



CRR & CRD IV

Capital Requirements Directive Capital Requirements Regulation

These slides accompany the explanation of the acquis to Albania and North Macedonia and can only be used for that purpose. Their content is subject to further development of the acquis and interpretation by the Court of Justice of the European Union

DG FISMA D.1

Brussels, 9 April 2019

Core of the Framework

Basel I 1988

Basel III 2011

Capital

>

**Capital-
requirement**

Risk

Basel II

Basel 3.5

The three pillars of the Basel framework

Pillar 1

- Harmonised minimum requirements

Pillar 2

- Assessment of the individual bank's risk and risk bearing capacity
 - By the bank itself: ICAAP, ILAAP
 - By the supervisor: SREP

Pillar 3

- Disclosure requirements to enable market discipline

Pillar 1 elements

Capital

- Definition of „**Own Funds**”
- Risk types & exposure classes:
 - **Credit** risk
 - **Market** risk
 - **Operational** Risk
- Standardised vs. model **approaches**

Liquidity

- **Short-term** stress Liquidity Coverage Ratio
- **Longer term** stress Net Stable Funding Ratio

Leverage

- Leverage Ratio – back stop

Minimum requirements

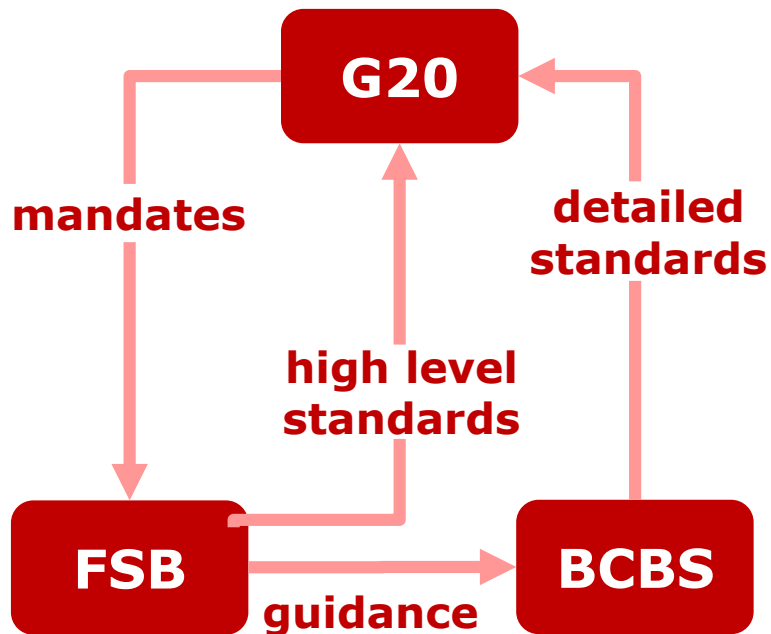
- Capital **ratios**
- Capital **buffers**

