



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

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The future of regulation in Europe

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Introduction


EUROPEAN CENTRAL BANK
BANKING SUPERVISION

since 4 November 2014

19 NCAs



Cooperation ECB-NCAs



Indirect supervision

Direct supervision



123 significant banks

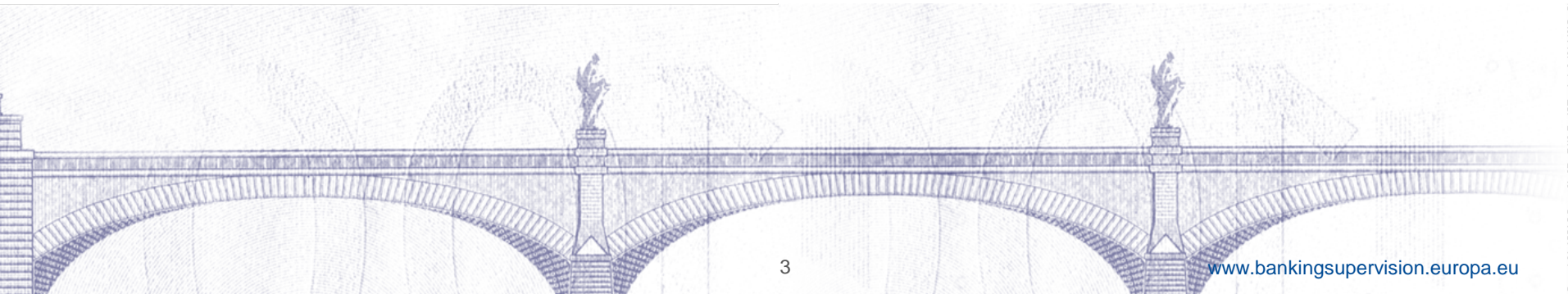
Direct supervision



Ca. 3500 less significant banks

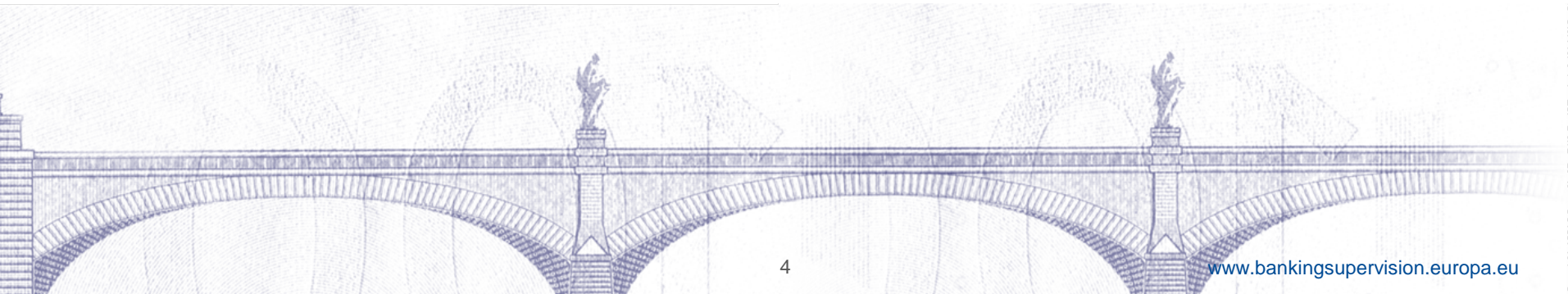
Overview

- 1 What will happen within the Single Supervisory Mechanism
- 2 What will happen in Basel and the FSB
- 3 How do Banking Union and Capital Markets Union interact



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1.1 Work on options and national discretions

- **Genesis: 2014 Comprehensive Assessment (CA)**
- CA results highlighted:
 - impact of ONDs on **quality** of individual banks' CET1 capital
 - inconsistency of **definition** of capital across Member States
- Implications of **national decisions** for the **composition and quality of capital**. Significant divergences (e.g. transitional adjustments to banks' CET1 calculation)
- **ONDs harmonisation = more financial integration**

