



EBA

The EBA after one year: achievements and challenges ahead

Speech by Andrea Enria
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Conference on EU Regulation and
Supervision

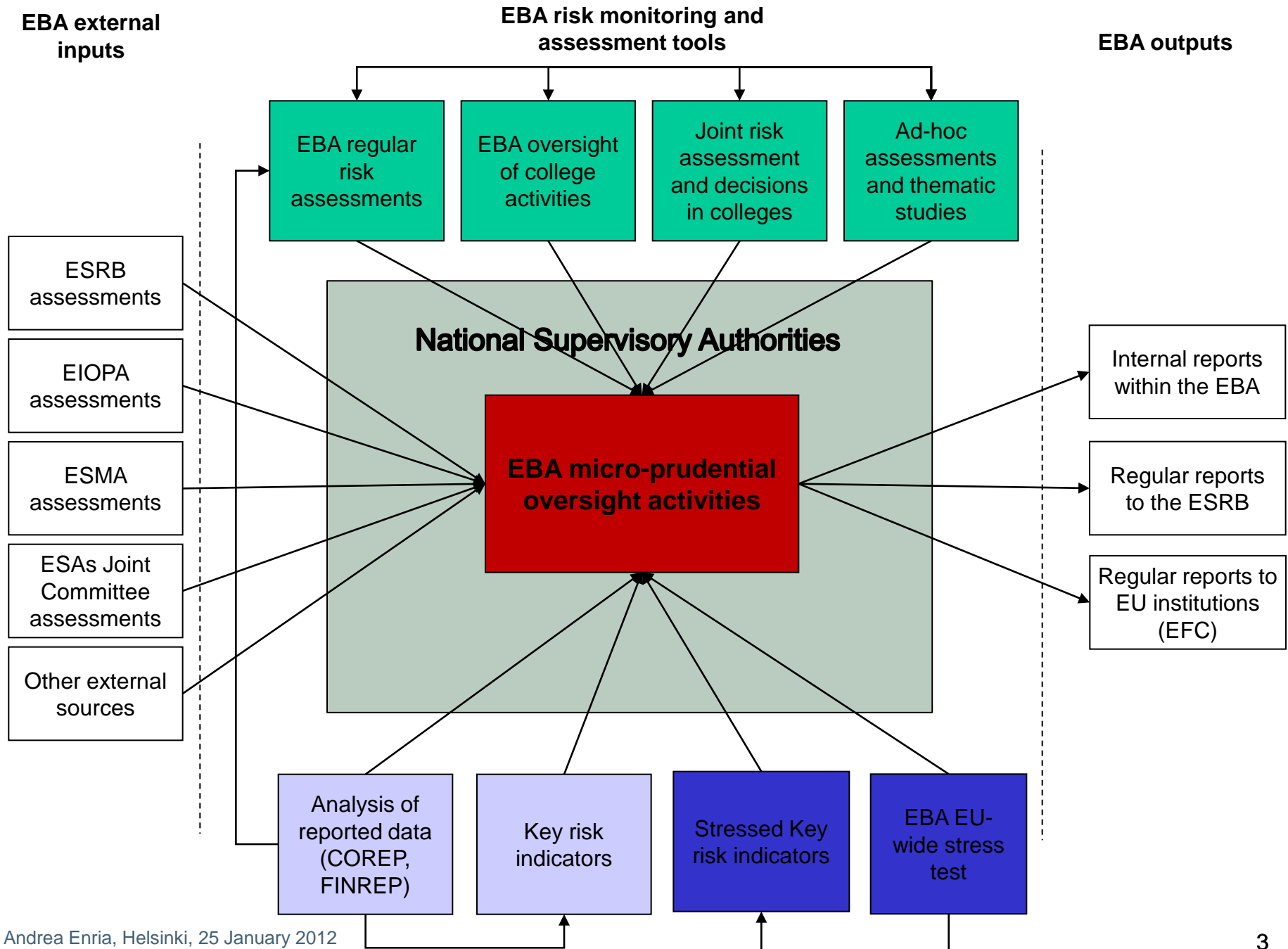
Helsinki, 25 January 2012

European
Banking
Authority

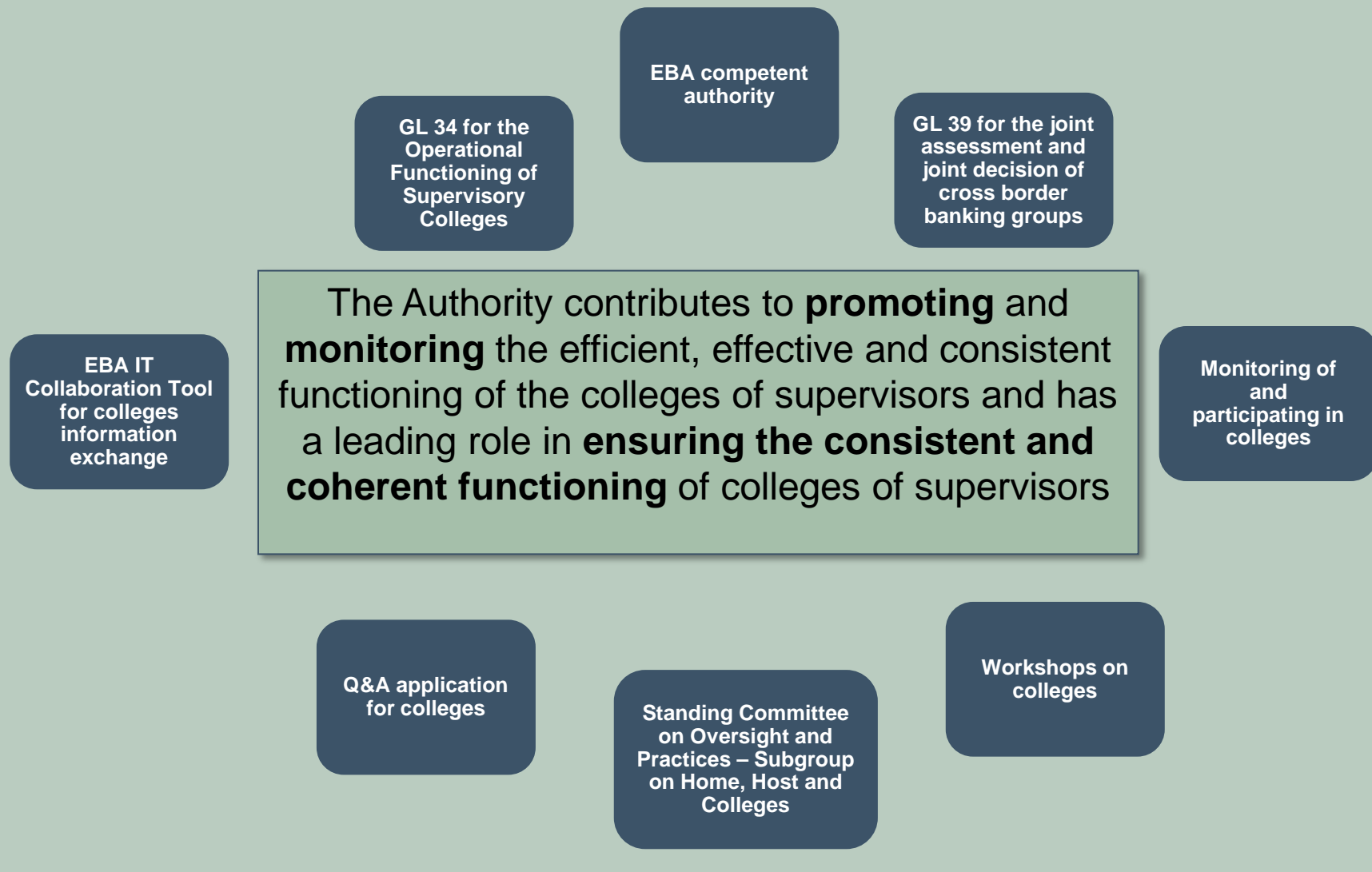
European System of Financial Supervision

