



From Basel to Bonus

The CRD IV package

27 June 2013

Roma

Diamo i numeri.....?

- ✓ 1.7 trillion €
- ✓ 13.4%

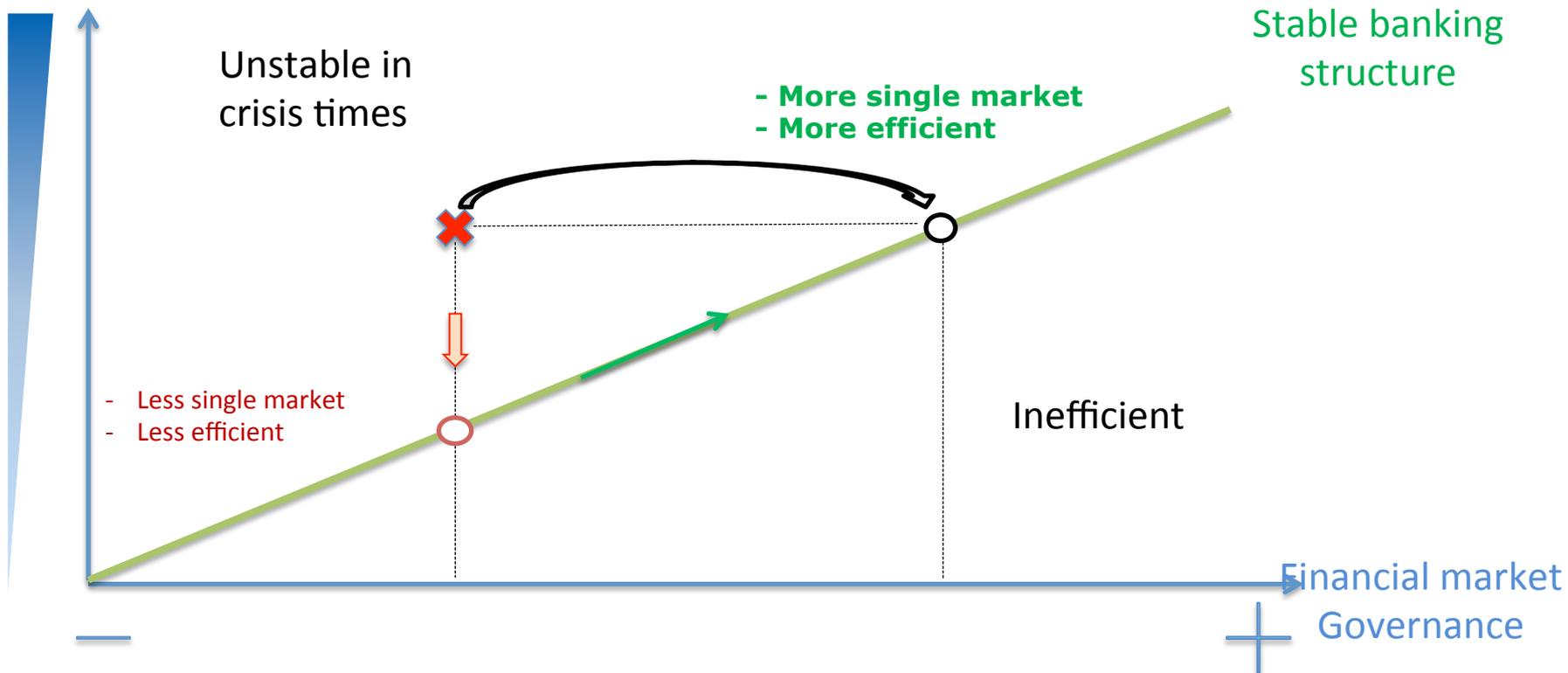
- ✓ 4.9 trillion €
- ✓ 38.8%

- ✓ 349%; 370%

Summary and Conclusions

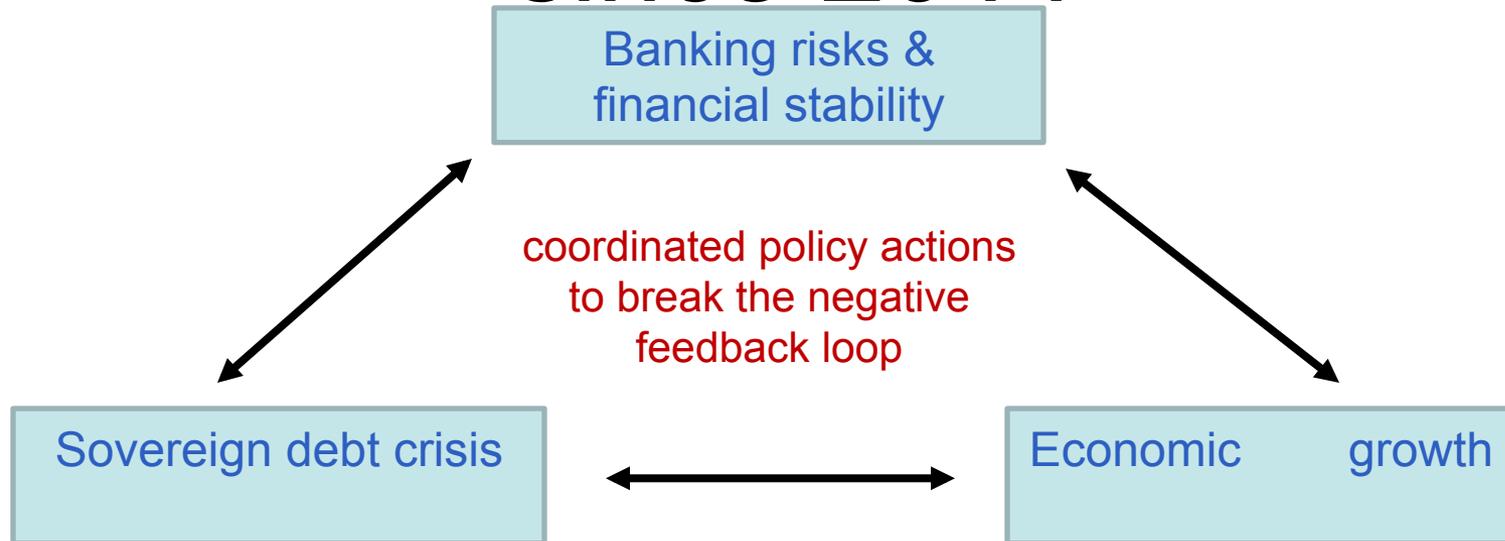


Financial Market
Liberalisation



Single Rulebook: CRD, DGS, BRR,
Structural Measures,
Banking Union (SSM, SRM...)

Complex policy challenges since 2011

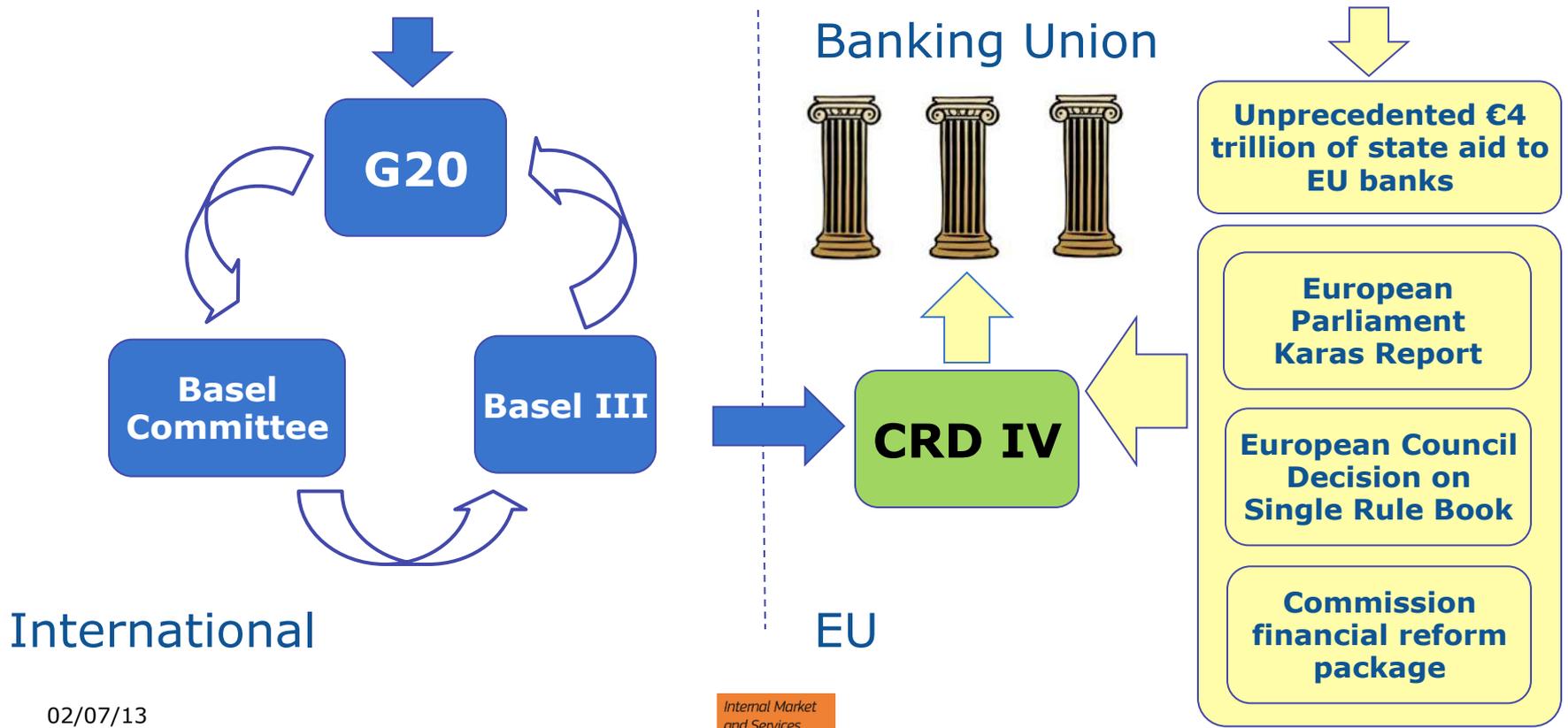


- Commission roadmap for stability and growth
 - policy agreements by European Council and Heads of State or Government
 - ECB long-term refinancing operations
- **improved market conditions since Mid-2012**

1. Banking Regulation
2. Deposit Guarantees
3. Bank Resolution
4. Liikanen Group
5. Banking Union

Main Drivers

Financial crisis





Some EU banking specificities

Banking intermediation much more important in the EU than in the US...