More mergers and acquisitions

Increased systemic risk

Sub-consolidated dimension less relevant

1.1 Work on options and national discretions

Approx. 150 ONDs identified in CRR/CRDIV

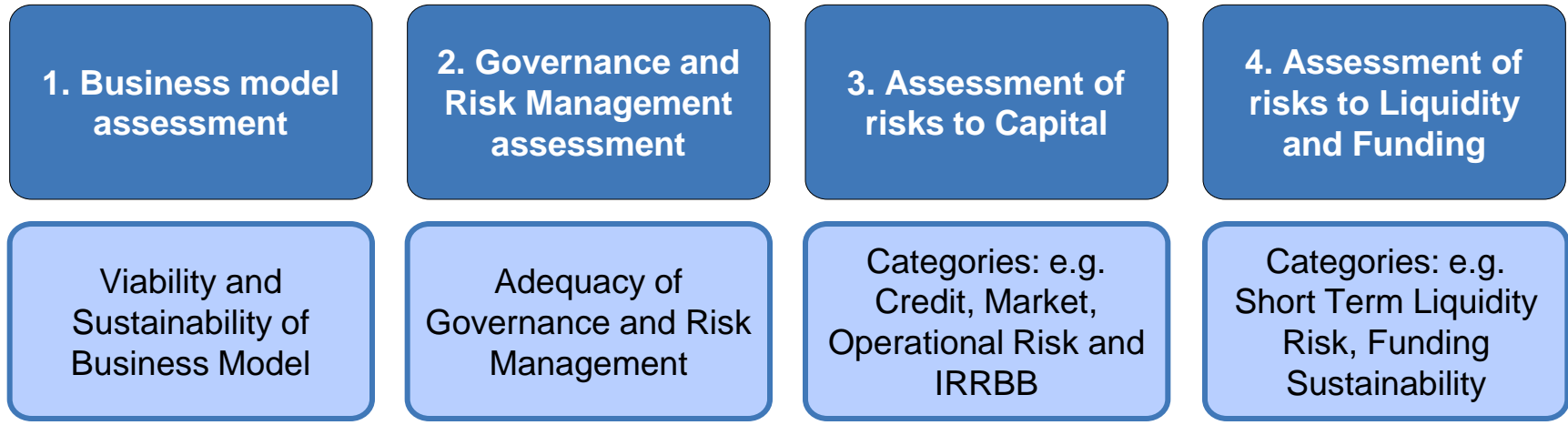
Competence	Scope	Some examples
Competent Authority	All banks (general decision)	Transitional ONDs expiring end-2017; Definition of default; exposures to public sector entities; etc.
	Case-by-case (individual decision)	Waiver on liquidity and capital requirements at solo level: development of common criteria Waiver on Basel I floor; etc.
	Macroprudential	
Member States	All banks (general decision)	

INITIAL FOCUS:
110 Competent Authority
Micro-prudential ONDs

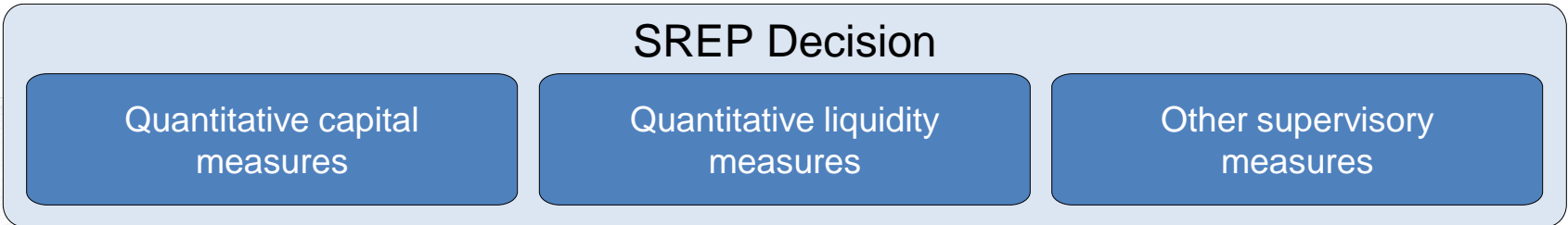
1.1 Work on options and national discretions

