Link and Learn CRR II/CRD V
Overview and update on the new regulatory package
Dublin, 9 November 2017
Agenda

Overview

Basel III
- Large Exposures
- Leverage ratio
- Exposure to Central Counterparties
- Net Stable Funding ratio

Basel IV
- Fundamental review of the trading book (FRTB)
- Standardised Approach for Counterparty credit risk (SA-CCR)
- Interest rate risk in the book (IRRBB)
- Disclosure

Recovery and Resolution
- Total loss absorbing capacity - TLAC

Other Topics
Overview
The CRR II encompasses the finalisation of Basel III, the initial measures of Basel IV and other topics such as Total Loss Absorbing Capacity (TLAC)

**Basel III**
- Large Exposures
- Leverage Ratio
- Exposures to CCPs
- Net Stable Funding Ratio

**Basel IV**
- Market risk (FRTB)
- Counterparty Credit risk
- Interest Rate Risk the Banking Book (IRRBB)
- Disclosures

**Other Topics**
- Proportionality of regulatory reporting for smaller institutions
- Intermediary Parent Undertaking
- New supervisory regime for investment firms
- SME Supporting Factor

**Recovery & Resolution**
Total loss absorbing capacity (TLAC)
CRR II proposals largely adopt the Basel guidelines with some amendments noted

<table>
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<th>Basel III</th>
<th>Basel IV</th>
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<td>Large exposures</td>
<td>Jan 2016</td>
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<td>Net Stable funding ratio</td>
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<td>Leverage Ratio</td>
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<td>Exposures to CCPs</td>
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<td>Apr 2016</td>
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<td></td>
<td>Apr 2014</td>
</tr>
</tbody>
</table>

**Overview**

Overview

CRR II proposals largely adopt the Basel guidelines with some amendments noted
Overview

CRR II does not include all of the Basel IV guidelines

<table>
<thead>
<tr>
<th>Topic</th>
<th>Current Stand BCBS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standardised Approach for Credit Risk</td>
<td>(BCBS # 347, Dec. 2015)</td>
</tr>
<tr>
<td>Standardised Approach for the Measurement of Operational Risk</td>
<td>(BCBS # 355, March 2016)</td>
</tr>
<tr>
<td>Capital Floors</td>
<td>(BCBS # 306, Dec. 2014)</td>
</tr>
<tr>
<td>Review of Credit Valuation Adjustment Risk Framework</td>
<td>(BCBS # 325, July 2015)</td>
</tr>
</tbody>
</table>
Overview

The CRR II / CRD V package is expected to be finalised in 2019

- On November 23rd, 2016 Published Commission adopted the first draft of a revised CRR II and CRD V. The reform package also includes a revised version of the BRRD and the SRMR.

- Further votes on the acts are carried out in the so-called "Trilogue"(coordination between EU Commission, EU Parliament, EU Council).
Overview
The CRR II / CRD V negotiation updates

- The EU negotiations are progressing more slowly than anticipated, and the fast-tracking of some elements of the package (e.g. IFRS9 phase-in) have slowed down talks on its other components.
- More detailed negotiations on the NSFR and FRTB are due to kick-off this Autumn, for the first time, as the Estonian Presidency of the European Council seeks to make progress on a broader range of components.
- US regulatory developments, including the US Treasury’s recommendation to pause implementation of the NSFR and FRTB are being frequently cited by EU negotiators as justification for potentially extending the delay of certain standards (particularly FRTB application).
- It is unlikely that the Council will conclude its internal negotiations on CRR II / CRD V before the end of the year, this now looks more likely to happen in H1 2018.
Overview
The CRR II / CRD V negotiation updates

- The European Parliament’s Economic and Monetary Affairs Committee (ECON) is also delayed in its parallel negotiations on CRR II / CRD V.
- These developments, taken together, will push back the date when the Council and Parliament can begin negotiations with each other on a final CRR II / CRD V text (talks which are expected to take roughly one additional year to complete).
- As a result, we are updating our projection for the finalisation of CRR II / CRD V from Q1 2019 to Q2/Q3 2019.
- This will have a knock-on effect for the implementation of CRR II / CRD V components that are due to apply only 2 years after the law is finalised (e.g. NSFR, FRTB, etc.).
Basel III
Large Exposures
Large Exposures
Overview

**Legal basis**
- Item 395, 390, 507 CRR (Part 4 of the CRR)

**Calculation logic**
- The calculation logic has not changed in principle
- Exposure (post CRM) to a group of connected customers may not exceed 25% (15% for GSII):

\[
\text{Upper Limit} = \frac{\text{Exposure}}{\text{Tier 1 Capital (T1)}} \leq 25\% \text{ (15\% for GSII to GSII)}
\]

**Reporting**
- Reporting obligation for 20 largest exposures on a consolidated basis
- New requirement to report top 10 exposures to unregulated and shadow banking entities
- Reporting frequency depends on the size of the institution (annual for smaller institutions)

**Significant changes by CRR II**
- The own funds denominator in the calculation of large exposures now excludes Tier 2 capital
- For exposures from one G-SII to another, a lowered upper limit of 15% of Tier 1 capital is applied
- Counterparty Credit Risk to be calculated using the CRR II proposed revised approaches.
- Large Exposure treatment of public sector exposures denominated in non domestic currencies of member states to be fast tracked (along with IFRS9)
- Mandatory substitution by reporting institutions using guarantees (no longer optional)
Leverage ratio
Leverage Ratio

Overview

Legal basis

• Art. 92, 429a CRR (Part 7 of the CRR)

Calculation logic

• In the CRR II, a binding leverage ratio has been set at 3%
• Current CRR calculation logic is largely retained with some updates
• Art. 429f CRR II: Off-balance sheet exposures can be reduced by credit risk adjustments
• Art. 429c CRR II: Counterparty Credit risk for derivatives will be calculated based on the proposed SA-CCR approach outlined in Part 3, Title II, Chapter 6, Section 3

\[
\text{Leverage Ratio} = \frac{\text{Tier 1 capital}}{\text{Total Exposures (art 429 (4))}} \geq 3\%
\]

Reporting

• Reporting of the leverage ratio will be annually or more frequently by larger institutions. For small institutions (art 430a) there will be an annual requirement.

Significant changes by CRR II

• Introduction of a the binding 3% leverage ratio with the possibility of a larger buffer for G-SIIs still possible
• Extended exemptions for certain exposure types (art 429a)
• Introduced SA-CCR for determining the exposure values for derivatives included in the LR calculation
• Allowance for reduction of off-balance sheet items by credit risk adjustments
• Institutions can reduce exposures to Qualifying CCPs by the amount of the initial margin received from clients (art 429c)
Exposures to CCPs
Exposures to Central Counterparties (CCP)
The CRR II seeks to align with BCBS final rules (BCBS 282)

Risk Exposures to CCPs

CCP → Clearing member: A 306 CRR
CCP → Default Fund: A 307 CRR
Clearing member → Customer: A 304 CRR
Default Fund → Customer: A 305 CRR