Other topics

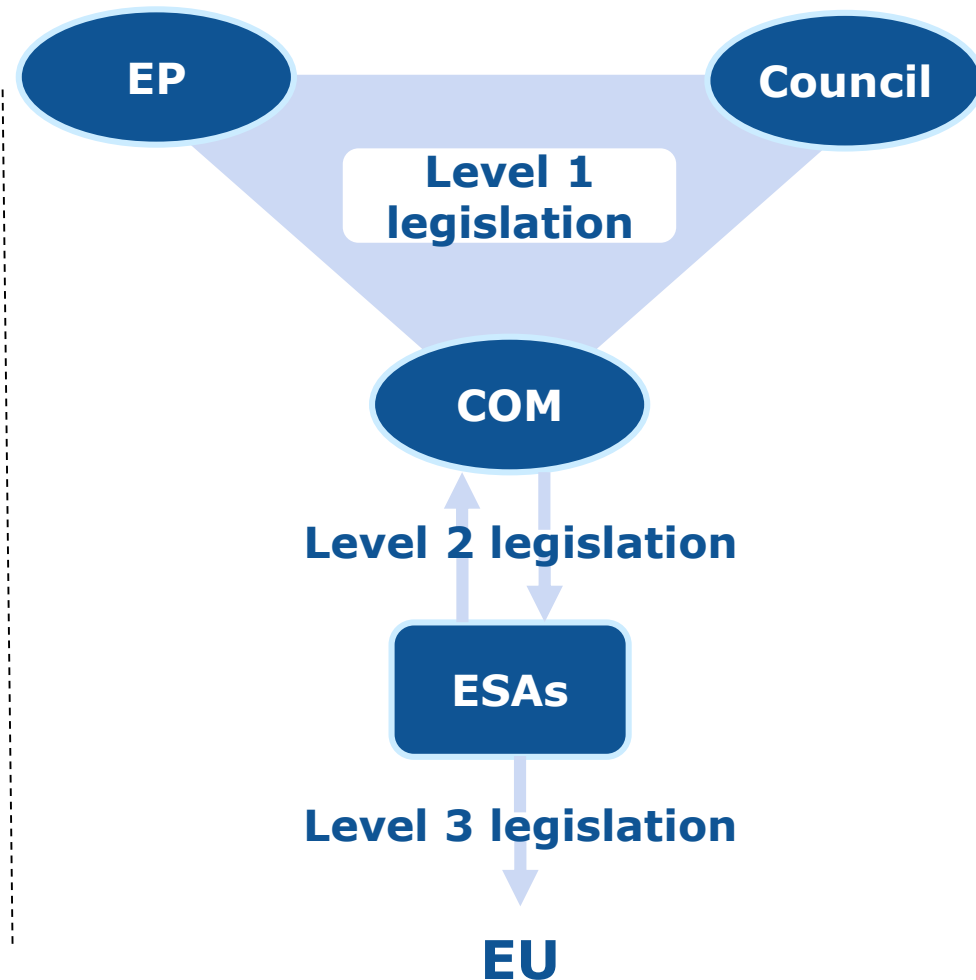
- Large Exposures
- Consolidation
- G-SIBs, D-SIBs

