

# Basel III: Update on the status of regulatory work

## EU Draft Regulation on Structural Measures

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*Note: Any opinions expressed are only the presenters' own and should not be regarded as opinions of the European Central Bank or the Eurosystem.*

## **1. Leverage ratio (LR), Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)**

- Update after Group of Central Bank Governors and Heads of Supervision (GHOS) agreements

## **2. Draft EU regulation on Structural Measures**

- Main elements

# Leverage Ratio - update

- **On 12 January 2014 the GHOS adopted a package of LR amendments**
  - *Securities Financing Transactions: Limited netting with the same counterparty allowed, where specific conditions are met*
  - *Cash variation margin: May be used to reduce the leverage ratio's exposure measure*
  - *Written credit derivatives: The effective notional amounts included in the exposure measure are capped at the level of the maximum potential loss, and there will be some broadening of eligible offsetting hedges.*
  - *Off-balance sheet (OBS) items : Credit Conversion Factors ranging from 10% to 100% would be applied to OBS items.*
- **Way forward:** Public disclosure starting 1 January 2015, potential migration to Pillar 1 requirement in 2018 (after review of definition and calibration)

# LCR and NSFR – update

## Liquidity Coverage Ratio (LCR)

- In January 2014, the Eurosystem replied to EBA consultations on the impact of the LCR and on appropriate uniform definitions of LCR eligible assets.
- By mid-2014, the EU Commission will issue a delegated act on the LCR.
- Also in January 2014, the GHOS agreed the final form of the LCR, including three additional components (*RCLF, disclosure requirements, and guidance for supervisors on market-based indicators of liquidity*).

## Net Stable Funding Ratio (NSFR)

- In January 2014, the GHOS endorsed proposed revisions to the NSFR, aimed at reducing cliff effects within the measurement of funding stability, improving the alignment of the NSFR with the LCR, and altering the calibration of the NSFR to focus greater attention on short term, potential volatile funding sources. A consultative document has been issued for comments by 11 April 2014.

# Draft EU Regulation Structural Measures

- **On 29 January 2014 the EU Commission published a draft EU regulation on structural measures improving the resilience of EU credit institutions**
- **Timeline:**
  - Ban on proprietary trading would enter into force by January 2017
  - Separation of trading activities in July 2018
- **Institutional scope of application:** The Regulation applies to banks
  - designated as a Global Systemically Important Banks (G-SIBs), or
  - that exceed the following thresholds for three consecutive years:
    - total assets above €30 bn;
    - average of trading assets and liabilities (incl. derivative activities) above €70bn or more than 10% of total assets.

# Ban on Proprietary Trading

## Ban on proprietary trading:

- Credit institutions shall not engage in narrowly defined proprietary trading.
- Desks, units, divisions or individual traders specifically dedicated to taking positions for making a profit for own account without any connection to customer activity or hedging the entity's risk would be prohibited.
- Banks would also be prohibited from owning or investing in hedge funds.

# Separation of Trading Activities

## Scope of activities subject to separation:

- Broad definition of trading activities.
- All activities would be covered that are not traditional banking operations. Traditional banking operations include deposit-taking, money brokering and payment services. Trading in EU sovereign debt would be exempted from separation.
- On the latter the EU COM will assess whether the exception should extend to other sovereign debt.

# Separation of Trading Activities

## Rules governing separation of certain trading activities and duty for supervisory review:

- The supervisor would be required to review the trading activities carried out by banks covered by the Regulation, with particular attention to market-making, complex securitisation and risky derivatives trading.
- Where the trading activities and related risks exceed certain thresholds and risk-based metrics, the presumption is that the supervisor would require the bank to separate these activities unless the supervisor assesses that these activities do not compromise the objectives of this regulation.
- Moreover, the supervisor may conclude that separation is necessary even if the thresholds are not met.