- **July 2015: policy recommendations** for the exercise of the ONDs that are within the competence of competent authorities (ECB and NCAs) in coordination with EBA
- **November 2015: public consultation on draft regulation** for the exercise of general options (vs. internal guidance for policy and specifications concerning bank-by-bank ONDs)
- Some ONDs require further work, e.g. treatment of **insurance holdings within conglomerates** (Art. 49(1) CRR); phasing-in of the deduction of **DTAs relying on future profitability** (Art. 478(3) CRR)
- **Impact on CET1** of full deduction of DTAs (with fully-loaded CET1): average of **-300bp**

1.2 2015 common SREP methodology



Overall SREP assessment – Holistic approach
 → Score + Rationale/main conclusions



1.2 2015 common SREP methodology

Main challenges

- Various combinations of supervisory judgment and rules
- Various combinations of quantitative indicators vs. qualitative information
- Various expectations by banks in each jurisdiction
- Various use of bank's ICAAP and ILAAP across countries

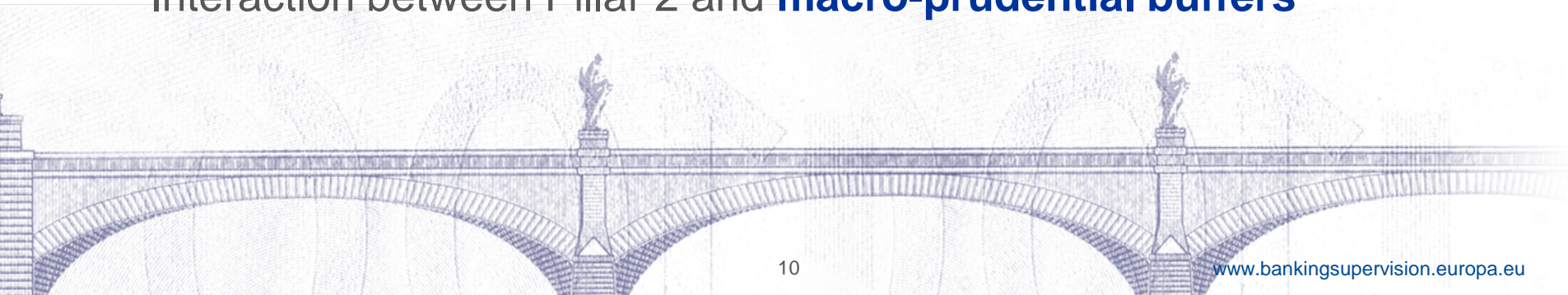
Key principles

- Find right balance between quantitative and qualitative information & past and forward-looking elements
- Combination of anchor points & flexibility:
 - Automatic calculations provided by internal data system
 - Benchmarks => consistency; comparability
 - Expert judgment

1.2 2015 common SREP methodology

- **Preliminary outcome:**

- compared to 2014, minimum capital ratios have increased by an average of less than **100 basis points** in comparison with last year
- Almost all banks will have a **surplus of capital** over the SREP requirements (excl. systemic buffers)
- **Increasing risk-sensitivity and consistency** of SREP requirements as a result of the SSM
- **SSM G-SIBs vs. G-SIBs established in the US and the UK: fairly similar results** in terms of capital requirements despite the differences in the methodologies used in the SSM, the UK and the US
- Interaction between Pillar 2 and **macro-prudential buffers**

