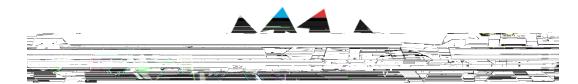
Deloitte.





The regulatory change transmission mechanism and Basel 3 A practitioner perspective

Conference on Macroprudential policy, bank regulation and financial stability, Brunel University London Simon Brennan | 28 June 2019

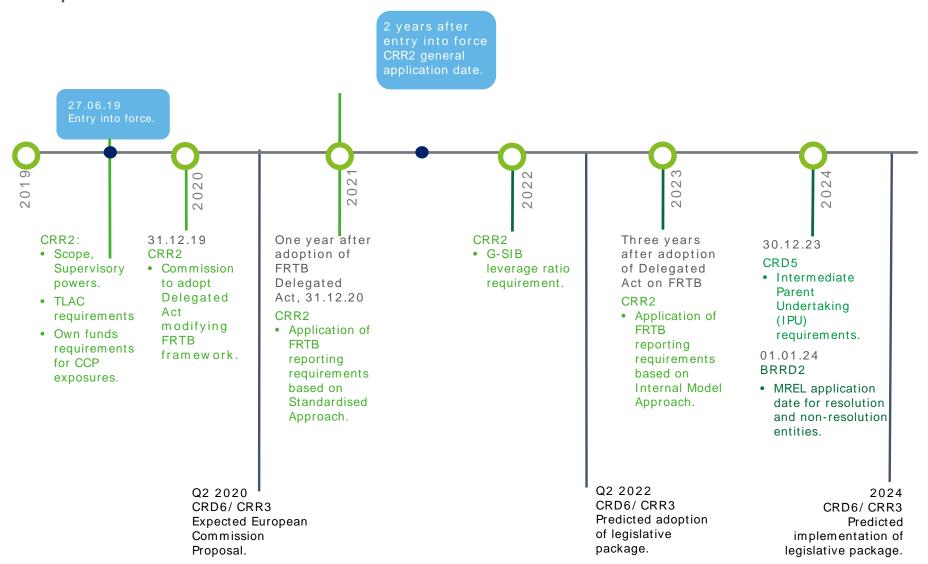
Implementation of Basel 3 in the EU

Adoption split across recently-finalised and yet-to-be-written legislation

Basel December 2017 revisions CRR2 CRR3 · Standardised Approach for Credit Risk. Internal Ratings-Based Approach for Credit Risk. · Delayed application of framework to Introduced as a January 2022. reporting • BCBS published its final rules for FRTB in requirement January 2019*. • Minimum capital requirements for Credit Valuation Risk (CVA) risk. · Minimum capital requirements for Operational Risk. Standardised output floor. · Revised exposure definition. Leverage ratio G-SIB buffer. G-SIB buffer introduced

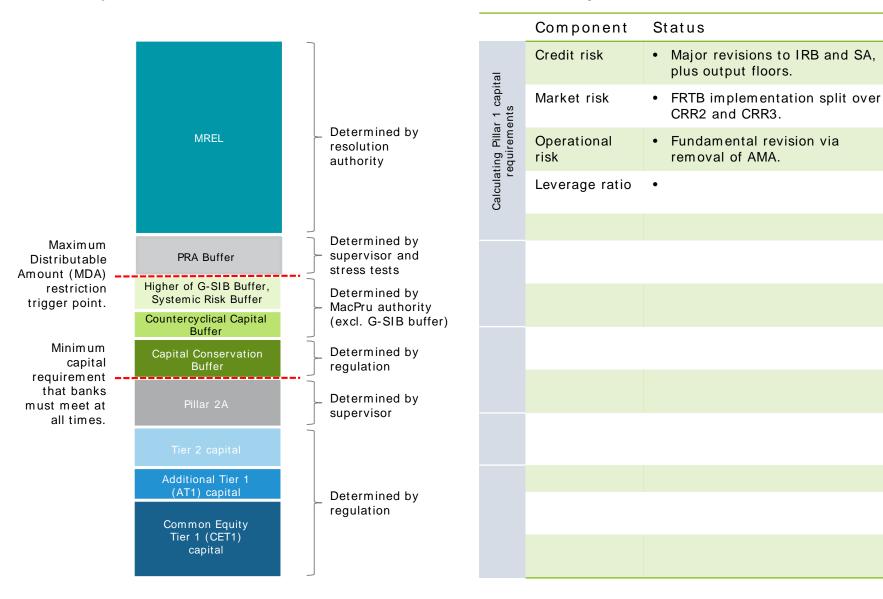
^{*} These <u>rules</u> will be reflected by the European Commission by way of a Delegated Act under CRD5/CRR2.

