOUT THE EUROPEAN ECONOMY



BSR Latest State of Play

- Council is ready for Trilgoues (General Approach 19 June) and Luxembourg Presidency has taken over the mandate to negotiate



- EPP and S&D Rapporteurs trying to pick up the pieces after the failed ECON Vote (26 May) but struggling to find compromises on automaticity and metrics

- EBF finalised its position on Council General Approach, mobilising European industry to defend Universal Banks and seeking engagement with S&D on scope, metrics and automaticity

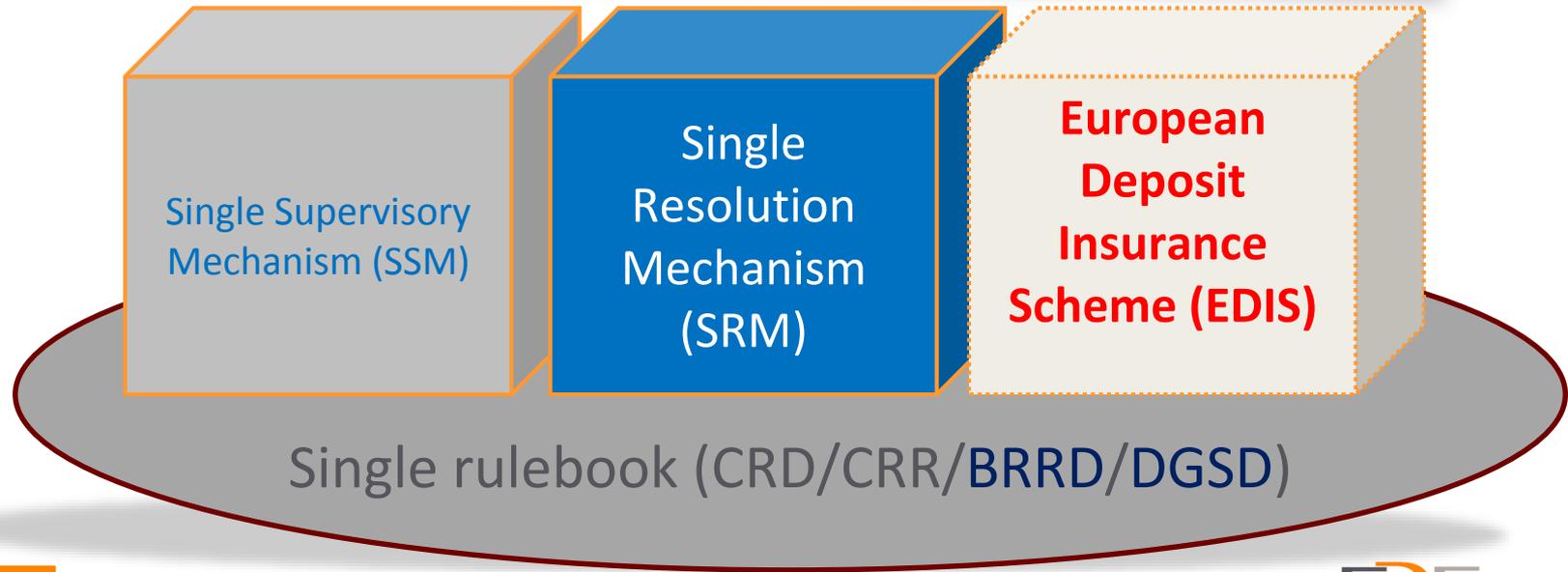




Council General Approach (GA)

- Regulation to strengthen financial stability by safeguarding deposit-taking business of EU G-SIBs from risky trading activities
- Entities allocated in two tiers on basis of €100bn threshold of trading activities and will be subject to:
 - Differentiated reporting requirements, more granular risk assessment for Tier 2 entities
 - Proportional supervisory actions including separation, capital add-on's and other measures
- Mandatory separation of proprietary trading instead of a ban / Exemption of sovereigns has been maintained but with review clause