... and banking intermediation to SMEs and corporates in Italy more important compared to other large MS.

8.000 banks hold a total of 46 trillion banking assets (up from 30 trillion in 2001)

75% of banking assets and 80% of deposits is held in the Euro area

Significant differences in absolute and relative size of banking sectors between MS

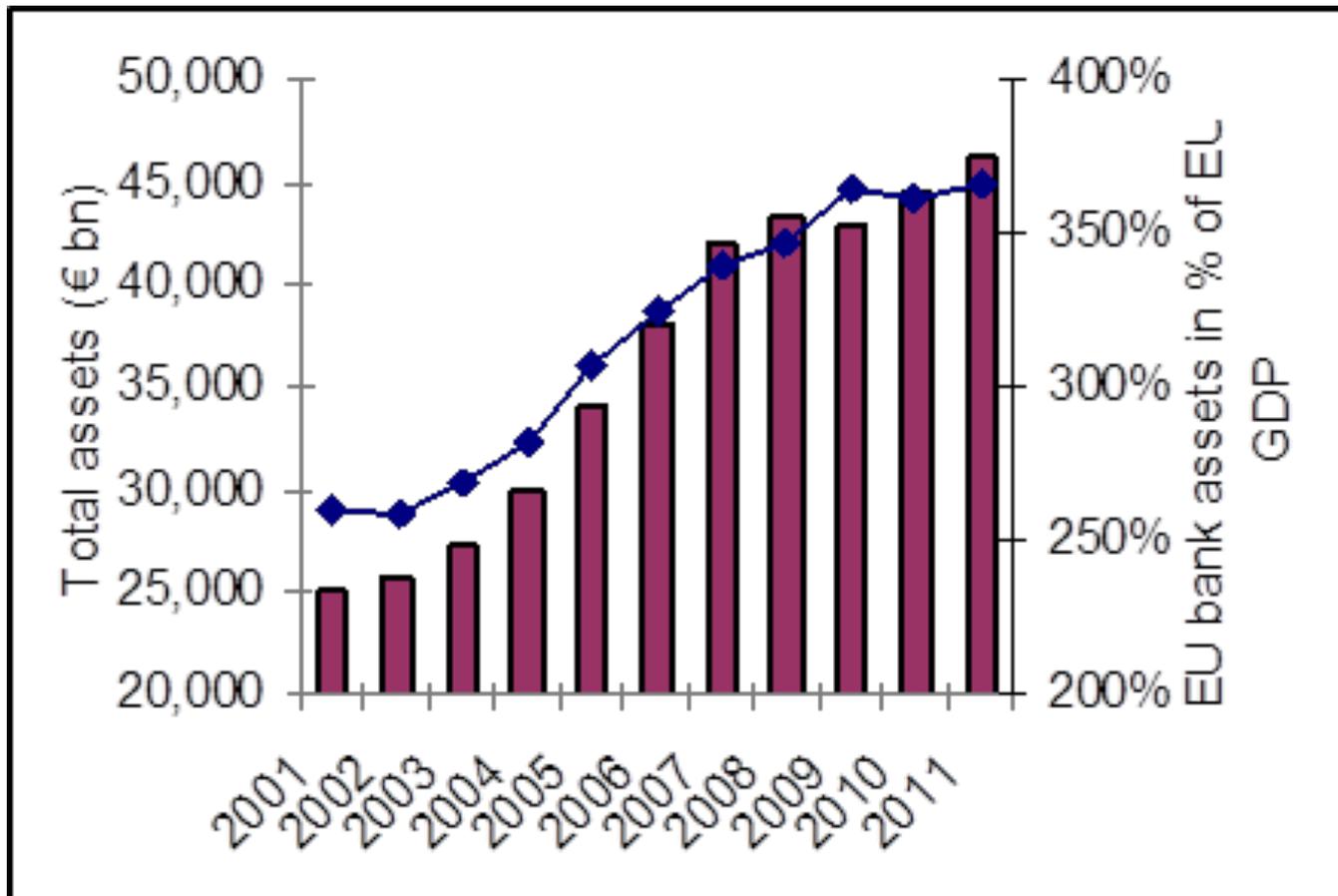
Banking assets between 19 billion and nearly 10 trillion

Banking assets to GDP range from 75% to 240%

Diverse banking landscape, commercial banks, investment banks, cooperative banks, savings banks, etc. Diversity is good.