Draft Regulation

- Provides **additional definitions** in art 300 (e.g. Cash transactions and multi level client structure)
- Clarifies that **Initial Margin** for the purposes of exposure to CCPs does not include contributions to a CCP for mutualised loss sharing arrangements (art 301)
- Transactions settled in cash (e.g. equities, fixed income) are to be treated as trade receivables under settlement risk rules and the default fund contribution risk weight is set at 0% for these transactions (art 301).
- Calculation of clearing members exposure to clients (and vice versa) is aligned to revised CRR II SA-CCR and internal models methodologies (art 304 and 305)
- **Securities Financing Transactions (SFTs)** specifically included in scope (art 304)
- New simplified methodology for calculating own funds requirements for contributions to the default fund of the QCCP (art 308 – EMIR updated also) and modification of formula for non qualifying CCP (art 309).
- Unfunded contributions to the default fund of a qualifying CCP are subject to a risk weight of 0% (art 310)
- Removal of the alternative calculation method of the own funds requirement for exposures to a qualifying CCP (CRR I art. 310)

Impact

No significant increase in capital requirements arise specifically due to changes in the CCP regime, as the risk weight for QCCP trade exposures remains at 2%.
Net Stable Funding Ratio
Net Stable Funding Ratio

Overview

**Legal basis**
- Art. 428, 510 CRR (Part 6 of the CRR)

**Calculation logic**
- The calculation logic has not changed in principle
- The amount of the Available Stable Funding must always meet or exceed the Required Stable Funding:
- Components of ASF and RSF are subject to factors as defined by the CRR III

\[
\text{NSFR} = \frac{\text{Available Stable Funding}}{\text{Required Stable Funding}} \geq 100\%
\]

**Reporting**
- In addition to the obligation to comply with the minimum reporting frequency, a duty of regular monitoring and reporting to the supervisory authority in the event of a shortfall in the NSFR is established in CRR II.
- There is a proposed quarterly reporting requirement for the NSFR.

**Significant changes by CRR II**
- CRR II sets NSFR to equal or exceed 100%
- Definition of the calculation factors and categories for the available and required stable funding are based on the definitions and categories of the 2015 LCR delegated act
- Some derogations allowed from requirement to report gross values for for derivatives (art 428d) and Secured lending and capital market driven transactions (art art 428e)
- Specification of interdependent assets and liabilities (including covered bonds) (art 428f) and assignment of 0% ASF (liabilities with interdependent asset) and RSF (assets with interdependent liability) factors
- Maturity-based consideration of deferred tax liabilities as available stable funding
## Net Stable Funding Ratio

Institutions with high derivatives and SFT volumes as well as covered-bond and securitisation exposure benefit from lower RSF factors

<table>
<thead>
<tr>
<th>RSF acc. CRR II proposals (1/2)</th>
<th>0%</th>
<th>5%</th>
<th>10%</th>
<th>15%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> Very high-quality assets, e.g. receivables from central Banks with <strong>Res maturity &lt; 6 months</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unencumbered level 1 assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2</strong> Including unencumbered assets and assets from Secured Lending Transactions with financial customers with <strong>Res maturity &lt; 6 months</strong> and collateralised by Level 1 assets (<strong>Net</strong> where art. 428e applies)</td>
<td>5%</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>3</strong> Very high quality Covered Bonds</td>
<td>7%</td>
<td>15%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>4</strong> Including other unencumbered assets and other assets from Secured Lending Transactions with financial customers with <strong>Res maturity &lt; 6 months</strong> (<strong>Net</strong> where art. 428e applies).</td>
<td>10%</td>
<td>20%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>(Negative) Market value of <strong>netting sets</strong> in relation to derivative contracts which are not subject to variation margin requirements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade finance and other assets arising from transactions with financial customers with <strong>Res maturity &lt; 6 months ago</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>5</strong> Level 2a assets</td>
<td>15%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>6</strong> (Negative) Market value of netting sets in relation to derivative contracts with Margining</td>
<td>20%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>7</strong> Certain level 2b securitisations depending on the quality of collateral</td>
<td>25%</td>
<td>30%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- The Basel III Liquidity standard provides an RSF factor of 0% for level 1 assets
- According to Basel III framework to multiply by 10%
- Introduction of the Netting-Rules for Secured Lending
- Covered Bonds are generally less stringently treated in the CRR than under Basel III
- Derivatives contracts without Margining Are much better placed in the CRR
- RSF factor of 15% under Basel III
- Certain level 2b assets such as securitisation are treated more strictly under Basel III

2017 Deloitte
Net Stable Funding Ratio

The reduction of the RSF factor for Retail Loans represents a significant relief compared to the original NSFR design.

<table>
<thead>
<tr>
<th>RSF acc. CRR II proposals (2/2)</th>
<th>30%</th>
<th>50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>8 Level 2b Covered Bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Certain level 2b securitisations</td>
<td>35%</td>
<td>50%</td>
</tr>
<tr>
<td>10 Level 2b assets (excl. e.g. Covered Bonds)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational deposits with other financial institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Assets with Central Govts, PSE, non-financial companies, private customers and other assets with <strong>Res Maturity &lt; 1 year</strong></td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>12 Assets and receivables from central banks and credit institutions with <strong>Res maturity between 6 months and 1 year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13 Unencumbered mortgage loans and retail loans With 35% risk weight with <strong>Res mat &gt;1 year</strong></td>
<td>65%</td>
<td>85%</td>
</tr>
<tr>
<td>14 Unencumbered performing loans with a risk weight exceeding 35% and with <strong>Res mat &gt;1 year</strong></td>
<td></td>
<td>85%</td>
</tr>
<tr>
<td>15 Initial margin posted for derivative contracts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16 Commodities Incl. Gold</td>
<td></td>
<td>50%</td>
</tr>
<tr>
<td>17 Basically all categories not covered above</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>18 For unencumbered shares or units in CIUs, a factor equal to the respective haircuts according to article 15 (2) A to H of LCR DA 2015/61 apply</td>
<td>0% - 55%</td>
<td></td>
</tr>
</tbody>
</table>

- Covered Bonds and securitisations are generally less stringently treated in the CRR compared to Basel III. The applicable RSF factor depends on the rating of the Covered Bonds and for securitisations is post haircut applied by the LCR DA (LCR DA art 13 (14)).

- Retail loans attract a significantly lower factor compared to the Basel III first draft framework; The final Basel III paper applies 65% factor.

- Commodities (physically traded) incl. Gold were originally set at 50%.
Net Stable Funding Ratio
The ASF factors were largely unchanged in the current CRR design

<table>
<thead>
<tr>
<th>ASF acc. to CRR II proposals</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> Own funds including additional Tier 1 and Tier 2 instruments with <strong>Res Mat &gt; 1 year</strong>, except for instruments with implicit option which would lead to a reduction in residual maturity to less than 1 year if exercised</td>
<td><strong>100%</strong></td>
</tr>
<tr>
<td><strong>2</strong> Other deposits, liabilities or instruments with effective <strong>Res mat &gt; 1 year</strong>, except for instruments with implicit option which would lead to a reduction in residual maturity to less than 1 year if exercised</td>
<td><strong>95%</strong></td>
</tr>
<tr>
<td><strong>3</strong> Stable (private customer) Deposits § Article 24 of the LCR DA 2015/61 with <strong>Res mat &lt; 1 year</strong></td>
<td><strong>90%</strong></td>
</tr>
<tr>
<td><strong>4</strong> &quot;Other&quot; (less stable) Deposits § art. 25 of the LCR DA 2015/61 with <strong>Res mat &lt; 1 year</strong></td>
<td><strong>50%</strong></td>
</tr>
<tr>
<td><strong>5</strong> Operational Deposits § Article 27 of the LCR DA 2015/61</td>
<td><strong>0%</strong></td>
</tr>
<tr>
<td><strong>6</strong> Liabilities with central governments, PSE, multilateral development banks, credit cooperatives and non-financial companies with <strong>Res maturity &lt; 1 year</strong></td>
<td></td>
</tr>
<tr>
<td><strong>7</strong> Liabilities with financial customers and central banks with contractual <strong>Res mat &gt;= 6 mths and &lt; 1 year</strong></td>
<td></td>
</tr>
<tr>
<td><strong>8</strong> Other liabilities except deferred tax liabilities and minority interests <strong>Res mat over 6 mths and &lt; 1 yr (50% factor) and &gt;= 1 year (100% factor)</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Stable business relationship (e.g. loan relationship, long contract duration, etc.) and payment transactions accounts; internet deposits are considered "other" deposits by the LCR delegated act and are attract a 90% factor**

