



## Prudential Regulation Review September 2018

Daniele Nouy of the European Central Bank (ECB) and Elke König of the Single Resolution Board (SRB) have been reflecting on the lessons learned from the financial crisis and post-crisis supervisory priorities.

The Central Bank of Ireland echoed this and this month focused on the key lessons learned, a decade on, from the Irish Financial Crisis and revisited the area of Non-Performing Loans and Long-term Mortgage Arrears issuing two financial stability notes in this area.

This note is produced for information only on a best effort basis, and does not constitute advice of any kind.

## Capital (including macro prudential and stress testing)

Daniele Nouy, Chair of the Supervisory Board of the ECB, gave an [interview on lessons learnt following the financial crisis](#). She explained that banks' recovery plans and authorities' resolution plans are helping to address the issue of 'too big to fail'. She emphasised that there remains a risk of "regulatory fatigue" and listed three post-crisis supervisory priorities, namely (i) European banks' profitability, (ii) regulatory convergence and (iii) the issue of non-performing loans.

The EBA [launched a data collection exercise alongside its regular Basel 3 monitoring exercise](#). It released two sets of QIS templates as part of the data collection exercise, which will allow it to complete analysis for its response to the Commission's Call for Advice. The templates are aimed at ensuring that "the data collection burden is proportionate to the institution's size and complexity." The Commission has requested that the EBA's advice and technical recommendations be submitted to them by the summer of 2019.

The European Central Bank (ECB) [launched a public consultation on the risk-type-specific chapters of its guide to internal models](#). The chapters, which follow the ECB's March 2018 consultation on the general topics chapter of the guide, aim at providing transparency on the ECB's understanding of the applicable regulations for using internal model requirements to calculate own fund requirements for credit risk, market risk, and counterparty credit risk. The consultation closes on 7 November 2018.

The Basel Committee [agreed](#) next steps on various policy issues including [finalising the market risk framework](#) around the end of the year; publication of a newsletter on, and further steps to address, leverage ratio window-dressing behaviour including consulting on the exposure measure in October; and publishing a revised version of its Principles on Stress Testing in October.

The EBA [revised](#) its standardised [NPL data templates](#). The revisions include amendments in data fields, a redesign of the related legal fields, and editorial changes to improve the effectiveness and usability of the templates.

The EBA published two reports on EU banks' funding plans and asset encumbrance.

The funding plans [report](#) found that, over the next three years, [banks expect to increase client deposits and long-term market-based funding](#) while decreasing short-term debt and repo funding. Participating banks expect total assets to grow, on average, by 6.2% by 2020, driven by loans to households and non-financial corporates.

The [report](#) on the asset [encumbrance noted an increase in asset encumbrance from 2015 and 2016](#). However, it concluded that the recent increase does not pose immediate concern for the funding structure of EU banks, as it mostly arose from a reduced volume of assets rather than an increase in encumbered assets.

The ECON Committee of the European Parliament [voted](#) to adopt a draft report on [the prudential review for investment firms](#). A key amendment is the proposed provision to allow national regulators to subject certain investment firms to CRD rules, if certain conditions are met. The file now awaits the European Council's general approach to begin the next phase of negotiations.

## Governance and risk management (including remuneration)

The ECB [consulted](#) on Part 2 of the [guide to assessments of licence applications](#). The consultative guide focuses on the assessment criteria for capital requirements and programme of operations, including business plans. It also sets out the main topics of interest for supervisors when assessing the programme of operations, including the business model, risk profile, governance, and the risk management framework. The consultation closes on 25 October 2018.

The ECB [published](#) the results of its [thematic review of profitability and business models](#), which was conducted from 2016 to the first quarter of 2018. It found that significant institutions' (SIs) profitability and business models remain under pressure. The ECB does not expect SIs will return to pre-2008 return on equity levels due to changes in the business environment, risk profiles and capitalisation.

The EBA [launched](#) its fifth annual [EU-wide transparency exercise](#). In December 2018, together with the Risk Assessment Report (RAR), the EBA will release over 900,000 data points on circa 130 EU banks. The data will

cover capital positions, risk exposure amounts, sovereign exposures, and asset quality.

## Crisis management (including special resolution, systemically important firms, and business continuity)

Elke König, Chair of the SRB, [published](#) an article on gaps in the Banking Union regarding funding in resolution. She noted that [the Banking Union does not have temporary public backstop funding mechanisms in place for funding in resolution](#), as recommended by the FSB. She further stated that any backstop should give resolution authorities certainty that the tool can be relied upon for finalising all features of the resolution scheme, and that the tool must be sizeable and flexible enough to support the effective implementation of any resolution strategy.

Ms König, [published](#) a further article on the need for an EU liquidation regime for banks. She stated that [bank insolvency procedures should be subject to common standards and practices at the EU level](#). She further noted the challenges in conducting a no-creditor-worse-off assessment and determining whether a bank is failing, or likely to fail, due to divergences in national-level insolvency laws.

## Regulatory perimeter

Sabine Lautenschlager, Vice-Chair of the Supervisory Board of the ECB, [delivered](#) a speech discussing progress made towards establishing a [more integrated European Banking system](#). She suggested the following to strengthen the work already being done:

- (i) the need to establish a truly unified legal basis;
- (ii) harmonising administrative practices and
- (iii) the need for greater time commitments and increased cooperation efforts.