Rapid growth in the EU banking sector

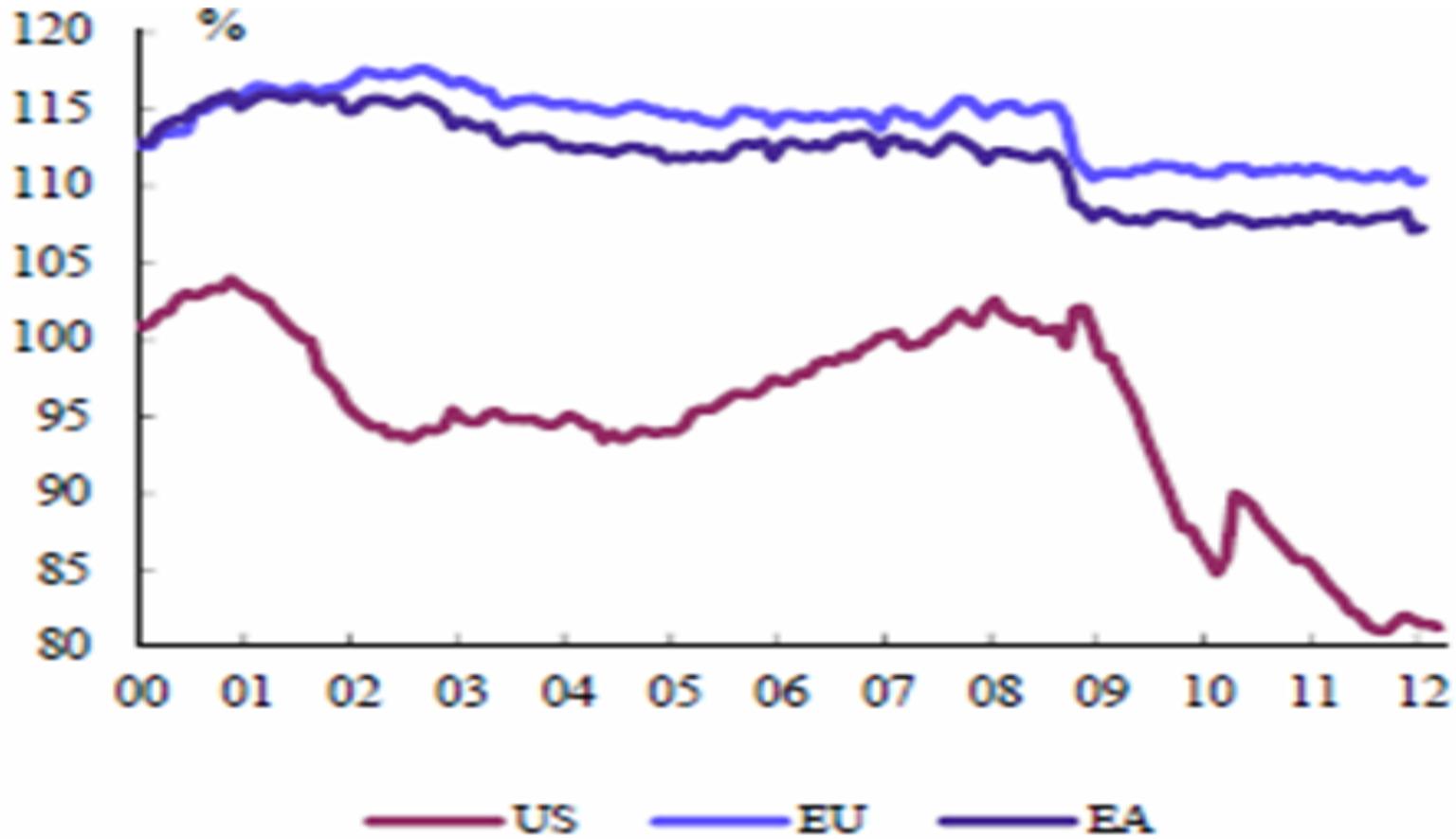
Total assets of MFIs in EU 2001-2011



Note: Bar charts show total assets, dotted line shows assets in % of GDP.
Source: ECB data.