**Preferential treatment of liabilities to Credit Unions, Which are included by the Commission on account of their excess liquidity and their stable funding structure**
Basel IV
Fundamental Review of the Trading Book (FRTB)
Fundamental review Of The Trading Book (FRTB)

Overview

### Legal basis
- Item 94, 102-106, 325, 501 CRR (Part 3)

### Calculation logic

#### New Standardised Approach
(For all trading book and FX or commodity position risk generated by banking book positions)

<table>
<thead>
<tr>
<th>Risk Sensitivities and Risk Classes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Sensitivities</td>
</tr>
<tr>
<td>Delta R.</td>
</tr>
<tr>
<td>Vega R.</td>
</tr>
<tr>
<td>Curvature R.</td>
</tr>
<tr>
<td>Default R.</td>
</tr>
<tr>
<td>Residual R.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>General int rate r</th>
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</thead>
<tbody>
<tr>
<td>Credit spread risk (sec/CTP)</td>
</tr>
<tr>
<td>Equity risk</td>
</tr>
<tr>
<td>Commodity risk</td>
</tr>
<tr>
<td>FX risk</td>
</tr>
</tbody>
</table>

- **Increased data requirements** for the application of the Sensitivity-based Method
- Current CRR approach for calculating position, FX and commodity risk is renamed as "Simplified Standardised Approach", and can be applied where trading book is below 10% of the balance sheet total and below EUR 300 million ("medium-sized" Trading book activity).

### Significant changes by CRR II
- Restricter classifications for trading and banking books with specified requirements for switching between the 2
- New proportionality for smaller books: exceptions for Institutions with Small/Medium Trading Books
- New standardised approach for calculating capital requirements to include use of risk sensitivities and therefore be closer aligned (in approach) to internal models approach (desirable from a floor perspective)
- Stricter model requirements (both in terms of risk management, quality requirements, and internal validation) to ensure that the capital requirements derived from internal models represent the trading book risk appropriately

### Reporting
- Reporting as part of quarterly COREP reports

**Risk Sensitivities and Risk Classes**

- General int rate
- Credit spread risk (sec/CTP)
- Equity risk
- Commodity risk
- FX risk

**Risk Sensitivities**

- Delta R.
- Vega R.
- Curvature R.
- Default R.
- Residual R.

**Identify all risk factors applying to an asset and the exposures for each risk factor**

**Apply risk factor shocks to the exposures identified for each instrument**

**Intra bucket within risk class (e.g. GIRR - USD) aggregation (correlation effects)**

**Inter bucket aggregation by risk class (e.g. GIRR) (correlation effects)**

**Aggregation of the Capital Requirements for all Risk Classes (no diversification)**
# Fundamental Review of the Trading Book (FRTB)

Changed demarcation of the trading book

<table>
<thead>
<tr>
<th>Items that are mandatory to be assigned to the trading book (104)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Positions of Correlation Trading portfolios</td>
</tr>
<tr>
<td>• Instruments managed at trading desks</td>
</tr>
<tr>
<td>• Instruments that give rise to a net short credit or equity position</td>
</tr>
<tr>
<td>• Instruments resulting from Underwriting commitments</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Items that are mandatory to be assigned to the banking book</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Instruments designated for securitisation warehousing</td>
</tr>
<tr>
<td>• Real Estate holdings</td>
</tr>
<tr>
<td>• Retail and SME credit</td>
</tr>
<tr>
<td>• Collective Investment Undertakings (CIU), where no look through is possible or daily prices are unavailable</td>
</tr>
<tr>
<td>• Derivatives relating to the items above</td>
</tr>
<tr>
<td>• Hedge instruments for the items above</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>General presumption of assignment to the trading book</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Financial assets and liabilities measured at fair value</td>
</tr>
<tr>
<td>• Instruments as a result of market-making activities</td>
</tr>
<tr>
<td>• CIUs (excluding non-transparent funds)</td>
</tr>
<tr>
<td>• Listed Equities</td>
</tr>
<tr>
<td>• Trading related securities financing transactions</td>
</tr>
<tr>
<td>• Options including bifurcated embedded derivatives from instruments in the non-trading book that relate to credit or equity risk</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Items that are mandatory to be assigned to the banking book</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Will only be assigned to the Trading book if there is an intention to trade or hedge trading activity</td>
</tr>
<tr>
<td>• Institutions must be able to satisfy the competent authority as to trading/non trading intention. Competent Authorities can also prescribe an instrument to be classified as a trading or banking book instrument.</td>
</tr>
</tbody>
</table>
Fundamental Review of the Trading Book (FRTB)

At European level, exemptions are provided for institutions with small/smaller trading books

1. On and off balance sheet trading book (absolute market values excl. FX and commodity items) < €50m and < 5% of total assets
   - Calculation of equity positions for interest and equity instruments in accordance with the credit risk regulations for the banking book (analogous to current rules for small trading books)

2. On and off balance sheet trading book (absolute market values excl. FX and commodity items) < 300 Million EUR and < 10% of total assets
   - Calculation of own funds requirements in accordance with the current standard approach (to be called 'simplified' under CRR II)

3. All other Institutions
   - Application of the new standardised and internal approaches
   - Phase-in of regulations (3 years from entry into force only 65% own funds requirement)
Fundamental Review of the Trading Book (FRTB)
The SA is revised to include greater sensitivities in the various market risk classes

Aspects of the SA

- Consistent methodology for all instruments and all asset classes
- Use of risk sensitivities (Delta, Vega and Curvature) applied to individual risk factors
- Consideration of risks not included in the SA via Add-Ons ("Residual risks")
- Capital requirements are sum of Sensitivity based calculations + default risk + residuals risks
- Compared to the current standard approach, higher capital charges are to be expected as default and residual risks are now calculated
## Internal Models Key Changes