BSR Latest State of Play



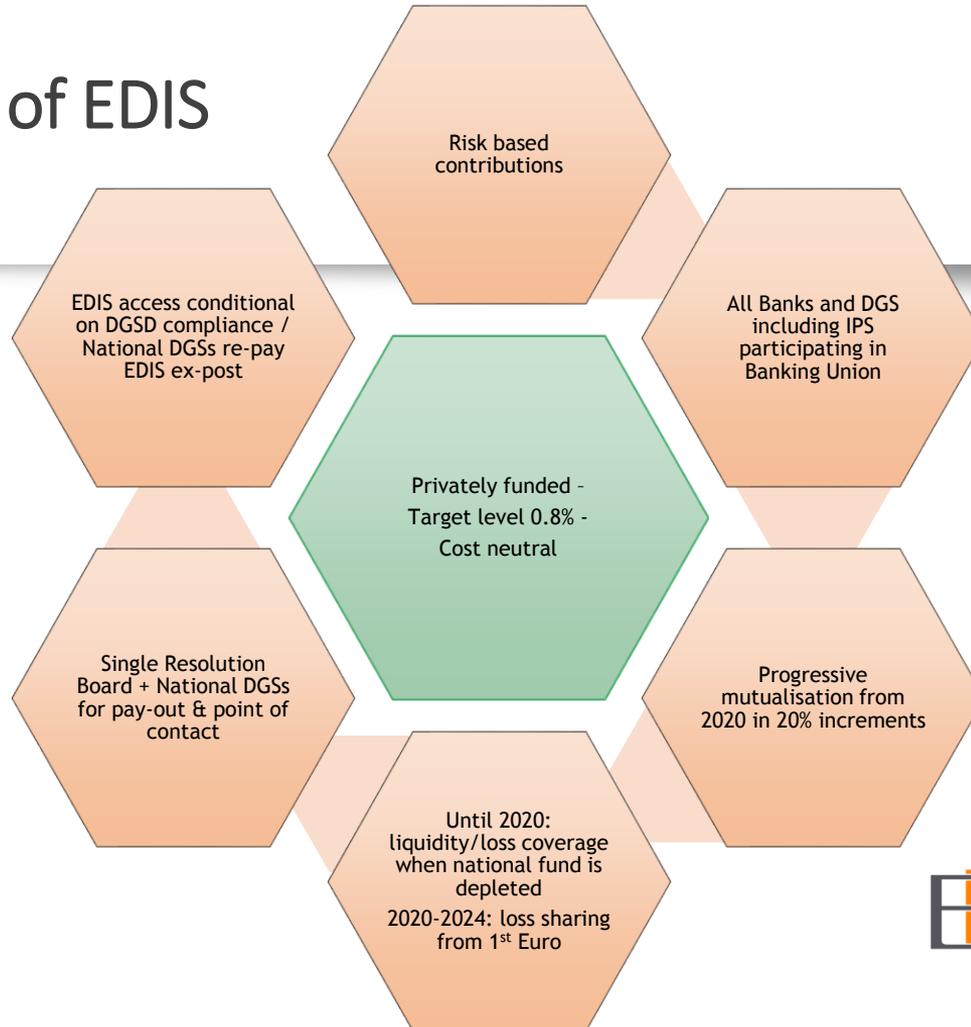
European Deposit Insurance Scheme (EDIS)