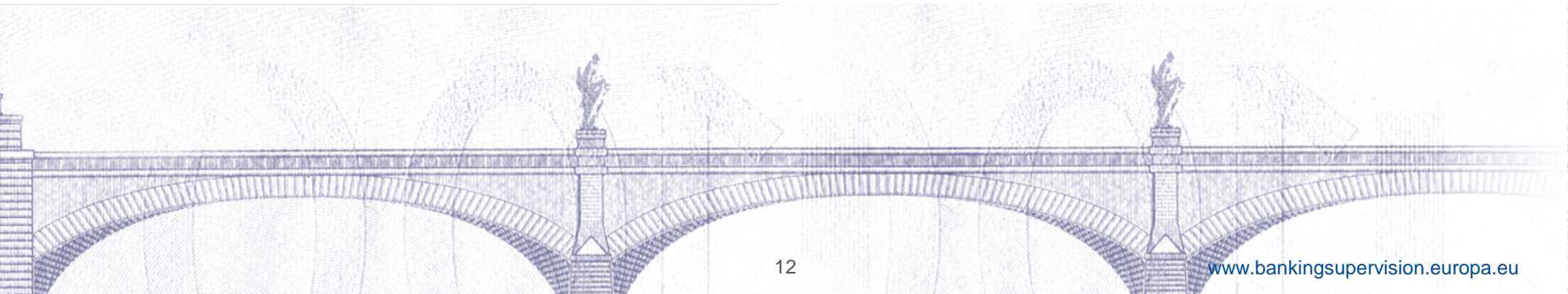


1.3 National powers

- **ECB applies national law** transposing EU Directives (e.g. CRDIV) in the exercise of its supervisory tasks.
- Creates **national divergences** in the way EU legislation is applied, e.g. for fit and proper assessments. Developing own ECB policies and best practices is not sufficient to eliminate these differences.
- Lack of maximum harmonisation in CRDIV => Member States have established **prudential rules claimed to go beyond the CRDIV** framework (e.g. amendments to articles of association; approval of mergers)
- **National powers** remaining within the competence of NCAs hamper the exercise by the ECB of direct supervision of significant banks in a consistent way.

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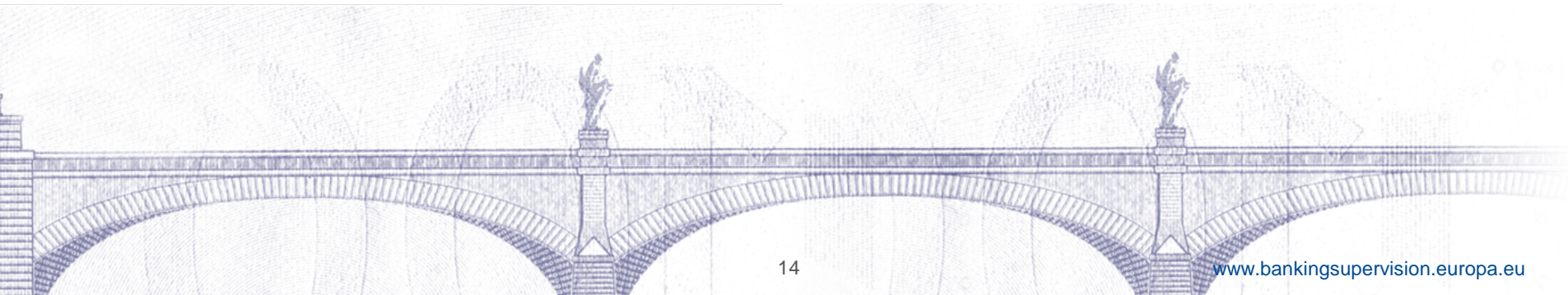