### Overview

<table>
<thead>
<tr>
<th>Significant changes by CRR II</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Status validation and some tests apply at Trading desk level.</td>
</tr>
<tr>
<td>• Use conditions strengthened including;</td>
</tr>
<tr>
<td>• VaR backtesting with a 97.5% percentile test</td>
</tr>
<tr>
<td>• P&amp;L attribution test (EBA to specify within 6 months of CRR II coming into force)</td>
</tr>
<tr>
<td>• The current VaR and Stressed VaR 99% calibration percentiles are replaced with an expected shortfall 97.5% measure of risk under stress (to capture tail risk)</td>
</tr>
<tr>
<td>• Market illiquidity risk is catered for through liquidity horizon factors which depend on market parameters considered.</td>
</tr>
<tr>
<td>• Two new categories of credit spread have been introduced in the shortest liquidity horizon on spread (20 days) in CRR II compared to BCBS. They are Central Governments (incl central banks) of Members states and investment grade covered bonds issued by institutions in member states</td>
</tr>
<tr>
<td>• CRR II is less explicit than BCBS regarding currency pairs and currencies of the most liquid interest rates – EBA will determine</td>
</tr>
<tr>
<td>• Prescriptive standards for diversification benefits between risk factor categories are provided by CRR II</td>
</tr>
<tr>
<td>• CRR II defines formal criteria to determine if a risk factor is modellable and consequently integrated in the Expected Shortfall</td>
</tr>
<tr>
<td>• Current Incremental Risk Charge is replaced by the Default Risk Charge</td>
</tr>
</tbody>
</table>
Standardised Approach For Counterparty Credit Risk (SA-CCR)
# Counterparty Credit Risk

## Overview

### Legal basis
- Art. 273 to 281 CRR (Part 3 the CRR)

### Calculation logic
- The calculation logic has become risk-sensitive in principle.
- In addition to an expanded consideration of existing hedging agreements, the new standard approach to counterparty credit risk is characterised in particular by recalibrated Supervisory factors and a comprehensive assessment of hedging effects in the AddOn calculation.

\[
EaD = 1.4 \times (\text{Replacement Cost} + \text{Potential future exposure})
\]

\[
\text{Potential future exposure} = \text{Multiplier} \times \sum \text{Addon}_{\text{Asset Class}}
\]

### Reporting
- The reporting obligation is currently unchanged.
- It is unclear whether the increased granularity in the calculation of the SA-CCR will in future provide additional reporting requirements, including in connection with the reporting requirements of the Leverage Ratio.

### Significant changes by CRR II
- **Substitution** of the Market-to-Market and Standardised Method by SA-CCR
- The determination of the SA-CCR is based on **Risk-sensitive components** (Replacement Cost and potential future exposure), which require a **granular transaction-level database** and therefore will likely require both **new data** as well as **system-specific updates** for the implementation of the new calculation logic
- **New threshold values** for the application of **simplified calculation approaches** ("Simplified SA-CCR ")
Counterparty Credit Risk

SA-CCR as a new standardised approach to calculate the Counterparty Credit Risk (BCBS # 279)

Revision of the previous Non-Internal models for the Calculation of the EaD Of Derivative transactions (Annex II CRR) and transactions with a long settlement period

Mark to Market (MtM)

- Exposure is calculated using the Current market value as well as an AddOn.
- AddOn Factors since 1995 unchanged.
- Represents the most commonly used method in practice.

Standardised Approach (SA)

- Due The Required modeling of Delta equivalents using Internal methods for non-linear transactions, SA is a Costly Alternative to MtM.
- Only minor importance in practice

SA-CCR as a new standard approach to the calculation of counterparty risk MtM & SA

SA-CCR is to be implemented by all institutions

Banks without IMM-Approval

- EaD in the standard CVA capital charge
- EaD counterparty credit risk

For all (including IMM Approved) Banks

- EaD for the "Leverage Ratio"
- EaD for "Large Exposure"
## Counterparty Credit Risk

Significant CRR customizations by SA-CCR at a glance

<table>
<thead>
<tr>
<th>Art.</th>
<th>CRR</th>
</tr>
</thead>
<tbody>
<tr>
<td>274</td>
<td>Market to Market Method</td>
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<tr>
<td>275</td>
<td>Original Exposure method</td>
</tr>
<tr>
<td>276</td>
<td>Standardised method</td>
</tr>
</tbody>
</table>

### CRR II (draft)

<table>
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<th>Art.</th>
<th>CRR II (draft)</th>
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<tbody>
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<td>Exposure Value</td>
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<td>Calculation Of Risk Position</td>
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<td>279a</td>
<td>Supervisory Delta</td>
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<td>Adjusted Notional Amount</td>
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<td>Hedging Set Supervisory Factor Coefficient</td>
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<td>280a</td>
<td>Interest rate Risk Category Add-On</td>
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<td>280b</td>
<td>Foreign Exchange Category Add On</td>
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<td>280c</td>
<td>Credit Risk Category Add-On</td>
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<td>Equity Risk Category Add-On</td>
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<td>280e</td>
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<td>280f</td>
<td>Other Risks Category Add-On</td>
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<td>281</td>
<td>Application Requirements of Simplified SA-CRR</td>
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<td>282</td>
<td>Adjusted requirements for the Original Exp method</td>
</tr>
</tbody>
</table>

*Standardised method is omitted*
# Counterparty Credit Risk

## Market to Market Method vs. SA-CCR

<table>
<thead>
<tr>
<th>EaD-Calculation</th>
<th>MtM (CRR)</th>
<th>SA-CCR (CRR II)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EaD = RC + PFE</td>
<td>EAD = 1.4 * (RC + PFE) with PFE = multiplier * Add-on</td>
<td></td>
</tr>
</tbody>
</table>

### Evaluation-Relevant elements in comparison

<table>
<thead>
<tr>
<th></th>
<th>MtM (CRR)</th>
<th>SA-CCR (CRR II)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collateral</td>
<td>In RC calculation</td>
<td>In RC and PFE calculation</td>
</tr>
<tr>
<td>Margin agreements</td>
<td>No</td>
<td>Considers Threshold, Minimum Transfer Amount, Independent Collateral Amount</td>
</tr>
<tr>
<td>Excess collateral/negative Market values</td>
<td>No</td>
<td>Via multiplier for Add-on</td>
</tr>
<tr>
<td>Hedging effects</td>
<td>At a net rate of net/gross market value</td>
<td>At the transaction level</td>
</tr>
</tbody>
</table>

### Major innovations

SA-CCR has been designed to address some of the perceived weaknesses of the MtM approach including the **limited consideration of hedging effects**, an **incomplete collateral allowance** and **non-risk-sensitive AddOn factors**. SA-CCR introduces **risk sensitivity**.
**Counterparty Credit Risk**  
**Calculation of the EAD in the new SA-CCR**

---

### Calculation under new SA-CRR

#### 1.4 Replacement Cost (RC) + Potential future Exposure Pfe)

**Potential future Exposure (PFE)**

\[
PFE = \text{Multiplier} \times \Sigma \text{AddOn}
\]

**Multiplier**

\[
M = \min \left\{ 1; \text{Floor} + (1 - \text{Floor}) \times \exp \left( \frac{z}{2 \times (1 - \text{Floor}) \times \Sigma \text{AddOn}} \right) \right\}
\]

In the case of overcollateralisation and portfolios with negative net Market value exposures \((Z < 0)\) reducing the multiplier effect on the PFE (Multiplier < 0), otherwise 1.

**Σ Addon**

Calculation of the Add-on as a function of the volatility of the underlying and hedging effects per asset class

---

*In the context of the CEM, collateral is considered to be eligible on the basis of clarification in the EBA-Q & A 2013_206 in the RC.*
Counterparty Credit Risk
Determination of the Replacement Cost

Replacement Cost (RC): The recovery costs are determined for each netting set. The calculation logic differs depending on whether or not a Collateral Agreement with a counterparty is in place.

\[ RC = \max \{ \text{CMV} - \text{NICA}; 0 \} \]

- **Net Independent Amount** (NICA): The sum of all collateral received and provided (after possible Haircuts) that do not represent a variation margin.

\[ RC = \max \{ \text{CMV} - \text{VM} - \text{NICA}, \text{TH} + \text{MTA} - \text{NICA}; 0 \} \]

- **VM**: Received net variation margin (after possible Haircuts).
- **TH**: Threshold above which collateral ("a Margin Call") may be requested.
- **MTA**: Minimum amount of collateral which is be transferred according to the terms of the trading Agreement ("Minimum Transfer Amount").