Implementation of Basel 3 in the EU Expected timeline



Prudential framework at a glance

Complex and multivariate, and with many stakeholders



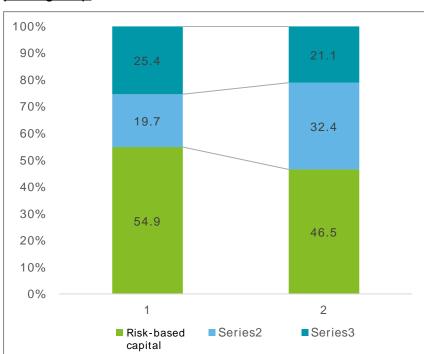
Impact of Basel 3

2017 revisions increase capital requirements and alter balance between components of the framework

Change in total T1 minimum capital requirements due to the full implementation of Basel 3 as a percentage of the overall current requirements, <u>EU banks peer group</u>

Impact of 2017 Basel revisions on

positions per cent of banks, <u>Global banks</u> peer group



Source: , March 2019.

Notes: Table 1. Weighted-average impact across all banks. Based on June 2018 EBA Quantitative Impact Study data.

Source: , December 2017.

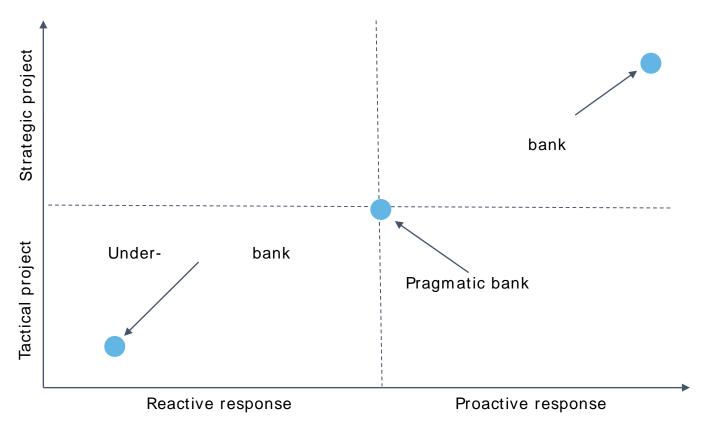
Notes: Table B6. Proportion of Group 1 banks (internationally active banks

under current framework vs. 2017 revised package.



Regulatory change transmission mechanism Banks vary in terms of how they respond to regulatory change

- A response in top right-hand quadrant requires most resources, in terms of planning, implementation, management attention, etc.
- Centre reflects a balance between regulatory change and competing priorities.
- Bottom left quadrant represents overburdened, under-resourced banks.



Regulatory change transmission mechanism How much do we really know?

- Little work has been done to examine the *practical* complexities of the new regulatory framework.
- Variety of methodological issues limit the realworld insights available from existing attempts at modelling of impacts.

many cases, research connects regulatory changes (e.g. higher capital ratios) to relevant indicators capturing resilience and terms of financing (e.g. changes in risk indicators, spreads, or cost of lending) rather than broader G20 objectives as such (e.g. increased financial stability and sustainable economic growth The higher capital and liquidity requirements

sector's ability to absorb shocks arising from financial and economic stress, whatever the Evaluations [of Basel III] have focused mainly on the effects of changes in capital requirements, and lesser on liquidity regulation as well as on analysis of combined effects of reforms