+TLAC

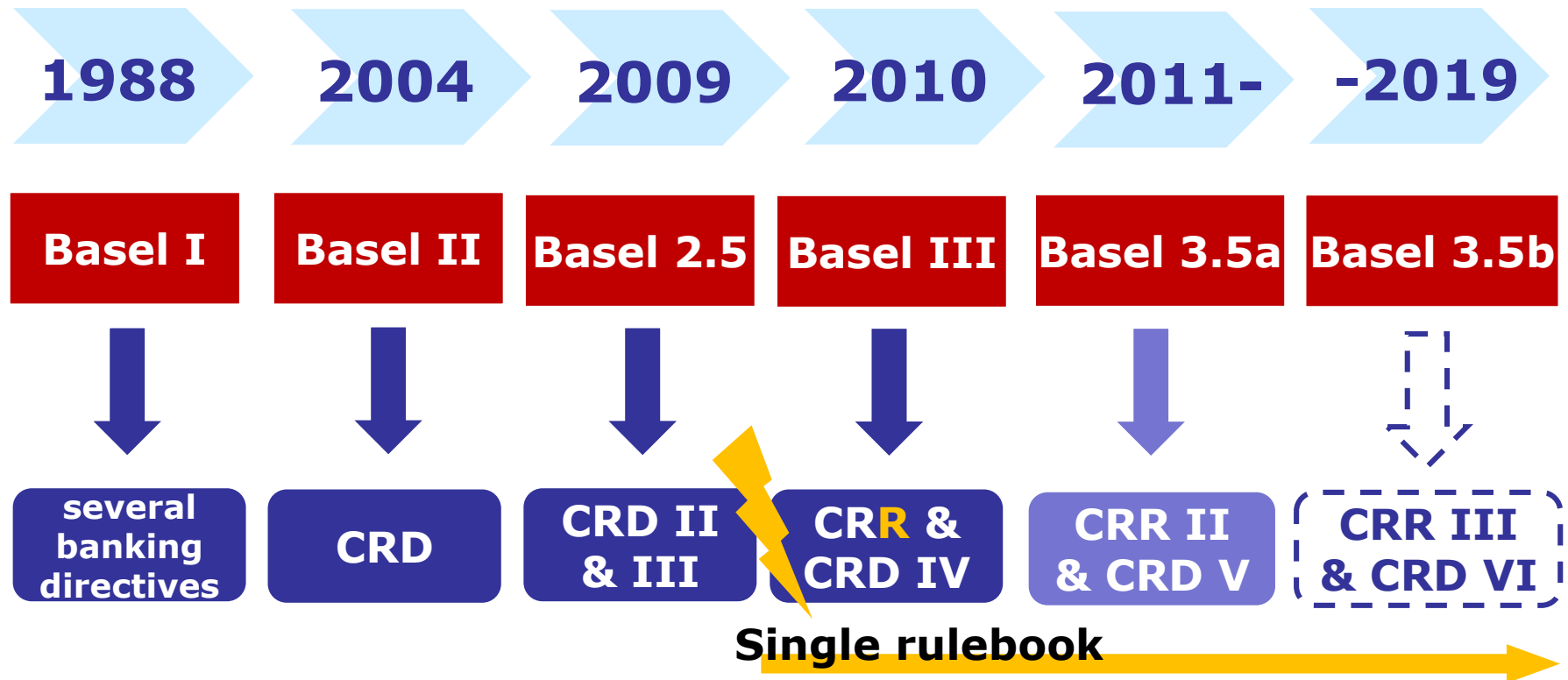
International Context



International



Historical development



Single rule book



Regulation CRR

Direct application

Areas of maximum harmonization ('single rule book') with limited choices for supervisory authorities

- Detailed technical rules on:
 - ✓ Prudential **consolidation**
 - ✓ Definition of **own funds** and **eligible liabilities (TLAC)**
 - ✓ **Minimum requirements** for credit, counterparty, operational and market risks ('Pillar 1' risks)
 - ✓ **Large exposure** rules
 - ✓ **Liquidity** requirements
 - ✓ **Leverage** requirements
 - ✓ **Disclosures** ('Pillar 3')