The **Current Market Value (CMV)** is determined, irrespective of the collateralisation, depending on whether a Netting agreement that is enforceable under supervisory law is in place:

- Without Netting: Gross market value of the individual transaction
- Under Netting: Net market value of all transactions of the netting

*Collateral provided to the counterparty in insolvency ("Insolvency Remote") is not to be considered in the NICA.
Counterparty Credit Risk
Determination of the Add-on in the new SA-CCR at a glance

<table>
<thead>
<tr>
<th>Level</th>
<th>Classification criteria</th>
<th>Result sizes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netting Set</td>
<td>Transactions with a counterparty under a netting master agreement recognised by supervisory law</td>
<td></td>
</tr>
<tr>
<td>Risk Category</td>
<td>Assignment by Primary Risk Driver</td>
<td></td>
</tr>
<tr>
<td>Hedging set</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub Sets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per trade</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Base- And volatility transactions form separate hedging sets within the corresponding Asset class.
Counterparty Credit Risk
New thresholds for the application of simplified Calculation approaches

Proportionality: Depending on the Scope of the derivatives business The draft CRR II provides, in addition to the existing Original Exposure method, a Simplified variant of SA-CCR (“Simplified SA-CCR”). The following Threshold values* will apply:

- Share of the balance sheet and off-balance sheet derivatives business
  - > 10% of total
  - ≤ 10% but > 5% of total
  - ≤ 5% of total

- Volume of the balance sheet and non-financial derivatives business
  - > €150 M
  - ≤ €150 million but > €20 million
  - ≤ €20 million

Simplified SA-CCR
- Limited collateral included
- Reduced consideration of hedging
- Specification of Maturity Factor, Supervisory Delta and Multiplier

* The threshold values are monitored monthly. Permission to apply the simplified calculation procedures ends within three months, if the thresholds are not met over three months or 6 out of 12 consecutive months.
Interest rate risk in Book (IRRBB)
Interest rate risk in the banking book

Market conditions and bank-internal factors have attracted the focus of supervisors to the IRRBB

Different expectations about the development of interest rates
- Consideration of the Economic Value of Equity as well as the Earnings-Perspective

Significant spread changes due to market movements
- Increase of basis risk with impact on the balance sheet and profit and loss

Changes due to FRTB
- Limiting Regulatory Arbitrage Opportunities
- Coverage of the Losses From the banking book

Options risks and structural changes in the yield curve
- Missing or insufficient coverage due to the Basel II-Standard shock (+/-200 BP)

Interest rate sensitivity of certain types of products
- Additional pressure on earnings

Improvement requirements in IRRBB Management

Institutions with pronounced interest rate risks in the banking book need to improve IRRBB management reach, especially in relation to Data Analysis, Modeling and Governance Structures

2017 Deloitte
Codification of interest rate risk management

Regulatory milestones

**BCBS: "IRR Principles"**
Publication of the results of the BCBS consultation on the revision of the 1997 principles on the treatment of interest rate risks in both the trading and banking book (based on the consultation of 1993):
- Principles (1-13) on interest rate risk management in the two books.
- Principles (14-15) on interest rate risk management in the banking book.

**CEBS: "Principles"**
Publication of a technical specification on the IRRBB by CEBS, on the basis of the CEBS guideline of January 2006 on the treatment of Pillar-1 and Pillar-2 risks:
- Principles (1-4) for the Institution.
- Principles (5-9) for Supervisors.

**EBA: SREP**
Publication of the EBA's SREP guidelines:
- EBA's opinion on the treatment of interest rate risks in the banking book
- National supervisory authorities as primary addressees of regulation.
- Institutions to be subject to the EBA requirements through the National supervisors.

**EBA: Guideline BCBS: Consultation**
Publication of two documents on the management of the IRRBB:
- EBA guidelines:
  - Revision and extension of The CEBS "Principles"
  - BCBS-Consultation paper:
    - Revision of the IRR Principles
    - Minimum funding for IRRBB or "Hard Pillar 2 approach"

**BCBS: Standards**
Publication of the final standards for IRRBB:
- Consideration of IRRBB in the framework of the extended Pillar 2 approach (hard pillar 2).
- Specification of Supervisory Requirements for the Measurement, Management, Monitoring as well as controlling of IRRBB.
- No explicit coverage of credit spread risks in the banking book (CSRBB) in CRR II, but it is a focus of the BCBS standards on IRRBB.

2004

2006

2014

2015

2016

Jan 1, 2016 Implementation of the EBA guidelines

Dec 31, 2017 implementation of BCBS standards
Interest rate risk in the banking book
Despite maintaining the Pillar 2 approach, the requirements on interest rate risk management are becoming increasingly specific and complex

Pillar 2 since 2016

With the final "Guidelines on The Management Of Interest Rate Risk Arising From Non-Trading Activities" On 22 May 2015, the EBA set out a hard Pillar 2 approach to redesign the IRRBB specifications

Components of IRRBB
• Underlying risk, option risk, revaluation risk, interest rate risk (change in slope or form of curve)
• Credit-Spread-Risk is not allocated to the term IRRBB and therefore is not covered by the guidelines

• IRRBB methods are used to determine both the Economic Value Of Equity (EVE) and NII approaches

• The main focus of the guidelines is on IRRBB calculation method, stress tests (interest rate shock) and bank-internal management structures regarding IRRBB management

• Obligation to report results of the Standard Shock (i.e. 200 base points)

CRR II/CRD V

• Expected to be applicable one year after the entry into force of the CRR Amendment and specified by the EBA in technical standards

"Standardised Methodology"
• Introduction of a standard approach to be specified in detail by the EBA (incl. Six pre-defined Interest rate shock scenarios)
• Interest rate risks are to be quantified by the Supervisory Authorities as part of SREP
• The obligation to apply the Standardised approach applies if the relevant supervisory authority considers the existing internal models to be inadequate

• Change in the maximum allowable value change of Tier 1 capital (from 20% to 15%) arising from changes in EVE following shock scenarios and expansion from the current 200 basis point shock to the six future interest rate shock scenarios

• Introduction of extensive disclosure requirements

• Consideration of Credit Spread Risks.
Disclosure
Scope of future disclosure

Overview

**Legal basis**
- Art. 433, 435, 455 CRR (Part 8 of the CRR)

**Disclosure Content**
- New Regulations in the areas of market, counterparty credit, interest rate risk in the banking book and TLAC require adaption or reintroduction of appropriate disclosure requirements.
- New requirements introduced by the CRR II also includes provisions for disclosure of liquidity risk metrics (LCR and NSFR) and additional related disclosures (art. 451A CRR II)
- An extension of the existing disclosures, for example operational risks, where Art. 446 requires specific disclosure of ten year operational loss data and identification of losses exceeding €1m

**Reporting**
- **Uniform** disclosure templates -> controlled by a separate ITS
- It is to be assumed that the new formats will essentially correspond to the templates/tables of EBA/GL/2016/11