Lastly, Ms Lautenschlager encouraged national authorities to "embrace the European idea".

The European Systemic Risk Board (ESRB) **published** its [EU Shadow Banking Monitor](#). It found the size of the EU shadow banking system changed little last year and now accounts for 40% of the EU financial system (€42 trillion in total assets). The report highlighted risks and vulnerabilities in areas such as liquidity interconnectedness, including the risk of contagion across sectors and within shadow banking.

### Disclosure, valuation and accounting

The PRA **consulted** on [updates to reporting requirements](#) in line with version 2.9 of the EBA's reporting taxonomy. Amongst other things, the changes would extend the scope of new financial reporting (FINREP) templates on non-performing loans and forbore exposures to firms not required to report using FINREP templates under the CRR. The consultation closes on 12 December 2018.

### Information security and data privacy

Slavka Eley, Head of Banking Markets, Innovation and Products at the ECB gave a **speech** on the [Regulatory Framework for Mitigating Key Resilience Risks](#). Ms Eley said that increasing digitisation, use of third party providers and cyber-attacks meant that ICT related risks remained a priority within the EU and globally. She went on to explain that, though there are limits to what can be achieved in this area of regulation, she explained that a combined effort between institutions and supervisors will help to guard against resilience risks and concluded by stating that the EBA's role includes ensuring coordinated approaches across the EU single market.

### Rethinking the domestic and international architecture for regulation

Daniele Nouy gave a **speech** in which she argued that the [Banking Union and the SSM must progress toward a single jurisdiction](#). This would require three things: 'harmonisation' 'co-operation' and 'solidarity'. She commented that the banking rulebook needed to be 'truly European' and highlighted the need to introduce fewer directives and more regulations to reduce the likelihood of uneven implementation at national level. She stated that whilst ring-fencing by national banking sectors was "reasonable" during the crisis supervisors should now, in her view, "pull down these fences".

François Villeroy de Galhau, Governor of the Bank of France, **spoke** on financial supervision and the role of national authorities in Europe. He stated that [making the Single Resolution Mechanism fully operational should be a top priority](#) and noted his belief that the establishment of a credible and efficient mechanism for resolution will make it easier to reach a compromise on deposit insurance.

Mario Draghi, President of the ECB, **spoke** on the [history and future of European integration](#) using the lessons of the past as a potential blueprint for an improved Monetary Union ("the Union"). He advised that three key practical approaches should guide in implementing the "necessary" reforms to the Union. These approaches are (i) focusing integration efforts on common challenges where the EU could clearly help; (ii) recognising that integration in one area creates an interdependence with other areas; and (iii) equipping the EU with the tools and institutions to manage that interdependence and ensure stability and convergence.

### Central Bank of Ireland

Addressing the annual [Central Bank of Ireland economics roundtable](#), Governor Philip R. Lane discussed the importance of macro financial risk management. He noted that both regulatory and fiscal policies have essential roles to play in macro financial risk management. In addition to the remarks, the Central Bank has also published Governor Lane's annual [pre-budget advisory letter to the Minister for Finance](#), Paschal Donohue TD.

Sharon Donnery, Deputy Governor of the Central Bank of Ireland, [outlined five key lessons from the Irish financial crisis](#). Deputy Governor, Prudential Regulation, Ed Sibley also spoke about [the financial system a decade on from the start of the financial crisis](#).

The Central Bank of Ireland published two Financial Stability Notes. The notes focus on [the resolution of non-performing loans \(NPLs\) and on long term mortgage arrears in Ireland](#).

# Contact Us

Our firm's website, [www.deloitte.ie](http://www.deloitte.ie) provides world-leading continuously updated information source on international and local topics such as [Risk Advisory](#).

For more details on the above please contact your client service partner or our Irish Risk Advisory contacts:

**Sean Smith**

Partner – Regulatory Risk

T: +353 1 417 2306

E: [seansmith1@deloitte.ie](mailto:seansmith1@deloitte.ie)

**John Kernan**

Director – Regulatory Risk

T: +353 1 417 8983

E: [jkernan@deloitte.ie](mailto:jkernan@deloitte.ie)

**Olumuyiwa John Farayibi**

Manager – Regulatory Risk

T: +353 1 417 3096

E: [ofarayibi@deloitte.ie](mailto:ofarayibi@deloitte.ie)

**Senan Ryan**

Consultant - Regulatory Risk

T: +353 1 417 8630

E: [senryan@deloitte.ie](mailto:senryan@deloitte.ie)

# Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a more detailed description of DTTL and its member firms.

At Deloitte, we make an impact that matters for our clients, our people, our profession, and in the wider society by delivering the solutions and insights they need to address their most complex business challenges. As one of the largest global professional services and consulting networks, with over 220,000 professionals in more than 150 countries, we bring world-class capabilities and high-quality services to our clients. In Ireland, Deloitte has over 2,000 people providing audit, tax, consulting, and corporate finance services to public and private clients spanning multiple industries. Our people have the leadership capabilities, experience, and insight to collaborate with clients so they can move forward with confidence.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

**CENTRE for**  
**REGULATORY**  
**STRATEGY**  
**EMEA**