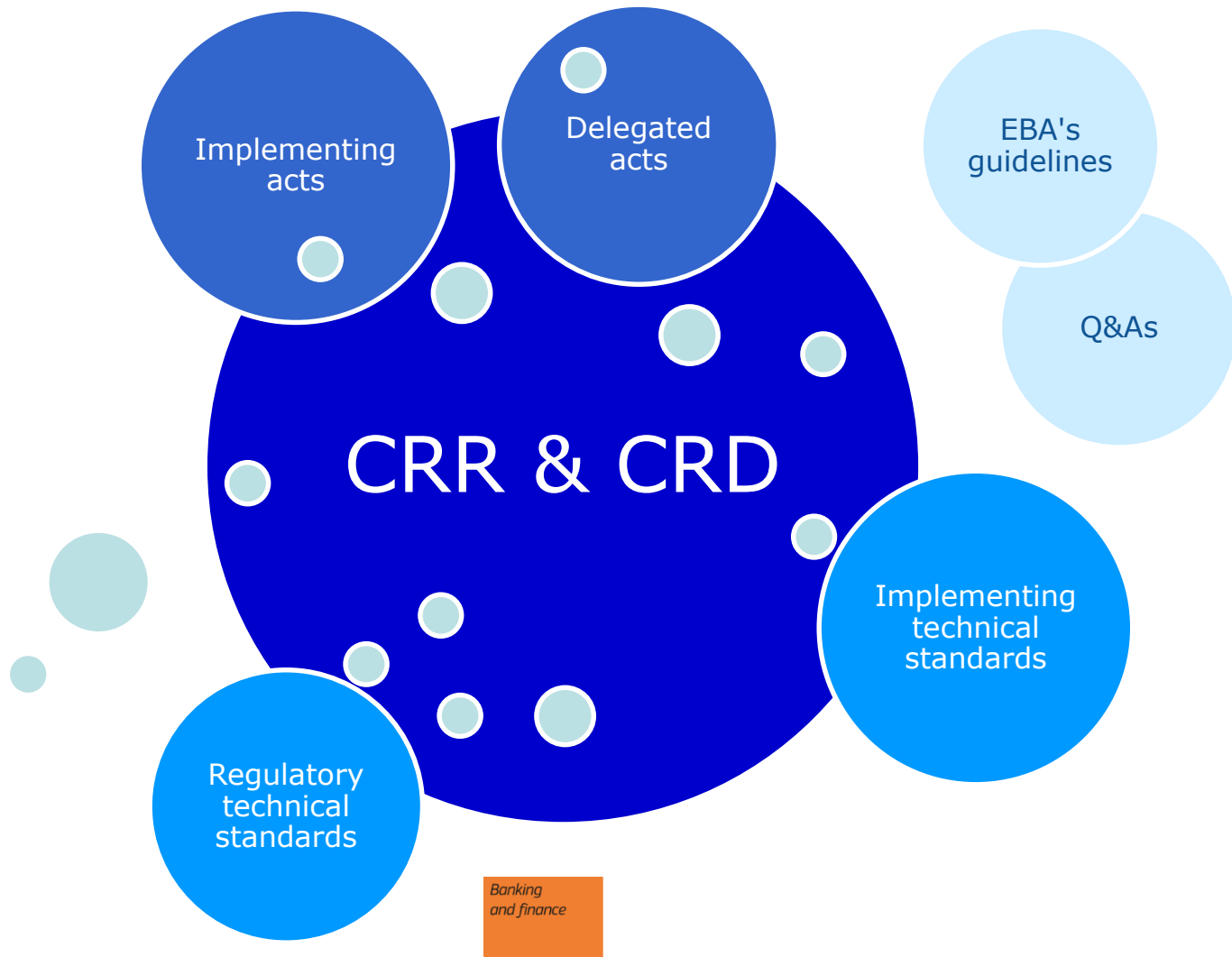
Directive CRD

Transposition by Member States

Areas lower degree of prescription and where the inter-linkages with national administrative laws are particularly important:

- ✓ Requirements for **authorisation of banks** to carry out banking activities
- ✓ Rules for establishing **branches** or providing **services cross-border**
- ✓ **Supervision Process under 'Pillar 2'**
- ✓ **Powers and duties of national supervisory authorities** (in particular, supervisory measures and sanctions authorities are allowed to apply to banks)
- ✓ Rules on **corporate governance** and **remuneration** of risk-takers
- ✓ **Capital buffers**

EU banking prudential framework



Level 2

DAs

Seven mandates for COM

RTS

51 RTS
mandates in
L1

39 RTS
delivered by
EBA

35 RTS
adopted by
COM

ITS

37 ITS
mandates in
L1

31 ITS
delivered by
EBA

31 ITS
adopted by
COM

Level 3

GLs

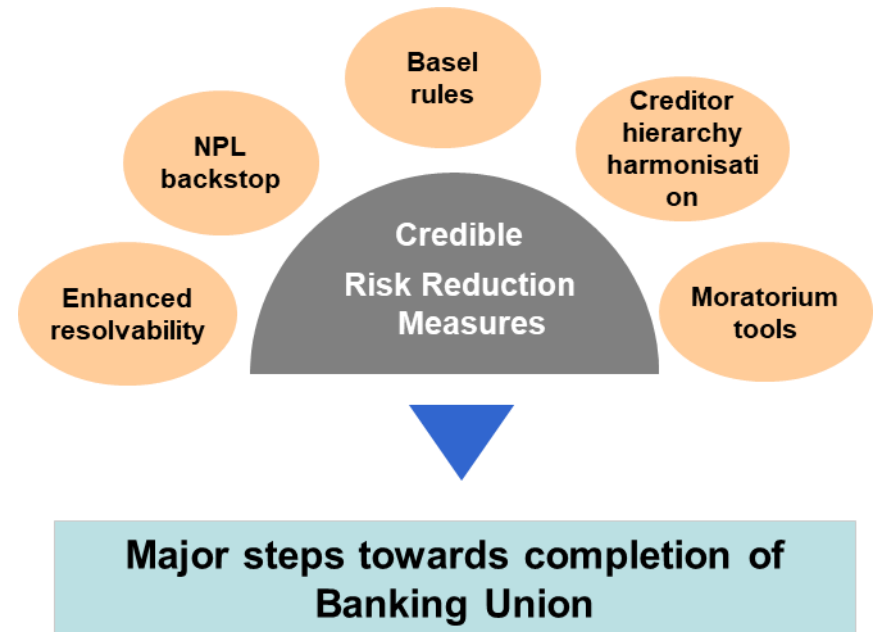
About 16 GLs provided by EBA
(mandated or own-initiative)