**Significant changes by CRR II**
- Adaption of disclosure requirements for the new/revised regulatory regulations – TLAC regime, FRTB, counterparty risk, interest rate risk in the banking book and liquidity risk
- Strengthening the principle of proportionality in disclosures by defining the disclosures and frequencies for three institution categories – large, small and other institutions. More differentiation between listed and non-listed institutions
- In future, small non-listed institutions will only have to publish the remuneration report, the key regulatory indicators and selected risk management data annually.
Scope of future disclosure
Classification categories for institutions according to art. 430A CRR II

<table>
<thead>
<tr>
<th>Large Institution</th>
<th>Small Institutions</th>
<th>Other institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• G-SIIB and O-SIIBs</td>
<td>• Total assets on average over the last four years ≤ 1.5 Billion EUR</td>
<td>• Residual: Institutions not qualified as 'large' or 'small' institutions</td>
</tr>
<tr>
<td>• One of the three largest institutions (by total assets) of a Member State</td>
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<td></td>
</tr>
<tr>
<td>• Total assets (on a consolidated basis) ≥ 30 billion EUR</td>
<td></td>
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</tr>
<tr>
<td>• Total assets ≥ EUR 5 billion and, on average, over the last four years ≥ 20% of the GDP of the respective country</td>
<td></td>
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</tr>
</tbody>
</table>

Subsidiaries – separate disclosure frequencies

**Large subsidiary company:**
• Subsidiary which itself qualifies as a large institution

**Non-listed company:**
• The institution has not issued any securities admitted to trading on a regulated market of a Member State.
• Based on the concept of "capital market orientation" according to IAS Regulation ((EC) 1606/2002)
Scope of future disclosure
Depending on the specifics of the Institution, a different reporting set must be disclosed

- **Relevance**
  - G-SII
  - O-SII
  - The three largest Institutions in the country
  - Total assets ≥ €30 billion
  - Total assets ≥ €5 billion and 20% GDP
  - Balance Sheet Total > €1.5 bn - < €30 bn
  - Balance sheet total ≤ €1.5 bn

- **Classification**
  - Large Institution
    - Large subsidiary companies
  - Other Institution
  - Small Institution

- **Stock Exchange Listing**
  - Listed
  - Non-Listed

- **Reporting Set**
  - Listed
    - Yearly
    - Quarterly
  - Non-Listed
    - Yearly
    - Half-yearly
    - Quarterly

* Reporting Set *
## Scope of future disclosure

Large Institutions (art. 433a CRR II) - LIsted

### Reporting Set *

<table>
<thead>
<tr>
<th>Number</th>
<th>Reporting Set</th>
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<tr>
<td>1</td>
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<td>2</td>
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<tr>
<td>1a</td>
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<table>
<thead>
<tr>
<th>Annual</th>
<th>Semi-Annual</th>
<th>Quarterly</th>
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</table>

- **Part 8**
- Counterparty risk
- Credit risk and dilution risk
- Application of the standardised approach
- Interest rate risk in the banking book
- Securitisation positions
- Leverage Ratio and its calculation
- Liquidity Requirements: LCR and NSFR
- Description of the application of the IRB approach to credit risks
- Credit risk mitigation Techniques
- Internal Market Risk models
  - **Special rule for GSIB:**
    - Own funds and eligible liabilities (key Metrics, still Quarterly)

<table>
<thead>
<tr>
<th>Annual</th>
<th>Semi-Annual</th>
<th>Quarterly</th>
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- **Part 8**
- Key Metrics

<table>
<thead>
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<th>Annual</th>
<th>Semi-Annual</th>
<th>Quarterly</th>
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</table>

- Countercyclical Capital Buffer
- Remuneration policy
- Leverage ratio and its calculation
- Liquidity Requirements: LCR and NSFR
- Credit risk mitigation techniques

<table>
<thead>
<tr>
<th>Annual</th>
<th>Semi-Annual</th>
<th>Quarterly</th>
</tr>
</thead>
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</tbody>
</table>

- Own Funds
- Own Funds requirements and RWA (ICAAP)
- Credit risk Assessment
- Key Metrics (including compositional resources)
Scope of future disclosure

Other Institutions (art. 433c CRR II) – Listed
Other Institutions (art. 433c CRR II) – Non Listed

<table>
<thead>
<tr>
<th>Reporting Set *</th>
<th>Annual</th>
<th>Semi Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Part 8</td>
<td>Key Metrics</td>
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<tr>
<td>2</td>
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<td>1a</td>
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<td>6</td>
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</tbody>
</table>

- Risk Management objectives and policy
- Own funds
- On request the ICAAP result
- Counterparty Credit risk
- Credit risk and dilution risk
- Application of the standardised approach
- Interest rate risk in the banking book
- Securitisation positions
- Leverage Ratio and its calculation
- Liquidity Requirements: LCR and NSFR
- Application of the IRB approach to credit risk
- Credit risk mitigation techniques
- Internal market risk models
Scope of future disclosure

Small institutions (art. 433b CRR II)-listed
Small institutions (art. 433b CRR II) – Non listed

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<tr>
<th>Reporting Set *</th>
<th>Year</th>
<th>Half-yearly</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>• Risk management: Strategies and processes, risk profile and strategy</td>
<td>• Key Metrics</td>
</tr>
<tr>
<td>2</td>
<td>• Supervisory board positions, the recruitment policies for the board and diversity policy</td>
<td></td>
</tr>
<tr>
<td>1a</td>
<td>• Remuneration policy</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>• Own funds and own funds requirements</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>• ICAAP results if requested</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>• Counterparty Credit risk</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>• Credit risk and dilution risk</td>
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<tr>
<td></td>
<td>• Application of the standardised approach</td>
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</tr>
<tr>
<td></td>
<td>• Interest rate risk in the banking book</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Securitisation positions: positions in the trading and banking books</td>
<td></td>
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<tr>
<td></td>
<td>• Leverage ratio and its calculation</td>
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<td>• Liquidity Requirements: LCR and NSFR</td>
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<td></td>
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<tr>
<td></td>
<td>• Internal Market Risk models</td>
<td></td>
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</tbody>
</table>
Resolution
Total Loss Absorbing Capacity-TLAC
## TLAC

**Implementation of a new capital ratio “Total Loss Absorbing Capacity”**

**TLAC in the CRR II**

- The central aspects of the FSB are addressed in the CRR II.
- The implementation will initially focus on expanding the scope of the regulation to include bail-in eligible liabilities.
- This is done in tandem with the requirements of the BRRD regarding the write-down or conversion of capital instruments (art. 59 BRRD).

**TLAC**

- Ensuring loss absorption capacity for G-SIBs
- Regulatory own funds according to Basel III
- Long term, unsecured, subordinated instruments
- Pillar 1 approach
- Was formulated by the FSB and implemented in the CRR II

**MREL**

- Ensuring loss absorption capability for CRR credit institutions
- Regulatory own funds according to CRR
- Long-term and unsecured instruments with equal treatment in event of liquidation and insolvency
- Institution-specific by the resolution authority (based on the resolution plan)
- Pillar 2 approach

**TLAC**

- Ensuring loss absorption capacity for G-SIBs
- Regulatory own funds according to Basel III
- Long term, unsecured, subordinated instruments
- Pillar 1 approach
- Was formulated by the FSB and implemented in the CRR II
**TLAC**

Scope, minimum terms and capital deductions

---

**Scope (art. 92a and art. 92b para 2 CRR II)**
- The TLAC requirements of art. 92a and art. 92b CRR II must be adhered to by institutions identified as resolution entities, G-SII's or subsidiaries of a Non-EU G-SII

---

**Exemption from TLAC requirements (art. 92a and art. 92b para 2 CRR II)**
- In the following cases, institutions are exempt from the fulfilment of the requirements:
  - In the first three years after the institution or group was identified as a G-SII;
  - In the first two years after the application of the Bail-In tool in accordance with BRRD
  - In the first two years after the resolution entity has put in place an alternative private sector measure in accordance with article 32 (1) b of BRRD to prevent the winding-up of an institution.