2.1 Outstanding reforms in the Basel Committee

- **BCBS:** revisions to the **risk-weighted assets framework**
 - Consideration on the introduction of a “capital floor” based on the Standardized Approach
 - Improvement of the Credit Risk Standardized Approach
 - Credit Risk treatments for sovereign exposures
- **Deadline** for delivering the new framework: ~~end of 2015~~ **end 2016? Mid-2017?** Need for clear and reliable communication to the industry
- **ECB/SSM role in Basel** expected to become more important - SSM is the world’s largest banking supervisory jurisdiction (in 2015, **9 G-SIBs** (out of 30) are headquartered in the euro area; 8 G-SIBs in the US)

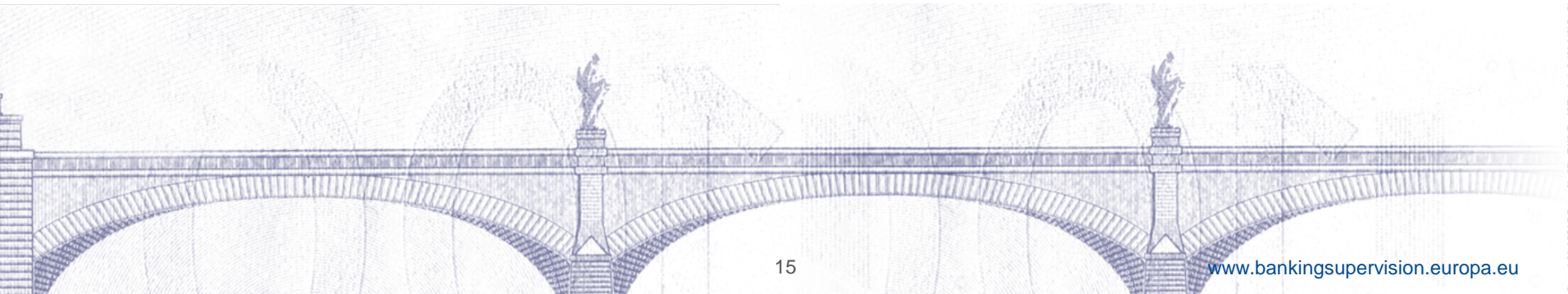
2.2 Outstanding reforms in the FSB

- FSB: **finalisation of TLAC** proposal by November 2015
- What matters for the SSM:
 - **Calibration of the TLAC minimum**: LREM TLAC calibration and TLAC RWA minimum
 - **Treatment of exposures between MPE resolution entities**



Overview

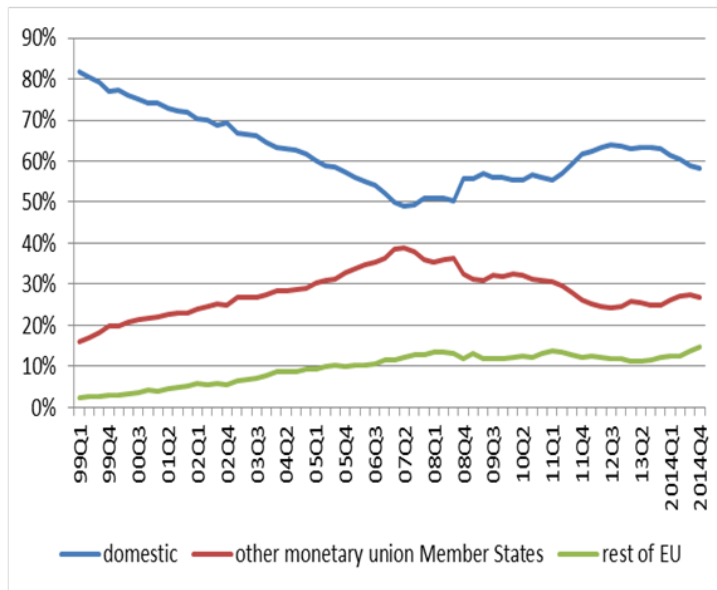
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3.1 The CMU, a complement to the Banking Union

Share of euro area MFI holdings of debt securities issued by MFIs by residency of the issuers

(percentage of total holdings, excl. Eurosystem)



Source: ECB.
 Note: Outstanding amounts are classified by the residency of the issuer. Eurosystem holdings are excluded.

