

THE CHAIRPERSON

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Calls for advice (CfA) to assist the Commission's revision of the own fund requirements for market risk, counterparty credit risk, exposures to central counterparties, large exposures as well as Call for advice as a follow-up of the EBA report on net stable funding requirement (NSFR)

Dear Mr Guersent

I am writing to you in response to calls for advice that the Commission issued towards the EBA with respect to the preparation of the foreseen implementation in EU law of the revised international standards.

The involvement of the EBA in key impact assessments for the implementation in the EU of the revised international standards is highly appreciated and the EBA has already started its work and will do its best to provide the advice requested. However, the deadlines proposed by your services are not all feasible. In particular, some of the requested impact assessments will require, in order getting meaningful results, quantitative impact studies (QIS) to be initiated directly with banks. As you know, a QIS of unprecedented size has just been launched at the global level. This exercise includes information that will enable us to capture includes some important European specificities. Therefore you should be aware, that the EBA is not able to include this information in its answer within the deadlines set out in your call for advice.

We acknowledge that the Commission is attaching high priority to this work and would suggest that the exercise is conducted in a very transparent manner throughout the process, so that your services have the possibility access as much information as possible on a continuous basis. It is our intention to share with your services a detailed action plan so that the Commission can optimally incorporate the EBA analysis in the preparation of legislative proposals. Generally, the EBA will try and rely on existing data, either from Financial Reporting (FINREP)/Common Reporting (COREP) regulatory reporting or from previously conducted QISs where possible and relevant. This should allow accelerating the finalisation of our input, but it may not be sufficient to respond to the needs formulated in the calls for advice. More specifically, let me submit to your attention some considerations for each call for advice.



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Market risk

By 1 June 2016, the EBA will be able to provide a preliminary descriptive information on point 1 (Fundamental Review of the Trading Book (FRTB) and derogation for small trading books). This analysis will be mainly based on FINREP/COREP data and, as such, will entail lots of caveats, in particular considering the diversity in national accounting frameworks and the fact that smaller institutions are not necessarily required to submit harmonised FINREP reporting data. Concerning point 2 (impact assessment), the EBA is currently experiencing difficulties in accessing the Basel Committee on Banking Supervision (BCBS) data that would allow us to provide a preliminary analysis, but we will continue to explore this issue and keep your services informed.

By 1 November 2016, the EBA will be able to provide at least a partial analysis on all other points, but it may not necessarily be based on the most recent QIS data, as the very tight deadlines leave very limited time for analysis.

Counterparty credit risk

By 1 June 2016, the EBA will be able to provide a preliminary descriptive information on point 1 (impact of the standardised approach for measuring counterparty credit risk (SA-CCR) on EU institutions) using the data used for the EBA report on leverage ratio.

By 1 November 2016, the EBA will be able to provide at least a partial analysis on all other points. This analysis will need to be interpreted with great caution, as it will be mainly based on FINREP/COREP data, which is not sufficiently detailed on counterparty credit risk.

Institutions' exposures to central counterparties

By 1 June 2016, it will be impossible for the EBA to provide any meaningful analysis, as FINREP/COREP data does not include sufficiently granular information. The alternative of using Basel QIS data is not considered representative any longer, given that the latest QIS available was not focused on the standardised approach (SA-CCR), which is now being proposed by the BCBS. We also note that the BCBS assessment at the time was that the impact would be very limited. Consequently, the EBA has not initiated this work and will unfortunately not be in a position to provide any evidence for the purpose of this call for advice.

Large exposures

Regarding the potential alignment of large exposures requirements to the BCBS framework, I note that the request to assess the possible introduction of ‘a look-through approach for shadow banks ...’ has already been addressed in Commission Delegated Regulation (EU) No 1187/2014 of 2 October 2014 supplementing Regulation (EU) No 575/2013 (Capital Requirements Regulation, CRR), adopting the regulatory technical standards for determining the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets, in conjunction with the Guidelines (EBA/GL/2015/20) on limits on exposures to shadow banking entities which carry out banking activities outside a regulated framework developed by the EBA under Article 395(2) of the CRR.

The EBA intends to use available COREP data to address the other points raised in the call for advice. We will test different types of large exposures’ limits and investigate possible additional changes to the current framework (for example in terms of threshold for exposures to be reported).

As to the quantitative impact of the potential removal of some of the existing exemptions, it is not clear why the scope has been limited to only a few of these exemptions, which may not be the most significant.

The EBA will be able to report on the results of these analyses by 1 November 2016.

Net stable funding ratio (NSFR)

In our view, some of the complementary explanations requested on the breakdown of the global stable funding shortfall by type of activity and the related expected impact on the economy are already included in the analysis contained in the report that the EBA submitted last December.

With reference to the potential impact of the NSFR on derivatives in the context of possible developments at international level, the EBA is not aware of any change in the BCBS’ standards since the submission of its report, but will continue to monitor potential changes. In addition, you may be aware that the EBA has invited the European Systemic Risk Board (ESRB) to conduct some work on market liquidity related aspects with regard to the leverage ratio and the forthcoming EBA calibration report. It is my understanding that the work currently performed by the ESRB may have a larger scope and cover in a more general way post-crisis regulations, including the NSFR.

Finally, the EBA will provide some quantitative information on core stable funding ratio, on the basis of data already available.

Single Rulebook Q&A tool

On a related matter, the EBA has received a request for an overview of possible errors and inconsistencies in the CRR observed via the Single Rulebook Q&A tool. At this stage, and in light of the tight timeline, the EBA will focus its work on areas of the CRR which would be subject to a review by end of 2016.

In the more general context of the CRR review, I would appreciate receiving your feedback on the Commission's intention to factor into the ongoing CRR review the technical advices previously delivered by the EBA, in particular with regard to possible treatment of unrealised gains measured at fair value or prudential filter for fair value gains and losses arising from the institution's own credit risk related to derivative liabilities, which are of high prudential importance.

I stand ready to discuss with you these matters further.

Yours sincerely

(signed)

Andrea Enria

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