Basel Committee on Banking Supervision

Regulatory Consistency Assessment Programme (RCAP)

Assessment of Basel III regulations – European Union

December 2014

BANK FOR INTERNATIONAL SETTLEMENTS

Note that this report refers to the RCAP grades prior to October 2025. The grade 'materially non-compliant (MNC)', ie one notch above the lowest grade, has since been renamed to 'partially non-compliant (PNC)' for greater clarity

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The report covers nine Basel Committee European Member States: Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain, Sweden and the United Kingdom.

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Contents

Glossary

AIRB	Advanced Internal Ratings-Based Approach (credit risk)
AMA	Advanced Measurement Approaches (operational risk)
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BRRD	EU Bank Recovery and Resolution Directive
BTS	Binding Technical Standards
C	Compliant (grade)
CEM	Current Exposure Method (counterparty credit risk)
CET1	Common Equity Tier 1
CRD IV/CRR	Fourth Capital Requirements Directive and Capital Requirements Regulation
CVA	Credit Valuation Adjustment
D-SIB	Domestic systemically important bank
DTA	Deferred tax assets
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ESRB	European Systemic Risk Board
EU	European Union
FAQ	Frequently asked question
FIRB	Foundation Internal Ratings-Based Approach (credit risk)
G-SIB	Global systemically important bank
IMA	Internal Models Approach (market risk)
IMM	Internal Model Method (counterparty credit risk)
IRB	Internal Ratings-Based Approach (credit risk)
IRC	Incremental risk charge
ITS	Implementing Technical Standards
LC	Largely compliant (grade)
LGD	Loss-given-default
MNC	Materially non-compliant (grade)
N/A	Not applicable
NC	Non-compliant (grade)
OSFI	Office of the Superintendent of Financial Institutions
PON	Point of non-viability
RCAP	Regulatory Consistency Assessment Programme
RWA	Risk-weighted assets
TSA	The Standardised Approach (operational risk)
SCVA	Standardised CVA
SIG	Supervision and Implementation Group
SME	Small and medium-size enterprises
SSM	Single Supervisory Mechanism

Preface

This report was prepared under the Basel Committee's Regulatory Consistency Assessment Programme (RCAP), which aims to promote full, timely and consistent implementation of Basel III regulatory standards by the Committee's members. The findings relate to the adoption of the Basel risk-based capital standards in the European Union (EU) via the Capital Requirements Regulation (CRR) and the Fourth Capital Requirements Directive (CRD IV).[1] They pertain to the nine Member States of the EU whose central banks and prudential supervisory agencies are Basel Committee members (Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain, Sweden and the United Kingdom ("the nine Member States").[2]

The assessment focused primarily on a detailed review of the CRD IV/CRR package along with its accompanying European Banking Authority (EBA) standards and guidelines as of 30 June 2014. The review also examined Member State-level requirements under CRD IV/CRR. The approach was to ascertain whether the EU banking prudential framework incorporates Basel minimum standards in both letter and spirit and that it is clearly specified, transparent and consistently adopted so as to promote confidence in prudential outcomes in the nine Member States. Where EU-wide capital regulations or Member State regulations and provisions were identified as deviating from the Basel framework, they were evaluated for their impact on the capital ratios of a set of internationally active banks in the nine Member States.

The RCAP Assessment Team was led by Mark Zelmer, Deputy Superintendent of the Office of the Superintendent of Financial Institutions (OSFI), Canada. The team comprised six technical experts from Australia, Hong Kong SAR, Japan, Mexico, Switzerland and the United States. The principal counterparty for the assessment was the European Commission (EC). The EBA, the European Central Bank (ECB), and the central banks/banking supervision authorities from the nine Member States were also actively engaged. The assessment relied on data and information provided by the EC, EBA and the nine Member States for the period through end-June 2014. The computations for the materiality analysis of the assessment findings were supplied by the EBA. The overall work was coordinated by the Basel Committee Secretariat with support from OSFI staff.

The Assessment Team sincerely thanks Mario Nava, Kai Gereon Spitzer, and their colleagues at the EC who played an instrumental role in coordinating the RCAP exercise and closely collaborating with the Assessment Team on issues of interpretation and some forward-looking policy topics. The Assessment Team would also like to thank Adam Farkas and Lars Overby and their colleagues at the EBA for a constructive engagement on the data aspects and in running the materiality tests. Finally, the team would like to thank the ECB and the Basel Committee members from the nine Member States along with their respective banks that participated in the RCAP exercise.

