



Summary of key proposals in the revised Capital Requirements Directive (CRD V) and Regulation (CRR II)

November 2016

CENTRE for
**REGULATORY
STRATEGY**
EMEA

Contents

CRR provisions	Page number
Market risk (Fundamental Review of the Trading Book - FRTB)	3
Total Loss-Absorbing Capacity (TLAC)	3
Leverage ratio	3
Standardised Approach for Counterparty Credit Risk (SA-CCR)	3
Net Stable Funding Ratio	4
Regulatory reporting	4
Disclosure	4
SME Supporting Factor	4
Large exposures	4
Investment firms review	5
Modified framework for interest rate risk	5
Exposures to central counterparties	5
Waivers from capital and liquidity requirements	5
Equity investments in funds	5
IFRS 9	5
Definitions	5
CRD provisions	Page number
Pillar 2 capital requirements and guidance	6
Modified framework for interest rate risk	6
Establishment of an EU Intermediate Parent Undertaking	6
Remuneration	6
BRRD provisions	Page number
Creditor hierarchy	7
Harmonising MREL and TLAC	7
Amendments to Article 55	7

Links to legislative proposals
Capital Requirements Regulation II
Capital Requirements Directive V
Bank Recovery and Resolution Directive
Directive amending the creditor hierarchy
Links to other references
Press release
Frequently Asked Questions (FAQs)

Capital Requirements Regulation II (CRR II)

Issue	Article	Deloitte commentary
Market risk (Fundamental Review of the Trading Book - FRTB)	94, 102-106, 325, 501	<ul style="list-style-type: none"> • The Commission has proposed to implement the Basel Committee’s Fundamental Review of the Trading Book, overhauling the regulatory capital framework for market risk. • The new market risk rules will introduce significant changes to internal model-based approaches, and a revised Standardised Approach. • There are some deviations from the Basel standard, including in relation to covered bonds and sovereign exposures, for internal models-based and standardised approaches. • Banks with “medium-sized” market risk-related activities will be able to remain on a simplified standardised approach, corresponding to the existing standardised approach. • The Commission proposes to retain the use of credit risk capital requirements instead of market risk capital requirements for small trading books. • The revised market risk framework would be phased in over a period of three years from the date of application of the revised CRR, with market risk requirements in the first year of application subject to a multiplier of 65% (excluding for simplified standardised approach).
Total Loss-Absorbing Capacity (TLAC)	92, supplemented by 4, 6, 11, 72 – 80 (see also BRRD)	<ul style="list-style-type: none"> • The Commission has proposed to implement the FSB’s TLAC standard as a Pillar 1 requirement for G-SIBs, phased-in from 2019 to 2022 as per the FSB TLAC term sheet. • The current MREL framework will be retained as a Pillar 2 mechanism for resolution authorities to set additional loss-absorbency requirements for G-SIBs, or total loss-absorbency requirements for non G-SIBs. To do this, the Commission has introduced a number of new definitions into the EU loss-absorbency framework and made several modifications to the criteria for eligible instruments. • The Commission has also decided to require the EU-based material subsidiaries of non-EU G-SIBs to pre-position TLAC-eligible liabilities at 90% of the notional amount required for EU G-SIBs – the upper end of the internationally agreed range of 75%-90% for “internal” TLAC.
Leverage ratio	92, 429	<ul style="list-style-type: none"> • The Commission has proposed a 3% leverage ratio as a harmonised binding minimum requirement. National authorities are permitted to impose higher measures. • A number of exemptions to reduce the leverage exposure measure will be granted, including for public lending by public development banks, pass-through loans, and guaranteed export credits. In order not to dis-incentivise client clearing, firms are allowed to reduce the exposure measure by the initial margin received from clients for cleared derivatives. • The proposal remains open to include a leverage ratio buffer for G-SIBs at a later date, depending on developments within the BCBS.
Standardised Approach for Counterparty Credit Risk (SA-CCR)	273-282, 298-299	<ul style="list-style-type: none"> • The Commission has decided to implement the 2014 BCBS standard for SA-CCR while making some small adjustments aimed at ensuring proportionality in its application. The SA-CCR will serve to replace the Mark-to-Market Method and remove the Standardised Method, but a modified Original Exposure Method will be retained.

