

EUROPEAN BANKS UNDER CONSULTATIONS



It is definitely a season for consultation for the European Banking Industry. Among the many RTS and ITS for which EBA is seeking the Industry's feedback, **the European Commission has just launched two consultations**, a minor one relative to the delegated act to be expected before year-end to amend CRR2 with the latest enhancements on the FRTB-SA (a.k.a. SA-MR), and a major one regarding the transposition into a future CRR3 of the standards agreed at Basel level for the finalization of Basel III reforms.

Regarding the transposition of Basel III finalization into CRR3, **the consultations covers nine broad areas:**

- Credit Risk
- SFTs
- Operational Risk
- Market Risk
- CVA Risk
- Output Floor

- Centralize supervisory reporting and disclosures
- Sustainable finance
- Fit and proper

Each area contains a series of questions, most of which concern the additional administrative and implementation/operational burden caused by the revision. **Participants are invited to provide quantitative and qualitative considerations to substantiate their views** regarding the implementation challenges, cost and benefits in applying new measures, or some specific treatments, or other issues related to date of application for instance.

As an illustration, please find hereafter a selection of key issues raised on Market Risks, CVA Risks and the Output Floor, for which the European Commission seeks feedback.

Area	Key issues
Market Risks	<ol style="list-style-type: none"> 1. The appropriate date of application of the FRTB framework as a binding own fund requirement in the Union (Institutions are subject to the new reporting requirements based on Basel III SA-MR in 2021, and IMA not before 2023) 2. The allowance for medium-size trading books institutions to use simpler SA-MR as an alternative to compute their own funds requirements on market risk 3. The computation of CIUs own fund requirements via the standardized approach (SA-MR) and the impact on investors and liquidity.
CVA Risks	<ol style="list-style-type: none"> 1. The removal of the internal model approach, and the choice between a new standardized approach (SA-CVA) and a revisited basic approach (BA-CVA). 2. The correct captures of hedging effects via these two approaches 3. Consequently, the revised CVA framework captures 4. The potential impact from removing exemptions at European level for counterparties currently exempted from the own funds requirements for CVA risks in the CRR.
Output Floor	<ol style="list-style-type: none"> 1. Appropriateness of the output floor in providing a risk-based backstop that limits the extent to which banks can lower their capital requirements relative to the standardized approaches 2. The potential inclusion of the systemic risk buffer (SRB) and Pillar II requirements (P2R) into the floor 3. The possible implementation challenges or related issues stemming from the application of the output floor

Link to the consultative paper:

https://ec.europa.eu/info/law/better-regulation/initiatives/finance-2019-basel-3/public-consultation_en