Outline

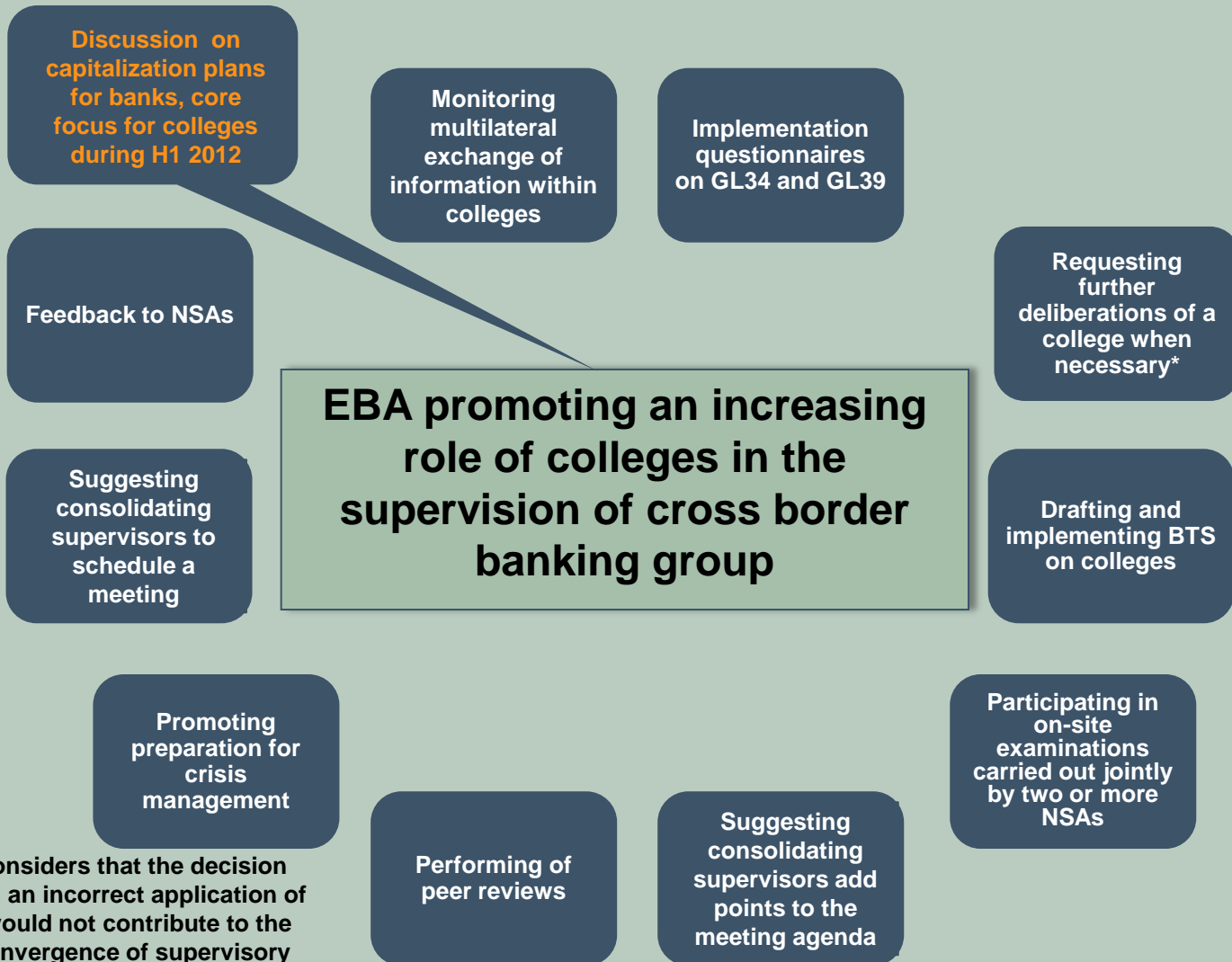
- Assessing risks and coordinating supervisory policies
 - ✓ Building up the ability to monitor risks in banking
 - ✓ Making supervisory colleges work
 - ✓ The stress test exercise
 - ✓ The recapitalisation exercise
- The first steps towards the single rule book
 - ✓ Capital
 - ✓ Liquidity
 - ✓ Supervisory reporting
 - ✓ Crisis prevention and resolution
- Consumer protection, in an EU-wide dimension
- Looking ahead: challenges, resources, working processes and powers



Making supervisory colleges work



Making supervisory colleges work (cont)



* When EBA considers that the decision would result in an incorrect application of Union law or would not contribute to the objective of convergence of supervisory practices

EU-Wide stress test exercise in 2011

- A success story...
 - Harsh approach, leading to a substantial profit squeeze and to significant losses at EU banks (comparable to two “Lehman years in a row), with a restrictive definition of capital
 - Enhanced consistency: common definitions and benchmarks, effective peer review process
 - Unprecedented transparency: around 3,200 data points for each bank
 - Catalyst for capital increases, up to EUR 50 bn
- ... but the objective of restoring confidence in the EU banking sector has not been achieved
 - Criticism on the treatment of sovereign exposures
 - Capital benchmark (5%) considered too low