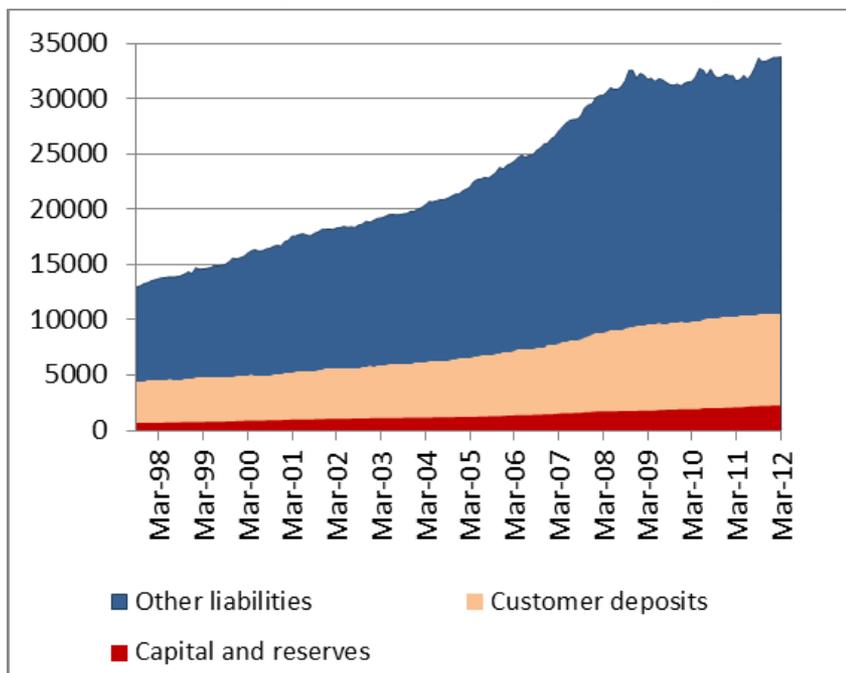


Customer Loan-To-Deposit ratio in EU, EA and US



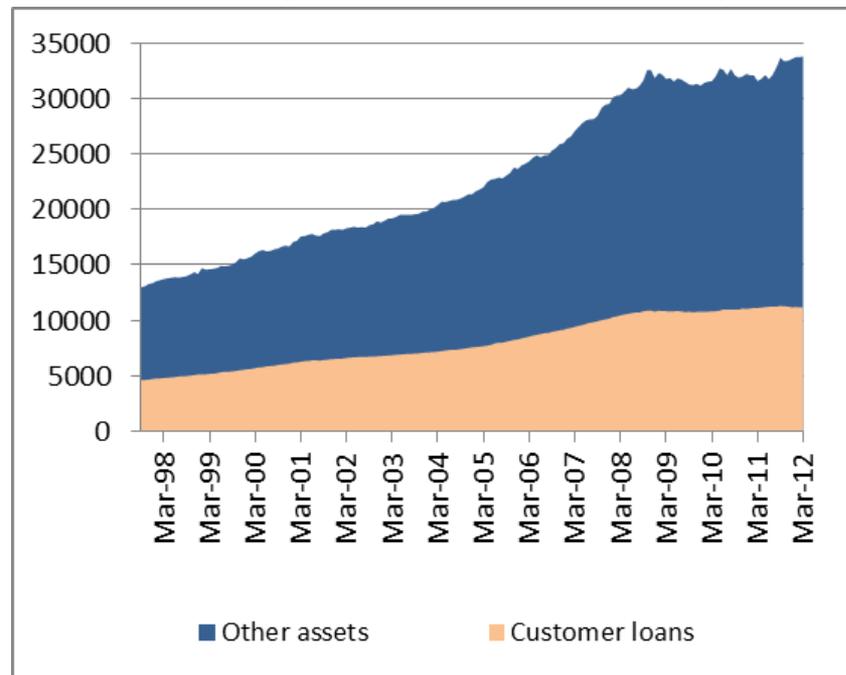
Shifts in bank activities and funding structures

Evolution of liabilities of MFIs 1998-2012 (euro area, € billion)



Notes: Customer deposits are deposits of non-monetary financial institutions excluding general government.
Source: ECB data.

Evolution of assets of MFIs 1998-2012 (euro area, € billion)

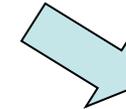


Notes: Customer loans are loans to non-monetary financial institutions excluding general government.
Source: ECB data.

Legislative package CRDIV



REGULATION



DIRECTIVE

CAPITAL

Improve quality, increase quantity

LEVERAGE RATIO

Backstop

LIQUIDITY

Resilience to funding risks

COUNTER-PARTY CREDIT RISK

Higher capital charge derivatives

MACRO PRUDENTIAL

National flexibility within the single market

where inter-linkages with national administrative laws are particularly important

CAPITAL BUFFERS

Countercyclical, Capital conservation, Systemic Risk, G-SII, O-SII

CORPORATE GOVERNANCE

Risk management, remuneration diversity

SANCTIONS

Harmonised and "tougher"

ENHANCED SUPERVISION

Review plans, stress testing

Quattro formule....

0

$$RW = \left(LGD \cdot N \left(\frac{1}{\sqrt{1-R}} \cdot G(PD) + \sqrt{\frac{R}{1-R}} \cdot G(0.999) \right) - LGD \cdot PD \right) \cdot \frac{1 + (M - 2.5) \cdot b}{1 - 1.5 \cdot b} \cdot 12.5 \cdot 1.06$$

$$R = 0.12 \cdot \frac{1 - e^{-50 \cdot PD}}{1 - e^{-50}} + 0.24 \cdot \left(1 - \frac{1 - e^{-50 \cdot PD}}{1 - e^{-50}} \right)$$