Q&As

1400+ answers provided by EBA/COM

CRR II & CRD V

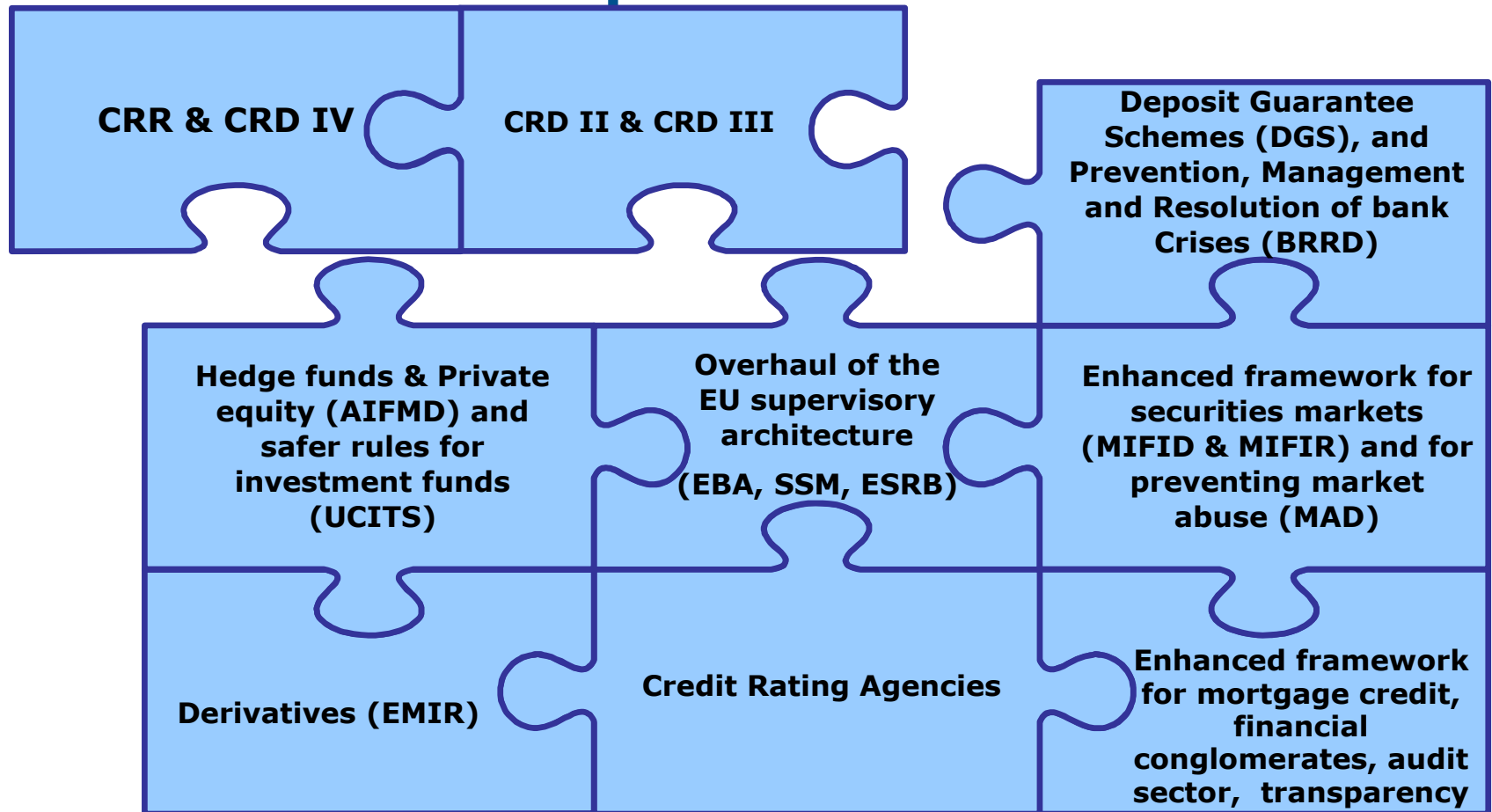
- Political Agreement to further Reduce Risks in the EU Banking Sector
- Implementation of Basel Standards
 - Leverage ratio
 - Net Stable Funding Ratio (NSFR)
 - Market Risk (FRTB)
 - Credit Risk
- Proportionality (reduction of administrative burden for small banks)
- Sustainable finance, SME lending, infrastructure finance
- Governance and Supervision (Pillar 2, MacroPru, IPU, AML, ...)
- Integration of EU banking sector (home-host-balance)
- Changes in relation to enhancing banks' resolvability