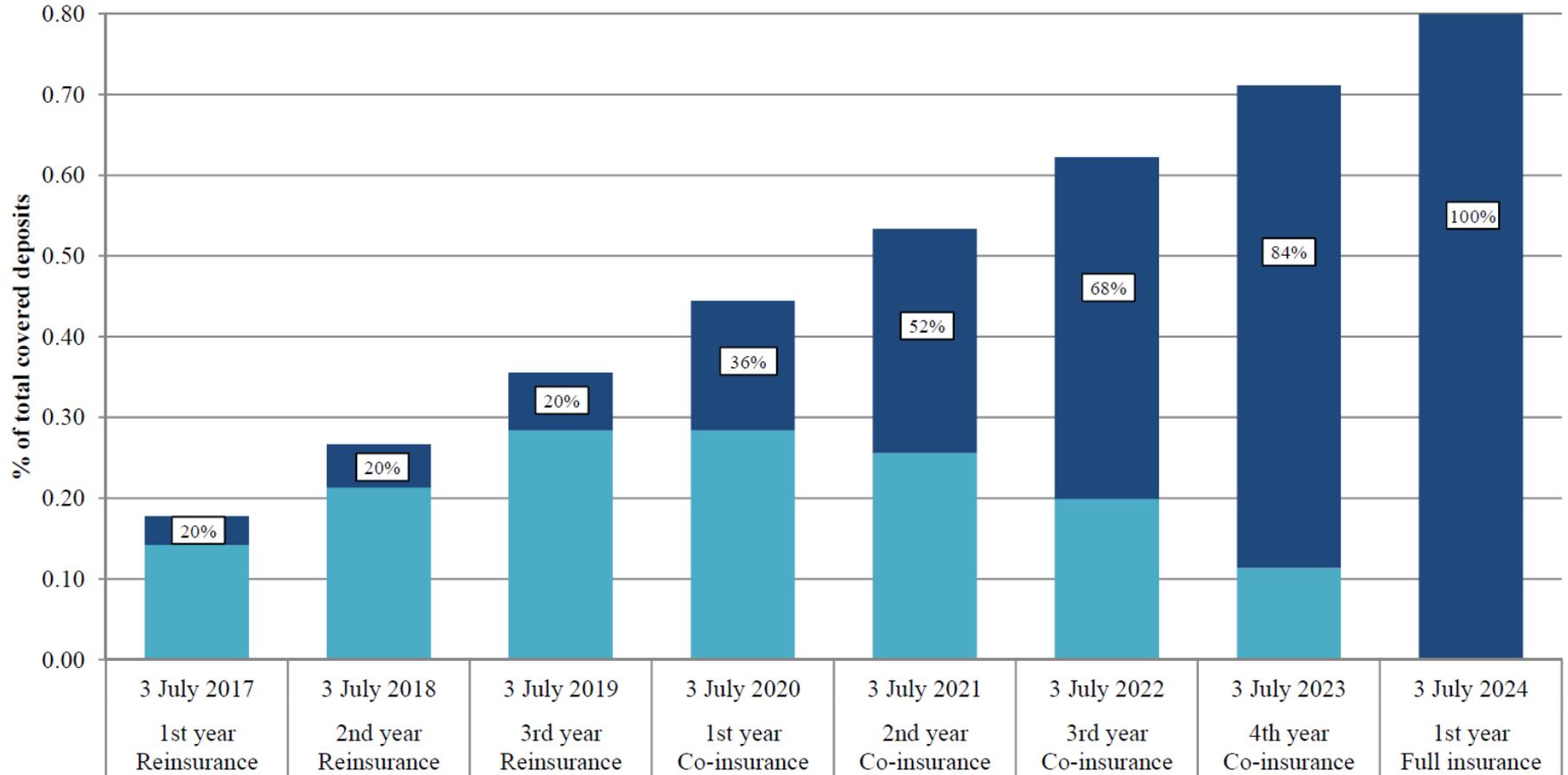
- European Commission released a legislative proposal outlining the road-map towards common European deposit protection, to be achieved by 2024 in three stages:
 - i. 2017- 2020: Reinsurance system to provide liquidity
 - ii. 2020—2024: progressive mutualisation through a system of co-insurance
 - iii. 2024: full mutualisation with a common European Deposit Insurance Scheme



Main features of EDIS



■ Participating DGS funds ■ EDIS funds



For more information

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