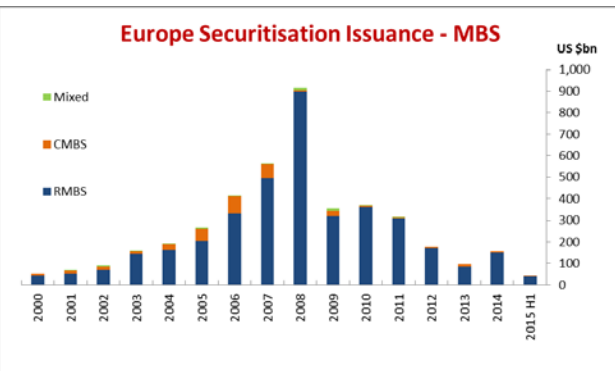
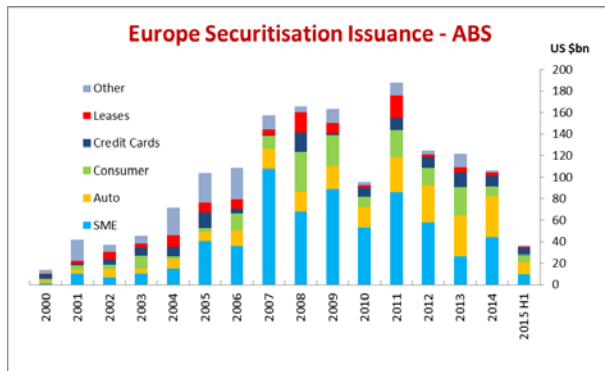
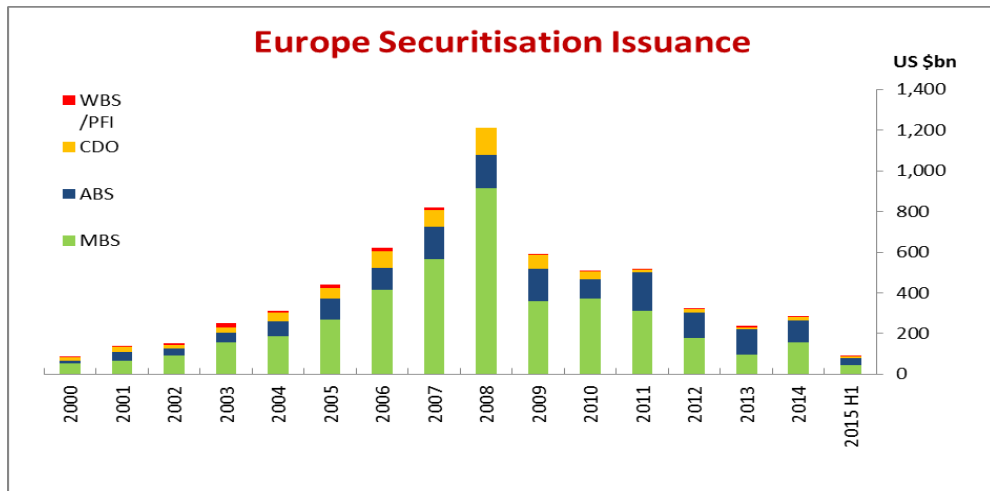
- **Complementing bank funding** to the economy (new sources + freeing up bank capital)
- Efficient and diversified capital markets to continue **severing the bank-sovereign nexus** and getting rid of the **location bias** in Europe
- Better developed and integrated capital markets to provide for **private risk-taking** (complement SRF as insurance against bank crises)
- **SSM and CMU** reinforcing each other

3.2 The ECB's view on CMU

First step: fostering individual market segments / transparency

Key priorities

- (i) Revitalising the EU securitisation market;
- (ii) Enhancing the availability/ standardisation of information (especially of **SME credit information**), and
- (iii) Further developing **Private Placement** markets.



Conclusion