$$b = (0.11852 - 0.05478 \cdot \ln(PD))^2$$

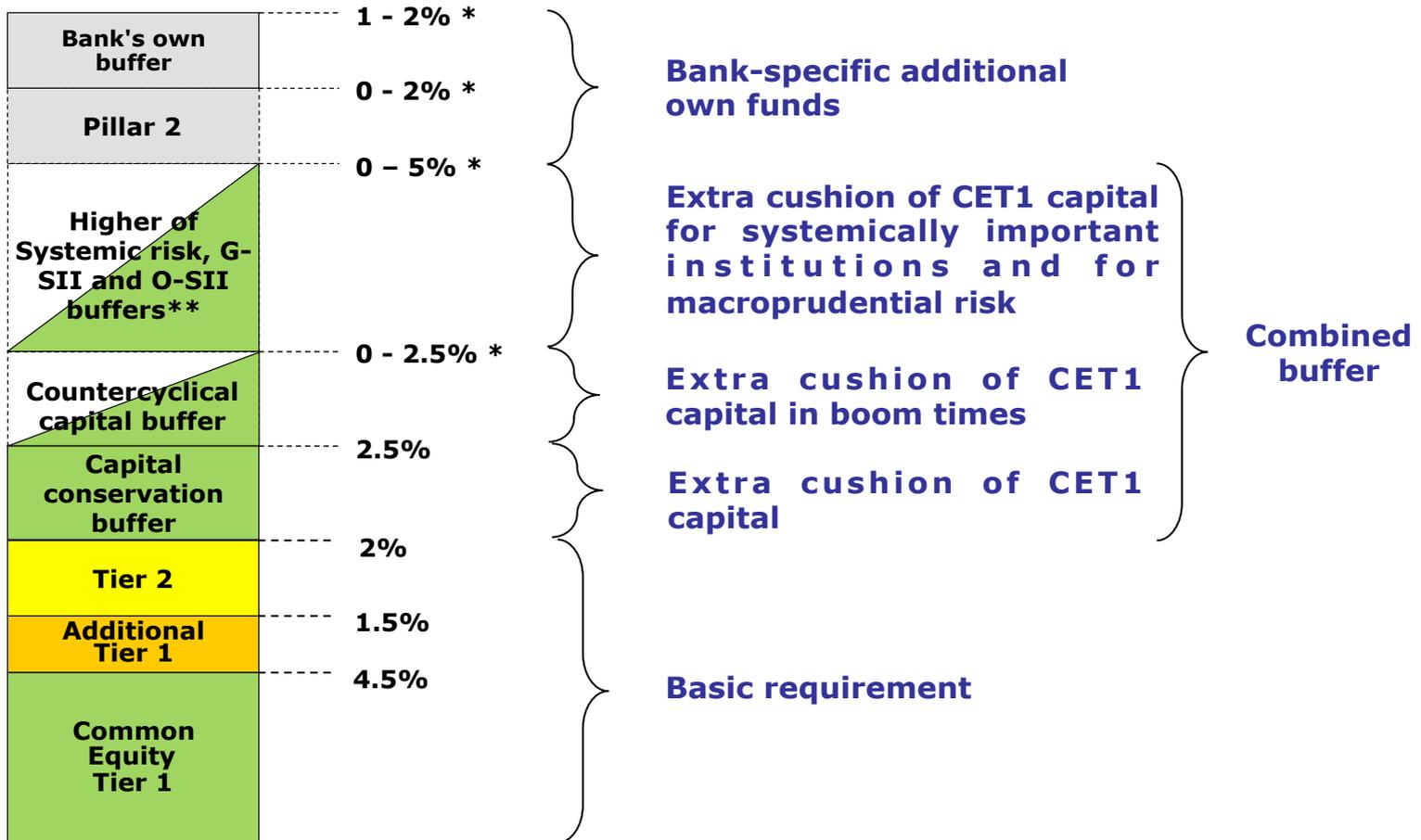
New CVA charge

$$CVA = LGD_{MKT} \cdot \sum_{t=1}^T \max \left\{ 0, \exp \left(-\frac{s_{i-1} \cdot t_{i-1}}{LGD_{MKT}} \right) - \exp \left(-\frac{s_i \cdot t_i}{LGD_{MKT}} \right) \right\} \cdot \frac{EE_{i-1} \cdot D_{i-1} + EE_i \cdot D_i}{2}$$

$$Regulatory CS01_i = 0.0001 \cdot t_i \cdot \exp \left(-\frac{s_i \cdot t_i}{LGD_{MKT}} \right) \cdot \frac{EE_{i-1} \cdot D_{i-1} - EE_{i+1} \cdot D_{i+1}}{2}$$

$$K = 2.33 \cdot \sqrt{h} \cdot \sqrt{\left(\sum_t 0.5 \cdot w_i \cdot (M_i \cdot EAD_i^{total} - M_i^{hedg} B_i) - \sum_{ind} w_{ind} \cdot M_{ind} \cdot B_{ind} \right)^2 + \sum_t 0.75 \cdot w_i^2 \cdot (M_i \cdot EAD_i^{total} - M_i^{hedg} B_i)^2}$$

New own funds structure



* Assumed upper bounds (values can be higher)
 ** In certain cases can be the sum of SII and systemic risk buffer.

Leverage ratio; an additional backstop



Tier 1 Capital / « Assets » > 3%

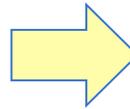
Ratios for different business models?

