Capital Requirements Regulation: leverage ratio, net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements

2016/0360A(COD) - 08/11/2017 - European Central Bank: opinion, guideline, report

OPINION of the European Central Bank (ECB) on amendments to the Union framework for capital requirements of credit institutions and investment firms

The ECB **supports the Commission's banking reform package**, which will implement important elements of the global regulatory reform agenda in Union legislation. The Commission's proposal is expected to substantially strengthen the regulatory architecture, thereby contributing to the reduction of risks in the banking sector.

The ECB addresses issues of particular importance to the ECB, which have been divided into two sections: (1) **changes to the existing Union regulatory and supervisory framework**; and (2) **implementation of internationally agreed supervisory standards**.

Implementation of International Financial Reporting Standard 9 (IFRS 9): the proposed amendments to the CRR provide for a phase-in period for expected credit loss provisions under IFRS (9) to mitigate the impact of IFRS 9 on credit institutions' regulatory Common Equity Tier 1 capital. The ECB recommends that **the period for transitional measures for IFRS 9 should start on 1 January 2018 with a linear phasing-in.** In this context, the presidency of the Council is encouraged to fast track the legislation implementing the transitional arrangement for IFRS 9.

Moreover, the ECB considers that it would be preferable to only apply the phase-in to the initial Common Equity Tier 1 reduction on 1 January 2018 (static approach) and not the expected loss amounts calculated under IFRS 9 at the relevant reporting date in the transition period (dynamic approach), since the latter approach would effectively delay the full application of IFRS 9.

The transitional measures should be mandatory for all institutions.

Proportionality in reporting: the ECB considers that consistent application of the principle of proportionality should be recognised more systematically throughout the CRR. Specific cases should be identified where a more proportionate treatment could reduce compliance costs without compromising the prudential supervisory regime. A more proportionate approach could also be provided for, in particular in the areas of internal governance and the fit and proper regime, remuneration, and disclosures.

Credit and counterparty credit risk: the ECB recommends that the CRR should be amended to request the EBA to develop regulatory technical standards with specific assessment criteria for the Internal Model Method (IMM) and for the advanced credit valuation adjustment (A-CVA) method. These regulatory technical standards should set out in more detail the materiality assessment for model changes and extensions for both IMM and A-CVA.

Leverage ratio: the ECB supports the introduction of a leverage ratio requirement in Union law and its calibration at 3 %, which is in line with the Basel Committee on Banking Supervision (BCBS) standards and the recommendations of the EBA.

It recommends that the detailed implementation of the leverage ratio standards in the Union **duly take into account the outcome of ongoing international discussions, notably within the BCBS**, as well as any further developments at international level.

Net stable funding ratio (NSFR): the ECB notes that the proposed amendments to the CRR deviate from the BCBS standards regarding the treatment of Level 1 high quality liquid assets, the treatment of future funding risk in derivative contracts, and the treatment of secured lending transactions. It makes a number of observations in this regard.

Review of the trading book: the ECB considers that the proposed amendments to the CRR that allow institutions with small trading books to use simplified approaches to be an adequate addition. It states, however, that the simplified standardised approach should be sufficiently risk-sensitive and lead to capital requirements that are adequate when compared to the new approaches applicable to larger credit institutions.