Capital Requirements Regulation II (CRR II)

Issue	Article	Deloitte commentary
Net Stable Funding Ratio	428, 510	<ul style="list-style-type: none"> The Commission has proposed a requirement for a Net Stable Funding Ratio (NSFR). A number of modifications relative to the BCBS standard are proposed, including in relation to covered bonds, trade finance, the treatment of derivatives, short-term interbank transactions, and of High Quality Liquid Assets (HQLA).
Regulatory reporting	428, 430, 99, 100, 101, 394, 430	<ul style="list-style-type: none"> The Commission has proposed a number of provisions to simplify reporting requirements for smaller institutions, including that small institutions will be required to submit regulatory reports only on an annual basis as opposed to semi-annual or quarterly as is the case for larger institutions. The EBA will also be mandated to report to the European Commission on the costs of regulatory reporting according to a prescribed methodology.
Disclosure	433, 435-455	<ul style="list-style-type: none"> The Commission has proposed targeted amendments to better align disclosure requirements to international standards. In particular, new disclosure requirements are proposed for TLAC, counterparty credit risk, market risk and liquidity requirements, as well as for investments in insurance undertakings which are not deducted from own funds requirements. A more proportionate disclosure regime has been proposed that classifies firms into three categories: significant, small, and other, with a further distinction between listed and non-listed firms. Small, non-listed firms will only be required to make selected disclosures of governance, remuneration and risk management information and key prudential metrics on an annual basis.
SME Supporting Factor	501	<ul style="list-style-type: none"> The Commission has decided to maintain the SME Supporting Factor, reducing capital requirements by 23.81% for exposures to SMEs under EUR 1.5 million. In addition, the Commission has complemented the current capital reduction by an additional 15% reduction in capital requirements for remaining exposures to SMEs in excess of EUR 1.5 million.
Large exposures	395, 390, 507	<ul style="list-style-type: none"> The Commission has proposed a number of changes to the large exposures framework including setting a lower 15% large exposure limit for G-SIB exposures to other G-SIBs and removing Tier 2 capital from the denominator of the large exposures calculation. The Commission has also proposed to impose the use of the Standardised Approach for Counterparty Credit Risk (SA-CCR) for measuring exposures to OTC derivative transactions, even for banks that have been authorised to use internal models.

Capital Requirements Regulation II (CRR II)

Issue	Article	Deloitte commentary
Investment firms review	501(c)	<ul style="list-style-type: none"> Following the EBA's advice that the CRR rules should only be applied to systemic investment firms, and the Commission's stated intention to bring forward legislation in late 2017 on a bespoke prudential regime for non-systemic investment firms, the Commission has proposed to exempt non-systemic investment firms from applying any of its modifications in the period between the entry into force of CRRII and the entry into force of any legislation resulting from the investment firm review.
Treatment of Infrastructure Exposures	501a	<ul style="list-style-type: none"> The Commission has proposed to grant special treatment, under both the internal model-based and standardised approach for credit risk, to specialised lending exposures aimed at funding infrastructure projects. Infrastructure projects are defined through a set of criteria, in line with those that determine preferential treatment of infrastructure projects in Solvency II.
Interest rate risk in the Banking Book – disclosures	448 (see also CRD)	<ul style="list-style-type: none"> The European Commission has proposed disclosure rules on exposures to interest rate risk in the Banking Book. These will apply two years after the entry into force of CRRII. (The revised framework for interest rate risk in the Banking Book is laid out in CRDV.)
Exposures to central counterparties	50, 89, 300, 304, 306, 308, 309, 310, 497	<ul style="list-style-type: none"> The Commission has proposed to implement the BCBS final standard (from April 2014) on the treatment of bank exposures to central counterparties.
Waivers from capital and liquidity requirements	7, 8	<ul style="list-style-type: none"> The Commission has proposed that it should be possible for competent authorities supervising parents and subsidiaries established in different Member States within the Banking Union to waive the application of own funds and liquidity requirements for subsidiaries located in other Member States than the parent.
Equity investments in funds	128, 132, 152	<ul style="list-style-type: none"> The Commission has proposed to implement the December 2013 BCBS standard on the treatment of equity investments in funds.
IFRS 9	473	<ul style="list-style-type: none"> The Commission has proposed a phase-in period from January 2019 to December 2023 for provisioning requirements for credit risk under IFRS 9 in order to mitigate the potential impact on banks.
Definitions	4	<ul style="list-style-type: none"> The definition of financial institutions is amended to exclude 'purely industrial' holding companies. Previously all holding companies were captured.