Data gathering as of 2013 Public disclosure as of 2015

Review starting in mid-2016

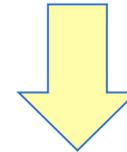
Final decision on the introduction as a binding requirement as of 2018

Liquidity



**Eligibility of
collateral**

LTRO





LCR: Liquidity Coverage Ratio

withstand a short-term liquidity shock in stressed conditions

High quality liquid assets > 100%
Cash outflows - cash inflows over next 30 days

NSFR: NET STABLE FUNDING RATIO

*stable funding based on liquidity characteristics of a bank's assets and activities
over a one year period*

Available amount of stable funding (ASF) > 100%
Required amount of stable funding (RSF)



Some important EP amendments

Bankers' bonuses

- To curb speculative risk-taking,
- basic salary-to-bonus ratio will be 1:1 maximum
- 1:2, if approved by at least 66% of shareholders owning half the shares represented, or of 75% of votes if there is no quorum.
- 25 % of any bonus exceeding 100% of salary, must be deferred (5 years).

Lending to the real economy

- SME lending discount factor
- essentially undoing increased overall capital requirements

Country by country reporting

- Disclosure of profits made, taxes paid and subsidies received country by country, as well as turnover and number of employees.
- From 2014, these figures should be reported to the European Commission and from 2015 made fully public.

IRB models benchmarking

- Hypothetical portfolio to test IRB model outcomes



2. Deposit Guarantees



Overview

- 1.
- 2.
3. Bank Resolution

Main features

- ✓ **Comprehensive:** three phases
 - ✓ Prevention
 - ✓ Early intervention – act before bank's viability is compromised
 - ✓ Resolution – restructure failing banks and preserve critical functions.
- ✓ **Flexibility:** Powers for use by national resolution authorities applied proportionately depending on banks and crises.
- ✓ Build on powers already used in various **Member States.**

