



Prudential Regulation Review December 2017

December's biggest news on the banking side was the release of the Basel Committee's final rules for Basel 3, the culmination of a decade of effort to revise banking regulation in response to the Financial Crisis. Elsewhere, the European Council confirmed that discussions on the future relationship between the EU and the UK could commence.

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Capital (including stress testing)

The Basel Committee on Banking Supervision (BCBS) published the [finalised Basel III framework](#). The framework calibrates a standardised output floor at 72.5% of RWAs, which will be phased in between 2022 and 2027. Other elements of the framework, including revisions to the standardised approaches for credit and operational risk and constraints on the use of IRB approaches, will apply from January 2022. The Committee established a programme to evaluate its post-crisis reforms and will actively participate in the Financial Stability Board's (FSB) efforts to evaluate their effects.

The BCBS also published the results of a [cumulative quantitative impact study \(QIS\)](#) to provide stakeholders with a benchmark for analysis and an estimated impact of the Committee's finalisation of the Basel III reforms. The study concluded that the finalisation of Basel III results in no significant increase in overall capital requirements, although effects vary among banks.

The EBA published a [cumulative impact assessment of the finalised Basel III framework](#). The analysis showed that, under the revised international standards, total minimum required capital (MRC) would increase by 12.9% in weighted average terms. (NB: Deloitte's EMEA Centre for Regulatory Strategy has published a blog on the [challenges for Banks](#) during the finalisation and implementation of Basel III.)

The Single Resolution Board (SRB), together with the Banking Union and National Resolution Authorities (NRAs), published the [2017 Minimum Requirement for own funds and Eligible Liabilities \(MREL\) Policy](#). The SRB will set bank-specific, binding, consolidated MREL targets for the majority of the largest and most complex banks, including G-SIBs and banks with resolution colleges. The MREL policy will include a number of bank-specific adjustments.

The European Commission adopted proposals for a [regulation](#) and a [directive](#) to amend the prudential rules for EU investment firms. The new rules establish three categories of investment firms, including a category of systemic investment firms which would be subject to the full scope of CRD/CRR and two categories of non-systemic investment firms with more proportionate rules determined by a range of factors.

The European Banking Authority (EBA) launched a consultation on amended technical standards on [benchmarking of internal](#) models, adjusting the benchmarking portfolios and reporting requirements. The proposed changes reduce uncertainties in credit risk portfolios and introduce a new set of market risk benchmarking portfolios.

The European Central Bank (ECB) adopted [four supervisory priorities for 2018](#) and published an accompanying presentation with [details of the 2017 SREP exercise and the approach for the 2018 stress test](#). The updated priorities will include business models and profitability drivers, credit risk, risk management, and activities comprising multiple risk dimensions. The 2018 stress tests will follow the same approach as in 2016, and results of the 2018 stress test will inform the 2018 SREP, to be applied in 2019.

The BCBS released a report on [supervisory and bank stress testing](#) which found that, in recent years, both banks and authorities have made significant advances in stress testing methodologies and infrastructure. Given the rapid evolution in stress testing practices, the BCBS also reviewed its current set of stress testing principles and is consulting on a proposal to replace this set of principles with a streamlined version.

Liquidity

The EBA published a discussion paper on [EU implementation of the revised market and counterparty credit risk frameworks](#), covering key challenges in implementing the frameworks and preliminary views on how to address them. The paper also proposed a roadmap for the regulatory deliverables included in the Capital Requirements Regulation 2 (CRR2) proposal.

The BCBS issued a proposed [technical amendment to the Net Stable Funding Ratio](#). The amendment proposes to allow reduced required stable funding factors for central bank claims with a maturity of more than six months. The Governing Council of the ECB approved the [consolidation of the real-time gross settlement system TARGET2 and the securities settlement platform TARGET2-Securities](#), and the development of a Eurosystem Collateral Management System. Across the Eurosystem, the consolidated system seeks to provide market participants with enhanced liquidity management procedures. The collateral management system will provide a harmonised platform for collateral operations.

Rethinking the domestic and international architecture for regulation

The European Commission published a roadmap for [deepening Europe's Economic and Monetary Union](#), setting out steps to be taken over the next 18 months. These include plans to adopt all remaining proposals on the Banking Union and to propose an enabling framework for European Sovereign Bond-backed securities for the euro area by 2018. By mid-2019, The Commission expects to have a fully functional backstop to the SRF, to implement EDIS, and to finalise all pending legislative initiatives for the Capital Markets Union (CMU).

The SRB published its first Multi-Annual Programme document, including its [Work Programme 2018](#). In 2018, the SRB plans to set binding MREL targets, to develop a policy on removing impediments to resolvability, and to alter the timeline for drafting annual resolution plans. By 2020, the SRB expects to develop complete resolution plans for all banking groups in its remit.

The BCBS published a discussion paper on the [regulatory treatment of sovereign exposures](#). The Committee reviewed the main sources, channels, uses and regulatory treatment of sovereign risk in the banking system. As the Committee has not reached a consensus on changes to the treatment of sovereign exposures, it concluded that it will not consult on policy changes for the time being.

Disclosure, valuation and accounting

The ECB published a draft guide on the assessment methodology for the internal model method and the advanced CVA capital charge for counterparty credit risk, setting out how the ECB intends to assess internal models for counterparty credit risk for directly supervised banks. The EBA published templates targeted at enhancing the standardisation of data related to non-performing loans (NPL) transactions across the EU. The templates will provide a common EU data set for the screening, financial due diligence and valuation of NPL transactions, with the aim of widening the investor base, supporting price discovery and facilitating the development of the NPL secondary market.

Information security and data privacy

The EBA issued [guidance for the use of cloud service providers by financial institutions](#). The guidance builds on existing Guidelines on Outsourcing developed by the Committee of European Banking Supervisors (CEBS), and specifies supervisory expectations for institutions that intend to adopt cloud computing. The recommendations will be applicable from 1 July 2018 for credit institutions, investment firms and competent authorities.

Central Bank of Ireland

Deputy Governor Ed Sibley spoke at the FSI financial services forum, describing the Central Bank's [objectives and approach to prudential regulation, key challenges the international financial services sector faces and the Central Bank of Ireland's priorities for 2018](#).

A research technical paper on the [Bank Asset Quality and Monetary Policy Pass-Through](#) published by the Central Bank of Ireland examines the quality of bank credit in the euro area and its effect on the efficient pass-through of monetary policy actions

Two Economic Letters and one Research Technical Paper consider the ongoing [resolution of the Non-Performing Loan crisis](#) in the Irish Primary Dwelling House mortgage market.

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