Material subsidiaries of non-EU G-SII's, which are not resolution entities, must satisfy an own funds and eligible liabilities equal to 90% of the requirements outlined in art 92a.

---

**Mandatory minimum maturities (art. 72c CRR II)**
- Eligible liability instruments with a residual maturity of at least one year shall fully qualify as eligible liabilities.

---

**Deductions from eligible liabilities (art. 72e-j CRR II)**
Institutions subject to TLAC requirements must consider certain deductions from eligible liabilities including; direct, indirect and synthetic holdings by the institution of own eligible liabilities instruments, reciprocal cross holdings of G-SII's, holdings of G-SII's where an institution does (art 72i) and does not hold a significant investment.
### Non-eligible liabilities (art. 72a para 2 CRR II)

- Covered deposits
- Sight deposits and short-term deposits with an original maturity of under one year
- The part of deposits from individuals and SMEs which exceed the Deposit Guarantee Scheme limit
- Deposits of natural persons and SMEs when they belong to branch offices outside the EU
- Covered bonds and secured liabilities used for hedging purposes
- Liabilities from client assets or where a fiduciary relationship exists, provided the client or beneficiary is protected by the insolvency law
- Liabilities to institutions with an initial maturity of less than seven days
- Liabilities to employees, business or commercial creditors, tax and social security authorities and deposit guarantee schemes
- Liabilities arising from derivatives
- Liabilities arising from debt instruments with embedded derivatives

### Impact

Based on initial studies, the banks concerned tend to be faced with an increasing need for capital, even if the TLAC requirement can be met in principle by a greater choice of capital instruments.
The In art. 92a, CRR II incorporates two cumulative capital ratios from the FSB’s guidelines:

- Relevant for all institutions of global system importance
- Planned application from January 2019
- Definition of two cumulative minimum capital ratios

However, the minimum requirements are proposed to be increased over a transitional period of up to 2022:

- 16% - risk based method from 2019 and 18% from 2022
- 6% - non risk based (i.e. leverage ratio exposure) method from 2019 and 6.75% from 2022
**TLAC**

**Calibration of TLAC requirements**

1. **Minimum requirements for external TLAC instruments**
   - From 2019: TLAC-Quota of at least 16% RWA and 6% LR
   - From 2022: TLAC-Quota of at least 18% RWA and 6.75% LR
   - Equivalent liabilities of 2.5% (2019) and 3.5% (2022) of RWA possible
   - Fulfillment of capital requirements as well as a leverage ratio of 3%

2. **Additional individual external TLAC instruments**
   - Additional TLAC requirements are set by resolution authority after consultation with the Crisis Management Groups (CMG) and in the framework of the Resolvability Assessment Process (RAP)
   - Compliance with the 33.3% rule for debt instruments

3. **Additional capital Buffers**
   - Ensuring compliance with relevant Basel III-capital buffers
   - Only after fulfilling the TLAC requirements can surplus capital be used to satisfy applicable Basel buffers

**TLAC-Eligible liabilities**

- CET 1
- AT 1
- T2

**Consistently meet**

- TLAC-Quota

**Pillar 2 buffer**

- 1 - 5% systemic buffer
- 0 - 2.5% counter-cyclical capital buffer
- 2.5% Capital Conservation Buffer

**At the discretion of the resolution authority**

- At least 33.3% debt instruments
TLAC

Instruments of eligible liabilities

**Instruments of eligible liabilities** include:

- Instruments that meet the conditions of the art. 72b CRR II and are not already qualified as common equity tier 1, additional tier 1 or tier 2 capital.
- Tier 2 instruments with a residual maturity of at least one year, to the extent that they do not qualify as Tier 2 items in accordance with Article 64 (phasing).

The liabilities are directly issued or raised, as applicable, by an institution and are fully paid-up

The liabilities are not subject to any set-off agreements or netting rights that would affect their loss absorption capability

The purchase of the liabilities is not funded directly or indirectly by the resolution entity;

There is no incentive for the institution to cancel, repurchase, or to repay the liability early

The liabilities were not purchased within the same recovery group or by a company in which the institution holds direct or indirect interest

The holder does not have the right to accelerate the planned future payment of interest or capital, except in the case of insolvency

Claims on the principal amount of the liabilities are subordinated in full

The amount of interest or dividend payments due is not adjusted due to the creditworthiness of the resolution entity or its parent company

The liabilities are not guaranteed, secured or subject to any other scheme which enhances their superiority by parent or the institution itself and their subsidiaries

After application of write down and conversion powers, the principal amount must be permanently written down or converted into CET1 capital

Liabilities are regarded as eligible liability instruments, provided that all conditions of article 72b (2) of CRR II are met.
Other topics
Intermediary parent undertakings
Organisational structure changes for institutions which are part of third country groups

**Intermediary parent companies**

Obligation to **establish an intermediary parent undertaking established within the EU, provided that:**

- Two or more institutions (Credit Institution or Investment Firm) located within the EU which are part of a third country group (art. 21b para 1 CRD V).
- All institutions belonging to the same third-country group must be captured by the same intermediary parent undertaking.

**Permissible form**

Only **(Mixed) Financial-Holding Company** or **Credit institutions** are allowable for supervision as intermediate parent undertakings.

In future, these companies will be subject to an authorisation requirement under article 8 or article 21b of CRD V.

**Exceptions**

CRD V does not require an IPU where total assets within the EU do not exceed EUR 30 billion.

**Notwithstanding their size,** institutions whose third country group is a non EU G-SII are not exempted.

**Impact**

- Creation of a **licensed intermediary parent undertaking** and changes in the group organisational structure.
- The EBA will in future publish a **list of intermediary parent undertakings** in the EU.
Exemption from capital and liquidity requirements

Capital Waiver will also be able to be granted across borders within the banking union

**Capital Waiver**

**Conditions for the granting of a cross-border capital waiver by the Consolidating Supervisory Authority (s)**

- Fulfilment of all of the condition for exemption from the capital requirements within a Member State as set out in art 7 (2) CRR II
- Parent undertaking guarantees the own funds requirements of the exempted (subsidiary) institution
- The guaranteed amount will be due as soon as a beneficiary institution has defaulted or is "Failing or likely to fail" according to the BRRD
- 50% of the guarantee is covered by financial collateral (compliant with article 197 CRR)
- The financial collateral to cover the guarantee is unencumbered and free of impediments

**Liquidity Waiver**

**Conditions for the granting of a cross-border liquidity waiver by the Supervisory Authority (s) of the mother**

- Fulfilment of all of the conditions for the formation of a "Liquidity Sub-Group" according to article 21 CRR
- Guarantee by a group member of the amount of LCR net Cash Outflows
- The guaranteed amount will be due as soon as a beneficiary institution has defaulted or is "Failing or likely to fail" according to the BRRD
- 50% of the guarantee is covered by financial collateral (High Quality Liquid Assets per DA 2015/61)
- The financial collateral to cover the guarantee is unencumbered and free of impediments

**Capital & Liquidity Waiver Pursuant to article 7 (2) and article 8 para 2 & 3 CRR**
SME Supporting Factor
Facilitation for SMEs

- Risk exposures to **Small and medium-sized enterprises (SMEs)** are assigned a **risk weight of 75%** in accordance with CRR, provided that they meet the requirements of the Retail classification.
- However, **risk exposures to Corporates** are assigned a **risk weight between 20% and 150%** dependant on credit rating.

