

RCAP jurisdictional assessments: self-reporting monitoring template for RCAP follow-up actions

Jurisdiction: European Union

Status as of: 31 December 2018

With reference to RCAP report: Assessment of Basel III regulations – European Union, December 2014; Assessment of Basel III LCR regulations – European Union, July 2017; Assessment of Basel III G-SIB framework and review of D-SIB frameworks – European Union, June 2016.

Part A¹

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to risk-based capital standards (RCAP-Capital)

Table A

(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
Transitional arrangements – Basel II: 94(c)-(d)	More generous transitional phase-in period for deductions in relation to deferred tax assets that rely on future profitability that existed prior to 1 January 2017	Article 19 of Regulation(EU) 2016/445 of the European Central Bank of 14 March 2016 implementing article 478(3)(a) and (b) CRR	The ECB Regulation, applicable to significant institutions in EU Member States of the euro area, sets the percentages for deduction of DTAs that rely on future profitability within margins that are more conservative than the ones allowed in the CRR. Full deduction is required as of 1.01.2018 as a rule, with limited exemptions.
Transitional arrangements – Basel III: 9(c)-(d)	CRR Article 467 provides the option to exclude unrealised gains or losses on exposures to central governments classified in the “available for sale” category of EU-endorsed IAS 39 if that treatment was applied before 1 January 2014	Commission Regulation (EU) 2016/2067 of 22 November 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No	As a consequence of the application of the IFRS 9, such an issue has been settled.

¹ To be completed only for those findings where action has been taken or initiated. Any plans for addressing other findings may be indicated in Part B.

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		1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9	
Treatment of Counterparty Credit Risk Use of different set of credit conversion factors in the Current Exposure Method for commodity - Basel II Annex 4: 91–96	Use of different set of credit conversion factors (CCFs) under the Current Exposure Method in CRR as compared to the Basel framework for banks that follow the extended maturity ladder approach method for calculating market risk capital charge for the exposure to commodities.	Section 3 of Chapter 6 of Title II of Part Three of the Commission legislative proposal 2016/0360 for amendments to the CRR published in November 2016 (currently in the legislative process)	In the new Section 3 of Chapter 6 of Title II of Part Three, the European Commission proposed to remove the Current Exposure Method from CRR and to replace it by the Standardised Approach for Counterparty Credit Risk (SA-CCR) in line with the Basel standards published in April 2014. Therefore, upon adoption of this proposal, this issue will automatically disappear.
Treatment of Counterparty Credit Risk - Exemptions of transactions from the CVA - Basel III: 97–103	The CRR diverges from Basel III by exempting transactions between EU-based banks and CVA-exempted entities from the CVA-variability capital charge. Banks subject to the CRR can exclude exposures to pension funds, sovereigns and qualifying non-financial end-users (ie corporates also exempted by the European Market Infrastructure Regulation (EMIR) from the obligation to centrally clear derivative transactions, which refers to almost all corporates).	Article 104a of the Commission legislative proposal 2016/0364 for amendments to the CRD published in November 2016 (currently in the legislative process) EBA Consultation Guidelines on the treatment of CVA risk under SREP: http://www.eba.europa.eu/regulation-and-policy/supervisory-review-and-evaluation-srep-and-pillar-2/guidelines-on-the-treatment-of-cva-risk-under-srep EBA 2016 CVA risk monitoring exercise: http://www.eba.europa.eu/-/eba-launches-2016-cva-risk-monitoring-exercise EBA report on CVA: http://www.eba.europa.eu/-/the-eba-	The European Banking Authority (EBA) published a report on CVA in February 2015 in which it highlighted the materiality of the CVA risks that are currently not covered by EU legislation due to exemptions. To address this, the EBA recommended developing an EBA coordinated approach for yearly monitoring of the impact of transactions exempted from the CVA risk charge (already two exercise published) but also to publish some guidelines to help supervisors identifying situations constituting a presumption of excessive CVA risks to be considered under SREP (consultation published but guidelines not yet adopted). In parallel, the European Commission proposed a new Article 104a under the CRD, to confirm the supervisory competence to require Pillar 2 capital charges to address risks exempted from capital requirements under Pillar 1.

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(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
		advises-the-european-commission-on-credit-valuation-adjustment-cva-risk	
Market Risk - Scope of application and Standardised Measurement Method - Basel II: 683(i)-689(iv), 718(xlix)-(liii)	a) Lower capital charges for closely correlated currencies permitted under the CRR. However, only two banks are affected as the rest have adopted the advanced approach for market risk: the data indicate that, in the case of one, the RWA of this component would be moderately understated while the other bank would be on the cusp between a moderate and significant impact. b) Very limited use of the extended maturity ladder approach, which is not allowed under the Basel framework, and capital charges for the use of appropriately diversified indices.	Chapters 1 to 5, TITLE IV, Part Three of the Commission legislative proposal 2016/0360 for amendments to the CRR published in November 2016 (currently in the legislative process)	No action has been taken yet to address these deviations. The Commission envisages to make a legislative proposal to implement in the EU the final FRTB standards as published in January 2019. Such legislative proposal is expected in the course of 2020.
Pillar II – Basel II: 719-760	Implementation of the supervisory review process under Pillar II split between CRD and Guidelines	EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP)-EBA/GL/2014/13, as amended by EBA-GL-2018-03 EBA Guidelines on the management of interest rate risk arising from non-trading activities (EBA-GL-2018-02) Guidelines on institutions stress testing (EBA-GL-2018-04) EBA Guidelines on ICT Risk Assessment under SREP (EBA-GL-2017-05)	The second Pillar has been fully implemented through the CRD and EBA SREP guidelines. The changes proposed by the Commission to the Pillar 2 framework aim at clarifying the framework in the CRD.

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		Articles 104a and 104b of the Commission legislative proposal 2016/0364 for amendments to the CRD published in November 2016 (currently in the legislative process)	

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to liquidity coverage ratio standards (RCAP-LCR)

Table B

(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
Nil			

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to G-SIBs and D-SIBs (RCAP-Capital)

Table C

(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
Basel 47	Deviation with respect to the bucketing approach in the Basel framework, particularly in the case where banks increase their systemic importance beyond current levels. While the current EU framework states that there should be at least five subcategories of G-SIBs, it does not provide for the addition of further buckets, nor the associated higher loss absorbency requirements.	Within the legislative process related to the Commission proposal 2016/0364 for amendments to the CRD, it is discussed to amend Article 131(9) CRD	Proposed amendments to Art 131 (9) CRD would allow for enough flexibility to create additional buckets. Once implemented, this would make the EU bucketing approach entirely Basel compliant.

Part B

The European Parliament and the Council have reached at the end of 2018 a political agreement concerning the Commission's proposals 2016/0360 and 2016/0364 to amend CRR and respectively CRD. The legal text is being finalised and will be published in the first half of 2019. The political agreement introduces some changes to the Commission's proposals. Further details on the final rules will be provided once the legal text is finalised.

Please note that the December 2017 agreement finalising post crisis reforms contains a number of changes that result in a closer alignment of the relevant EU regulation with the Basel standards in areas where findings have been reported. If the relevant findings were to be addressed at this stage through legislative changes, this would subsequently – during the implementation of the December 2017 standards – require a (partial) reversal of such changes. In our view, this would not be appropriate. We will therefore consider whether and how to address the findings as part of our work on the implementation of the December 2017 standards.