Next step

CRR III & CRD VI: Finalising Basel III

CRR / CRD core part of the Commission response to crisis



SSM

Single Supervisory Mechanism Regulation

Explanatory meeting

DG FISMA D.1

Brussels, 9 April 2019

Single Rulebook for the Single Market

CRR/CRD

BRRD

DGSD

Banking Union

SSMR

SRMR

EDIS

Essence of SSM Regulation (1024/2013)

- The Single Supervisory Mechanism (SSM) is a system composed of the **national supervisory authorities** (National Competent Authorities - NCA) and the **ECB**. The ECB is responsible for its efficient and consistent functioning.
- It became operational on 4 November 2014
- The SSM covers **euro-area** Member States, **but non-euro Member States may decide to join** ("close cooperation")
- **Decision-making:** Supervisory Board presents draft decisions to the Governing Council, which may object
- ECB supervisory function is **funded via fees** paid by credit institutions

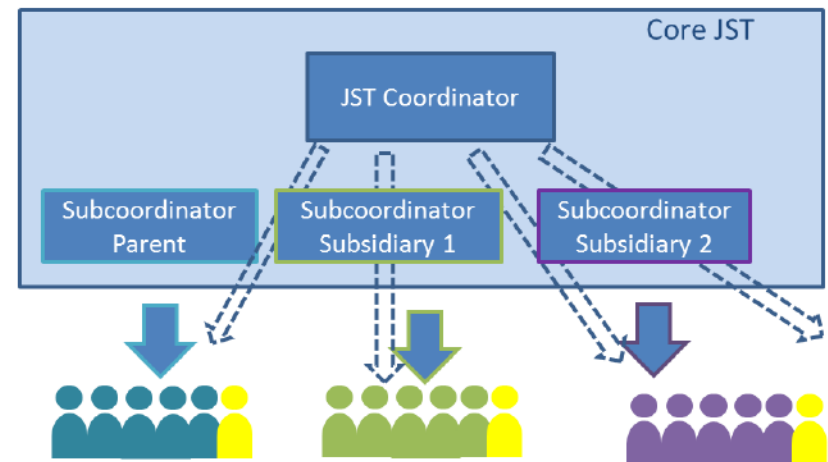
Distribution of tasks (i)

Direct supervision: The ECB is responsible for the supervision of **Significant Institutions (SI)**

SI - any of the following:

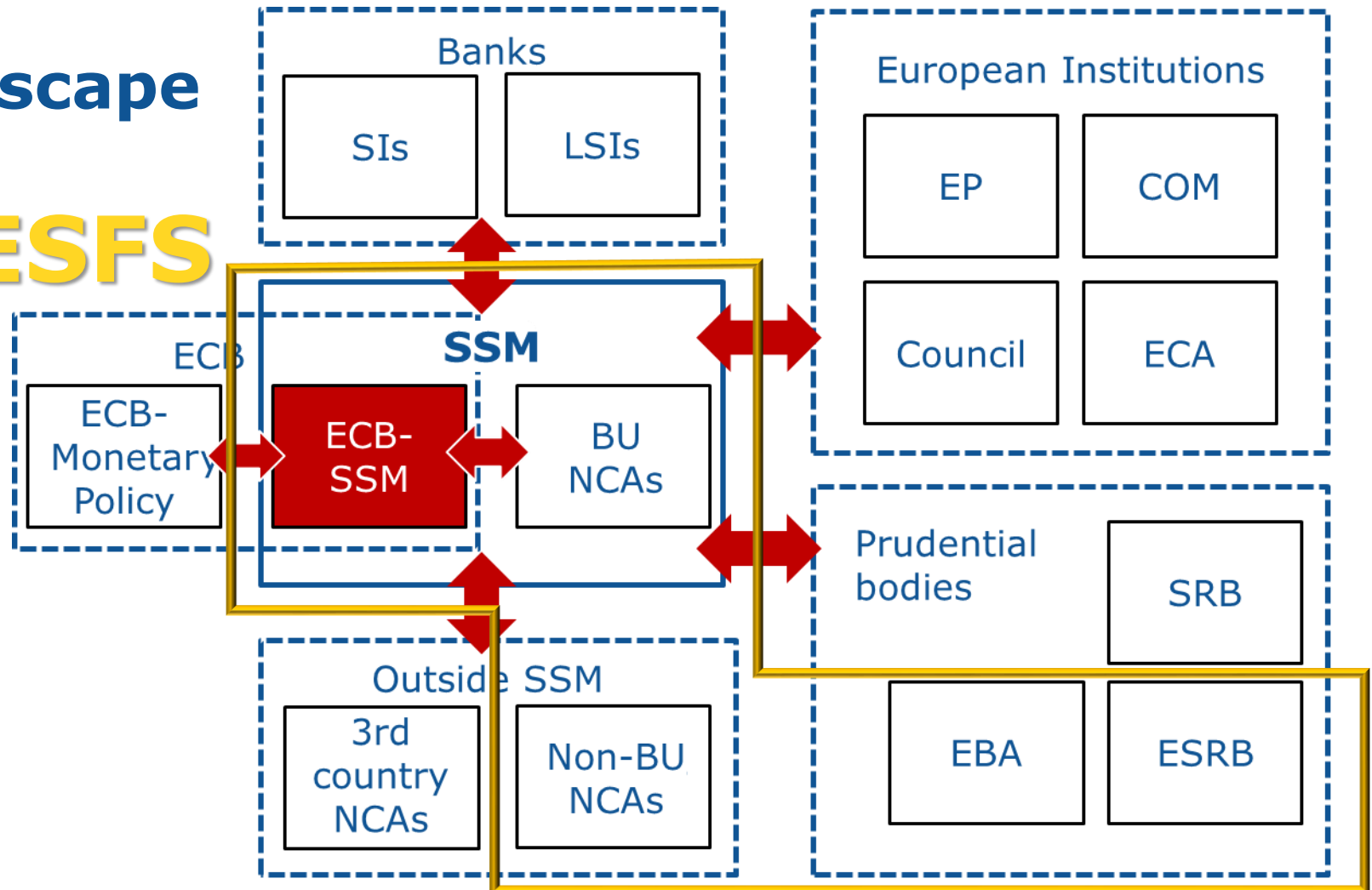
- assets > € 30bn
- assets > 20% national GDP
- cross-border assets, liabilities > 20%
- direct aid from EFSF/ESM
- one of three most significant in MS

How is supervision carried out? Joint supervisory Teams (JSTs)



SSM landscape

ESFS



Thank you