Recapitalization exercise: background

- The deepening of the sovereign debt crisis since the summer 2011 has triggered a dangerous feedback loop:
 - bank funding has been severely affected, with term markets coming to a standstill since July
 - this has triggered a significant deleveraging process, which is posing a serious threat to growth prospects
 - the fiscal position of the sovereigns under stress risks deteriorating further
- ESRB's assessment on the heightened systemic risk and the need to strengthen bank capital:
 - transparent and consistent valuation of sovereign exposures
 - recourse to backstop facilities
- Proposal for a comprehensive package, including term funding guarantee schemes and measures to directly alleviate pressures on sovereign debt markets

Recapitalization exercise: key features

- The EBA's proposals for strengthening bank capital have been endorsed by the Council in October 2011
- The 71 banks in the sample have been asked to:
 - build up an exceptional and temporary capital buffer against market value of sovereign debt exposures at end-September (stock and prices);
 - establish an exceptional and temporary buffer such that the Core Tier 1 capital ratio reaches a level of 9% by June 2012
 - the EBA will reassess the continued need and size of capital buffers against banks' sovereign exposures in the light of possible improvements of sovereign risk
- Overall shortfall: EUR 114.7 bln (31 banks, plus the EUR 30 bln “backstop” for Greek banks)
- Three main drivers, each accounting for about 1/3, on average:
 - 9% CT1 ratio target
 - Basel 2.5 rules
 - Sovereign buffer (of which 1/3 from extension of M2M to banking book)

Recapitalisation exercise: controlling deleveraging

Banks requested to submit plans for achieving the target capital levels by 20 January 2011

✓ **Banks should first use private sources of funding**

- retained earnings and reduced bonus payments
- new issuances of common equity and suitably strong contingent capital (EBA term-sheet)
- other liability management measures (i.e. buy-back of existing hybrid instruments)
- when necessary government support measures (equity, hybrids) subject to EU COM approval, with possible reliance on EFSF

✓ **Sales of selected assets.** Reduction in RWAs may be recognised if the sales are simply a transfer of contracts or business units to a third party and do not lead to a reduced flow of lending

✓ **Reduction flow of lending.** Decrease in RWAs due to reduction in lending activity will not be accounted for reaching the 9% CT1 ratio

✓ **Sales of sovereign exposures.** Reduction in the mix/stock of sovereign assets will not change the sovereign capital buffer that is a fixed amount

✓ Reductions in risk weighted assets (RWAs) due to the **validation and roll-out of internal models** to additional portfolios should not, in general, be allowed unless these changes are already planned and under consideration by the competent authority.

The Single Rulebook in banking

- In the run up to the crisis regulation used as a lever for attracting business in national market places and support national champions (e.g., definition of capital)
- Maximum harmonisation is not maximum requirements: national authority should have some room to adjust the requirements to the risk environment, within a common EU-wide framework (constrained discretion)
- Basel III implementation will provide a major boost to the Single Rulebook, but will be a major challenge:
 - Technical and legal quality of the standards
 - Due process – informal dialogue, impact assessment and public consultation
 - Tight timeline: more than 100 TS, around 40 by end 2012

Single Rule Book - Capital

- Circa 20 of the 40 draft technical standards (TS) to be delivered by 01/01/2013 are on own funds issues:
 - ✓ TS on features of common equity Tier 1 capital, additional Tier 1 capital, Tier 2 capital, disclosure
- EBA has been attributed additional tasks:
 - ✓ keep a list of the forms of capital instruments that qualify as CET1;
 - ✓ monitor the quality of own funds instruments issued by EU institutions and notify to COM cases of material deterioration
- First part of TS to be consulted by the EBA in April 2012
- TS to be finalised by the end of the year, taking into account the final texts of CRD4/CRR

Single Rule Book – Liquidity

Main elements of the Commission's proposal:

- **Liquidity standards:** Introducing the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR)
- **Additional monitoring tools:** maturity ladder, concentration of funding, available unencumbered assets
- **Home/host issues:** Shift of responsibilities for liquidity supervision from the host to the home supervisor
- **EBA tasked with the development of technical standards to ensure uniform application of the requirements and tools as well as for the joint decision making process for the identification of liquidity subgroups**

