



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Facing up to the challenges posed by COVID-19 and Brexit

Hearing from the ECB

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Overview

- 1 The ECB's response to the COVID-19 crisis
- 2 Upcoming supervision of significant investment firms

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The ECB's response to the COVID-19 crisis

Prudential and operational relief measures (1/2)

Press release 12 March: Capital, liquidity and operational relief

- Banks allowed to use capital and liquidity buffers, including Pillar 2 guidance
- Frontloading change of capital composition of Pillar 2 requirements
- Postponement of existing supervisory deadlines and new decisions

Press release 20 March: Guidance on NPLs and IFRS 9

- Relief measures regarding asset quality deterioration and non-performing loans (NPLs)
- Guidance on prudential treatment of loans to take account of public support measures
- Avoiding excessive procyclicality in IFRS 9 by using transitional arrangements and giving greater weight to the long-term stable outlook when estimating long-term expected credit losses

Press release 27 March: Recommendation on dividends

- ECB recommends that banks do not pay dividends for 2019 and 2020 and refrain from share buy-backs aimed at remunerating shareholders until at least 1 October 2020

Press release 16 April: Reduction in capital requirements for market risk

- Temporary reduction in qualitative market risk multiplier set by supervisors

Prudential and operational relief measures (2/2)



Press release 28 July: Communication on supervisory mitigating measures

- Recommendation on dividends and share buy-backs extended until **1 January 2021** as a **temporary and exceptional measure**
- Banks asked to be extremely moderate with regard to **variable remuneration**
- Forward guidance provided on the timeline to restore capital and liquidity positions
- Deadline for **non-performing loan reduction strategies** further extended, allowing more time for an assessment of the impact of COVID-19
- **Operational relief** measures – e.g. follow-up actions on supervisory decisions resumed



Press release 17 September: Temporary relief in banks' leverage ratio

- Measure allows banks to temporarily exclude central bank exposures from leverage ratio
- Banks to benefit from relief measure until 27 June 2021

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Upcoming supervision of significant investment firms

What's new

A new European regulatory framework for investment firms

Some investment firms becoming banks

New banks supervised by the ECB

Related initiatives at the ECB

The new investment firm regulatory framework

Goals

- Introducing a system which is intended to capture the heterogeneous investment firm (IF) sector
- Ensuring **more proportionate rules** and better supervision for all IFs on capital and other risk management requirements...
- ...while ensuring a **level playing field** between large and systemic financial institutions

Timeline

- Investment Firms Regulation (IFR) and Directive (IFD) entered into force in December 2019
- The new framework will enter into application in June 2021

A multi-tiered regulatory system

- The IFR/IFD recognises the need to better tailor the regulatory treatment to the different IF sizes/business models. For this, IFs will be classified as follows:
 - **i. Large and systemic**; ii. large and non-systemic; iii. small and non-interconnected
- This presentation will focus on large and systemic IFs

Large and systemic investment firms (1/2)

General features

Identification

- Large and systemic IFs are defined as those **dealing on own account** or **underwriting or placing financial instruments on a firm commitment basis** and reaching a threshold of €30 billion of assets
- IFs can qualify on a stand-alone basis or if they belong to a group of entities that reaches that threshold

Business models

- Large(st) IFs providing key wholesale market/investment banking services, with business models and risk profiles that are similar to those of significant banks.
- IFs performing bank-like activities, exposing these entities to credit risk (mainly in the form of counterparty risk) and market risk (for positions taken on own account, whether or not for on behalf of external clients)

Large and systemic investment firms (2/2)

Definition, licence, supervision

New definition of bank

- Large and systemic IFs will **become banks** and have to apply for a **banking licence**
- As a result, they will be subject to ongoing banking supervision and according to the banking regulation

Supervision

When established in a participating Member State, an investment firm that is newly authorised as a bank will be subject to European banking supervision from June 2021:

- **If it is a significant bank**, it will be subject to **direct ECB supervision** (if ECB significance criteria are met, including belonging to a banking group already under direct ECB supervision)
- **If it is a less significant bank**, it will be subject to supervision by the respective **national supervisor** (with ECB oversight)

ECB initiatives



Authorisation

- ECB takes final decision; cooperation between authorities essential, also to streamline procedure
- Actual authorisation framework depends on how Member States transpose the IFD



Policy development

- ECB has discretion to identify some IFs as banks
- Discretion based on risks of circumvention and risks to financial stability



Other supervisory issues

- Firm-impacting issues (e.g. treatment of existing supervisory decisions)
- ECB-impacting issues (e.g. supervisory planning, significance/comprehensive assessment, collaboration with other authorities, etc.)

Main expected outcomes

Streamlined authorisation process; clarified regulatory aspects; enhanced supervisory practices; efficient resource allocation