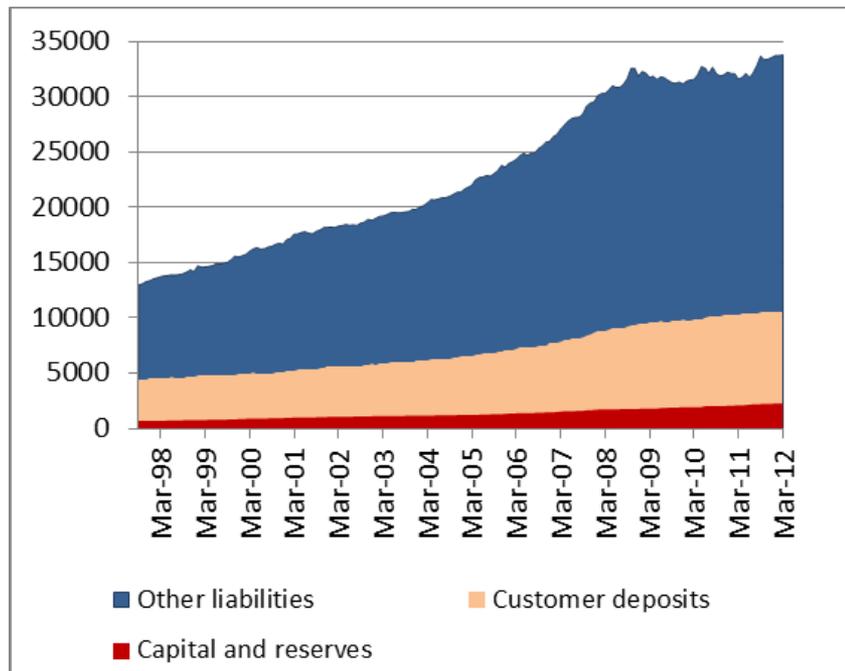


Overview

- 1.
- 2.
- 3.
4. Liikanen Group

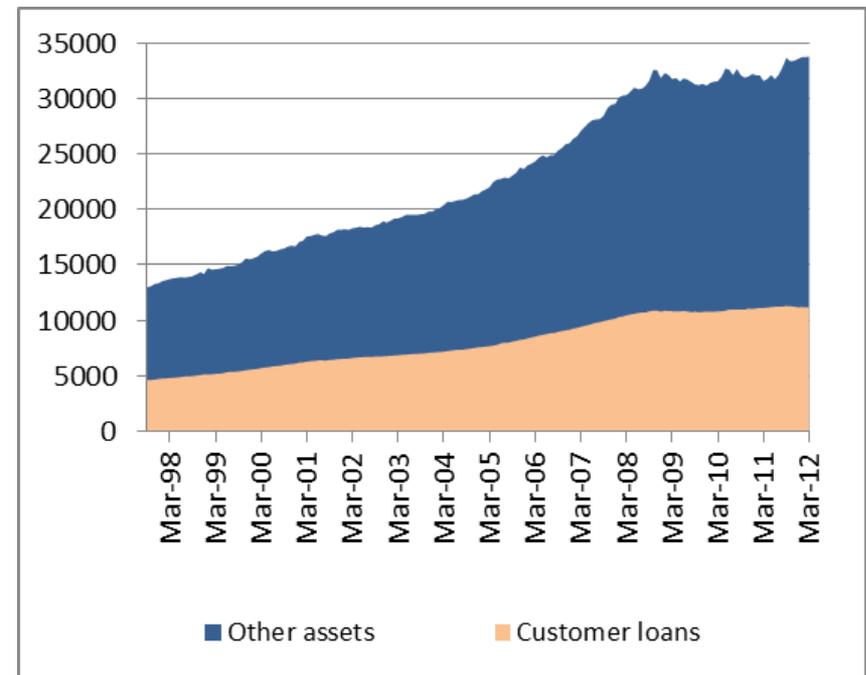
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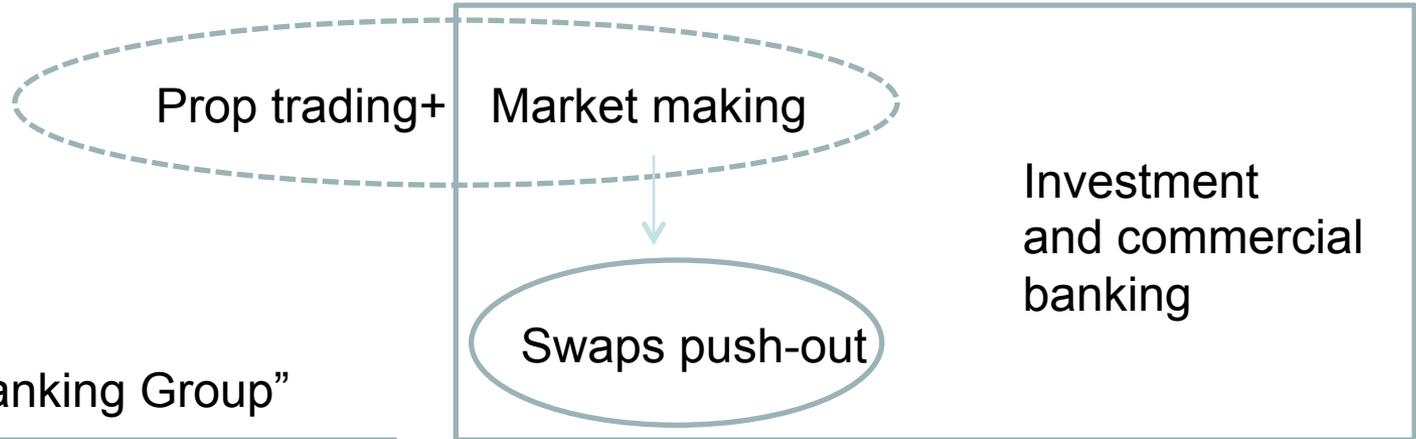


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Source: ECB data.

Summary of recommendations

1. Mandatory **separation** of proprietary and significant other trading activities
2. **Additional** separation of other activities conditional on the recovery and resolution plan
3. Possible amendments to the use of **bail-in** instruments as a resolution tool
4. A review of **capital requirements** on trading assets and real estate related loans
5. Strengthening the **governance** and control of banks

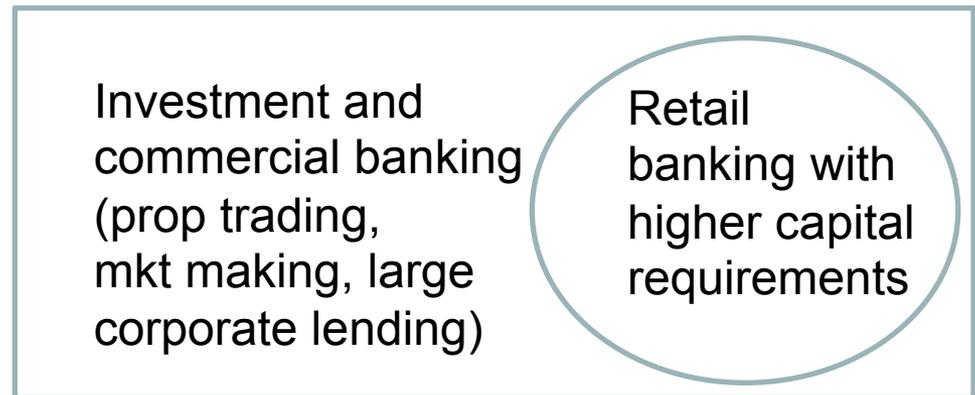
"Volcker Banking Group"



"HLEG Banking Group"



"Vickers Banking Group"





Overview

- 1.
- 2.
- 3.
- 4.
5. Banking Union (for 17+)

Roadmap towards the Banking Union

12 Sep 2012

- Communication on Banking Union;
- Proposal for a Council Regulation establishing the SSM;
- Proposal for a Regulation amending the EBA regulation.

02/07/13

Summer 2013

- Reach agreement on:
 - SSM and EBA regulation;
 - Existing BRRD/DGS proposal;
 - CRR/ CRD IV;
 - Existing crisis management proposal.
- Report of the four presidents for the "achievement of a genuine EMU".

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2014

- Entry into force of SSM, phasing-in of ECB supervision.

Summary and Conclusions