Capital Requirements Directive V (CRD V)

Issue	Article	Deloitte commentary
Pillar 2 capital requirements and guidance	104, 141	<ul style="list-style-type: none"> • The Commission has proposed to clarify a number of aspects related to Pillar 2 capital requirements, including the main features of capital guidance and the stacking order for capital requirements. • The Commission has also clarified the relationship between Pillar 2 and the Maximum Distributable Amount (MDA) triggers.
Modified framework for interest rate risk in the Banking Book	84, 98 (see also CRR)	<ul style="list-style-type: none"> • Following finalisation of the revised approach to interest rate risk in the Banking Book at the Basel Committee, the Commission has proposed to include a common standardised approach that competent authorities may require an institution to use if its own modelling is deemed unsatisfactory. • The EBA is tasked to do secondary-level work on detailing the standardised methodology and defining six supervisory shock scenarios to be used as part of SREP.
Establishment of an EU Intermediate Parent Undertaking (IPU)	21b	<ul style="list-style-type: none"> • The Commission has proposed the introduction of a new requirement for third country groups that have more than one bank established in the EU to create a single EU intermediate parent undertaking. • Banks are exempt from the EU IPU requirement if their total assets in the EU are lower than EUR 30 billion, though this exemption does not apply to institutions that are part of G-SIBs. • The EUR 30 billion figure is based on the consolidated assets of all EU institutions belonging to the third country group, including branches authorised in the EU.
Remuneration	92	<ul style="list-style-type: none"> • The Commission has proposed exemptions for the “smallest and least complex” institutions from certain remuneration requirements, specifically the rules on deferral and pay-out in instruments. • The European Commission has adopted an approach whereby competent authorities are offered some flexibility to adopt a stricter approach. • The Commission has also adopted more proportionate rules by allowing listed institutions to use share-linked instruments for meeting the CRD requirements.

Bank Recovery and Resolution Directive (BRRD) and Directive amending the creditor hierarchy

Issue	Article	Deloitte commentary
Creditor hierarchy	1-4	<ul style="list-style-type: none"> • The Commission has proposed to harmonise the bank insolvency creditor hierarchy in relation to the ranking of holders of senior unsecured debt eligible to meet the BRRD rules and TLAC standard. • The new provision would create a new asset class of “non-preferred” senior debt that can be bailed in in resolution, after other capital instruments, but before other senior liabilities.

Issue	Article	Deloitte commentary
Harmonising MREL and TLAC	45	<ul style="list-style-type: none"> • Amendments have been made to the BRRD corresponding to those in the revised CRR in order to implement TLAC and amend MREL. • The Commission has proposed to introduce a minimum harmonised MREL requirement applicable to G-SIBs only, in line with the scope of the TLAC standard. Resolution authorities are able to require G-SIBs to comply with additional MREL requirement under Pillar 2. • Bank-specific MREL under a Pillar 2 approach will be set for non-G-SIBs, defining their total loss-absorbency requirements. • The Commission has also proposed a number of constraints on host resolution authorities to set higher levels of loss-absorbency for banks under a range of circumstances.
Amendments to Article 55	55	<ul style="list-style-type: none"> • The Commission has proposed to allow resolution authorities to grant a waiver from compliance with the Article 55 requirement to include in contracts that are governed by the law of a third country a clause by which the creditor recognises the bail-in power of the EU resolution authorities. • The waiver may not be applied to instruments counting towards an institution’s MREL.



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2016 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.