Single Rule Book – Liquidity

Key deliverables, to be finalised by end 2012:

- ITS on uniform reporting formats for LCR and NSFR, additional liquidity monitoring metrics and IT solutions for reporting (art. 403 (3) (a) – (c))
- ITS listing currencies which meet the requirement of central bank eligibility criteria for liquid assets (art. 404 (4))
- ITS on currencies with constraint availability of liquid assets (art. 407 (4))
- RTS on exceptions for such currencies (art. 407 (5))
- ITS on retail deposits subject to higher outflows (art. 409 (3))
- RTS on additional outflows corresponding to collateral needs (art. 411 (3))

Single Rule Book – Liquidity

The calibration of the standards has raised major controversies, need for a thorough review – the EBA will prepare:

- By end 2013 a Report on the impact of the LCR (art. 481 (1)) and a Report on appropriate uniform definitions of high and extremely high liquid assets (art. 481 (2)) by end 2013
- By end 2014 RTS on outflows for other services and products (art. 408 (3))
- By end 2015 a Report on the impact of the NSFR (art. 481 (3)).

PLUS: A number of BTS in the area of joint decisions and liquidity risk management

Single Rule Book - Crisis prevention and resolution

- FSB work stream and forthcoming Commission's proposal
 - Main pillars: *(i)* comprehensive toolkit; *(ii)* improved resolution planning (RRPs); *(iii)* cross-border firm-specific cooperation arrangements and “resolution colleges” (CBSGs/CMGs) to facilitate integrated solutions for cross-border groups; *(iv)* harmonization of relevant national rules (e.g. creditor ranking, shareholders' rights) for cross-border groups ?
- EBA: *(i)* GLs and BTSs (e.g. on RRP; resolution tools; resolution colleges); *(ii)* binding mediation on disagreement among NCAs (e.g. for the activation of Intra-group Financial Support; group assessment of RRP; group resolution measures (non binding))

Single Rulebook - Supervisory reporting

- A crucial step to :
 - ✓ Increase efficiency in reporting systems (cost reduction for banks)
 - ✓ Enhance analytical ability for EBA (common set of data, quality) and effective supervision of cross-border groups
- EBA to deliver ITS by end 2012 in the following areas (CRR):
 - ✓ Art 95 Own funds reporting – CP published in Dec 2011
 - ✓ Art 96 Mortgage exposures reporting – CP published in Dec 2011
 - ✓ Art 383 Large exposures reporting – CP to be published in Feb 2012
- Direct application – no further implementing regulation at the national level

Single Rulebook - Supervisory reporting

- Proportionate to nature, scale and complexity of institutions' activities
 - ✓ Thresholds for cross-border banks
 - ✓ Supervisory assessment for domestic-only banks
- ITS features to ensure uniform implementation:
 - ✓ Legal references point to relevant parts of EU law (CRD, Accounting Directive)
 - ✓ Data definitions included in the instructions – to further clarify legal references
 - ✓ Validation rules (quantitative relations between rows and columns of each template, and among templates)
 - ✓ Data point model containing all the relevant technical specifications necessary for developing an IT reporting format
 - ✓ XBRL taxonomies to ensure unambiguous IT interpretation of the data included in the ITS

Consumer Protection- progress so far

- Work on innovative products
 - ✓ survey on potentially harmful innovative products
 - ✓ preliminary work on asset encumbrance issues of covered bonds and other types of secured funding
 - ✓ in-depth analysis of exchange traded funds (ETFs, both physical and synthetic), in close cooperation with ESMA
- Work on consumer protection
 - ✓ Survey of major issues of concern with respect to retail consumers:
 - Indebtedness and responsible lending
 - Financial literacy and education
 - Complex savings products
 - Bank account fees and charges
 - Unnecessary sales
 - Impact of technology
 - Comparison Websites
- Initial contacts with stakeholders: EBA's BSG, other EU consumer organisations and industry

Looking ahead

- **Main challenges**

- Exit from the crisis: recapitalisation, orderly deleveraging, reopening of funding markets, refocusing of business models
- Setting up and maintaining the Single rulebook in front of financial innovation
- Effective functioning of supervisory colleges

- **Resources and working processes**

- Daunting tasks, scarce resources, need to draw on NSAs and develop innovative working methods
- Longer term: pools of expertise, matrix organisation for NSAs

- **Powers**

- Need for field tests: potentially relevant, but need to check in reality



EBA

Thank You

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