**Unchanged:**

<table>
<thead>
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<th>≤ 1.5 million</th>
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<tbody>
<tr>
<td>Adjustment of the risk weighted exposure for exposures <strong>up to EUR 1.5 million:</strong></td>
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<tr>
<td>RW * 0.77612 = risk-weighted item amount</td>
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<tr>
<td>➡️ Reduction of 23.81%</td>
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</table>

**New:**

<table>
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<th>&gt; EUR 1.5 million</th>
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<tr>
<td>Adjustment of the risk weighted exposure for exposures <strong>over EUR 1.5 million:</strong></td>
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<tr>
<td>RW * 0.85 = risk-weighted position amount</td>
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<tr>
<td>➡️ Reduction of 15%</td>
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IFRS 9
To reduce the additional provision for credit risk, art. 473a CRR II is added

Application time

- Art 473a transitional provisions of CRR II serve to cushion the first-time application effect of IFRS 9
- IFRS 9 is mandatory from 1 January 2018
- European bodies are fast tracking the negotiation of IFRS 9 to be ready in time

First application of the amended rules under CRR II: 1 January 2019

Risk provision

- Forward looking calculation of provisions (IFRS 9 provisions interpreted by EBA as Specific. This could impact standardised institutions more than IRB institutions)
- Transitional arrangements for the period from 1 January 2019 to 31 December 2023 in accordance with article 473a para 1 CRR II. EBA has recommended this be reduced to 4 years.
- CRR II would allow institutions to add back to CET1 the amount of loss allowances that are classified in stages 1 and 2 under IFRS 9 during each year (different factors applied). Year 1 effect is neutralised under current proposals.
- CRR II does not allow for the IFRS 9 changes to classification and measurement, therefore could result in CET 1 increased in some cases (undesired effect)

Effect on capital ratios

Additional provision for credit risk is expected with some changes expected to the CRR II proposals before they are finalised
Reporting and Disclosure
The requirements of the reporting system are adjusted according to new minimum requirements

Proportionality
- Facilitating reporting requirements for "small" institutions concerning reporting frequency: annually instead of quarterly/half-yearly
- "Small institutions": < EUR 1.5 billion total assets
- Effort/cost analysis by the EBA with regard to different institution sizes required
- The supervisory authorities have the power to request additional notification requirements from the institutions to be supervised under certain conditions

Scope
- Existing reporting will be adapted under the new CRR II regulatory framework

Strengthening of the discretionary scope of the supervisory authorities
Excluded Companies
Applies generally to credit institutions and securities companies

In addition to the existing exceptions in the CRD IV, other exceptions to the mandatory application directive in article 2 (5a) and 5b CRD V have been included.

Credit institutions and investment firms may be exempted from the application of supervisory requirements when certain requirements are met:

- Entity established under public law, that serves social or socio-political objectives, without pursuing economic self-interest or a profit motive.
- It shall be subject to appropriate and effective other supervision in accordance with rules compatible with union law and which include at least monitoring of the own resources requirements.
- The own resources and financing requirements and demands of the company are covered by a guarantee of a central, regional or local authority of at least 90%.
- The institution is excluded from the requirements for covered deposits and its activity is limited territorially to the country of domicile.
- The total value of assets must be less than EUR 30 billion and less than 20% of the gross domestic product of the country of domicile.
- The company must not be of significant importance with regard to the economy of the Member State in which it has its head office.

There is the possibility to exclude special forms of institutions from the application of the regulations. These must be recognised in their home country as a credit cooperative and meet the following requirements:

- The financial institution must be organised in a cooperative manner, its members must be linked on the basis of personal characteristics or interests, and their services may be offered exclusively to members.
- Services are limited to deposits and credit business, finance leasing, payment services and guarantees.
- Institutions must be subject to appropriate and effective other supervision in accordance with union law and which at least includes monitoring the own resources requirements.
- The Assets of all institutions in the same category may not exceed 3% of the total Gross Domestic Product. And the total value of the Individual company should not exceed EUR 100 million.
- The Activity must be territorially limited to the home country.

Since most Cooperative Banks also offer their products to non-members and also distribute other products, they generally do not benefit from the derogation.
Definitions

- **Financial Holding Company:** Definition of the term "main" in the FH definition (subsidiary companies exclusively or mainly institutions or financial institutions) by means of share limits for certain indicators (for example, equity, consolidated balance sheet total, income, personnel)
- **Financial Institution (FI):** Exclusion of Pure Industrial Holdings from the FI definition

Licensing Requirement

- In the future, financial holding companies and mixed financial holding companies will require a **Regulatory authorisation** from the Consolidating Supervisory Authority.
- Transmission of **all necessary information** to allow supervision of structural organisation of the group and compliance with authorisation requirements.

Application for Authorisation

- Disclosure of organisational group structure with participatory relationships
- Compliance with the minimum requirements for management and the head office in accordance with article 13 CRD IV
- Proof of the requirements for shareholders and members of the company (including proof of identity and verification and the proof of the assessment criteria for a sound leadership)

Cumulative requirements:

- Compliance with the CRD V and CRR II regulations
- Ensuring effective monitoring of subsidiary companies
(Mixed) Financial holding Companies
Direct Addressee For Supervision and Regulations

Supervisory authorities standard addressee
- (Mixed) financial holding companies are the immediate addressees of the supervisory requirements of the CRR on a consolidated basis and are immediately responsible for compliance with these requirements
- It must have a appropriate organisational structure and appropriate internal controls which will provide for the proper transmission and processing of the data required for consolidation

Obligation to provide information
- In the future, authorisations granted may be subsequently withdrawn or canceled by the Consolidated Supervisory Authority if the requirements of CRR II or CRD V are no longer met or if all the necessary documents have not been submitted
- In addition, an obligation to transmit information has been codified to enable effective monitoring

Impact
- New concessions for (mixed) financial holding companies (including proof of fulfilment of the same requirements for the management bodies and the (qualified) shareholders as for institutions and compliance with the CRD/CRR on consolidated basis).
- (Mixed) Financial holding companies as the direct addressee of the relevant supervisory regulations of the CRR lead to a shift of responsibilities, to organisational, structural, procedural and personnel changes and shifting of relevant tasks to (mixed) financial holdings
**New supervisory regime for investment firms**

Revision of the supervisory regime for investment firms

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**Analysis phase (s)**

**Phase 1** - EBA Report (EBA/Op/2015/20)
In a report examining the adequacy of the current applicable provisions for investment firms, the EBA concluded that these are **not appropriate for the majority of investment firms** (except for systemic firms, as these are exposed to similar risks).

**Phase 2**
At the request of the European Commission, the EBA is currently conducting further research and data collection to create an appropriate capital regime (expected completion: June 2017). First draft laws for non-systemic investment firms are planned by the end of 2017.

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**Draft Regulation**

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 CRII and the entry into force of any legislation resulting from the investment firm review (art 501 c).