The report has three sections: (i) a summary with a response from the EU; (ii) the context, scope, methodology, and main assessment findings; and (iii) details of assessed deviations and their materiality with other assessment-related observations. The report includes a set of annexes including details of

[1] The EU's compliance with other Basel III standards (liquidity and leverage) and the framework for systemically important banks (SIBs) will be assessed as those standards come into force as per the internationally agreed phase-in arrangements.

[2] The European Central Bank is also a member of the Basel Committee. In addition, the European Commission and the European Banking Authority are members of the Basel Committee in an observer capacity.

modifications made/intended by the EU in response to the assessment **(Annex 1)**, areas for RCAP follow-up, and issues that would benefit from further clarifications by the Basel Committee.

Executive summary

The EU's new framework for bank capital requirements came into force on 1 January 2014. It applies to all banks operating in the EU. This was a watershed event in that a system of regulatory requirements previously implemented through Member State laws and regulations has now been largely replaced by comprehensive requirements that are intended to apply directly and uniformly across the EU.

The challenge now faced by the EU relates to the balance that needs to be struck across the wide variety of banking institutions in different Member States – ranging from some very small local banks to specialised banks, alongside some of the largest global systemically important banks. The Directive and the Regulation seek to conform to the economic imperatives and structural realities of Member State banking systems and financial markets at different stages of development. Furthermore, for the full implementation of CRD IV and the CRR, the EU relies upon the timely issuance of EBA standards and guidelines and consistent adoption of rules and guidance at Member State levels as prescribed under CRD IV. This process remains a work in progress.

The EU implementation of the structure and detailed requirements of the Standardised Approach and the Internal Ratings-Based approach for credit risk are in line with the Basel framework in many respects. Nevertheless, the several important divergences include the permanent partial use exemptions for various types of credit exposures in the IRB Approach for credit risk. In addition, concessionary risk weights have been extended to small and medium-sized enterprise (SME) exposures for customers located in both the EU and abroad. This also constitutes an important departure from the letter and the spirit of the Basel minimum requirements independent of the economic imperatives associated with this policy choice made under the CRR and CRD IV. Further, the splitting of residential mortgage loans into lending qualifying for a 35% risk weight and lending not qualifying for this preferential treatment, as permitted under EU law, is not envisaged under the Standardised Approach for credit risk.

Similarly, while many aspects of the EU implementation of the structure and detailed requirements of the approaches for counterparty credit risk are in line with the Basel Framework, a major deviation arises with respect to the credit valuation adjustment (CVA) exemptions provided for various obligor exposures. This issue also assumes significance given the global nature of over-the-counter (OTC) swap markets.

Several other differences were identified from the minimum requirements laid down in the Basel framework, most notably in the treatment of investments in the capital instruments of insurance company subsidiaries in the definition of the capital component of the Basel framework, and in the credit risk components, where some EU requirements are more liberal than those stipulated by the Basel standards. While the latter set of deviations was determined to be non-material at present, closer prudential and supervisory monitoring would help ensure that they do not become significant in the future. A similar approach would be useful in some other areas identified in the report along with steps to further improve consistency in implementation.

Overall, eight of the 14 components assessed are compliant with the Basel framework, and four components (definition of capital and calculation of minimum requirements, Standardised Approach for credit risk, credit risk (securitisation framework) and Standardised Measurement Method for market risk) are largely compliant; one component (Internal Ratings-Based (IRB) approach for credit risk) is materially non-compliant; while the counterparty credit risk component is non-compliant. In view of this, the prudential regulatory framework in the EU and the nine Member States was evaluated to be **materially non-compliant** with the minimum standards prescribed under the Basel framework.

The assessment acknowledges the more rigorous implementation of the Basel framework in several respects in the areas assessed as compliant. These are noteworthy especially with respect to the scope of application of the Basel framework, capital buffers and eligibility criteria for recognising real estate collateral. At the same time, it is important to recognise that most major banks based in the EU are currently operating with capital levels that are well above Basel minima. However, in accordance with the RCAP methodology approved by the Basel Committee, the aspects of the EU capital rules that are stronger than the Basel minimum requirements were not taken into account.

Response from the EU

The European Commission, the European Banking Authority and the European Central Bank thank the Assessment Team for its work on the present draft report. We appreciate the thorough comparison of Basel standards and EU law and commend the rigour and professionalism that the whole Assessment Team demonstrated and the improved methodology of the RCAP process. We particularly acknowledge the successful efforts of the assessors to gain a deep understanding of the EU's banking system, legislative approach and institutional framework, which was undergoing important change while the report was being prepared. The European Banking Authority has worked with the Assessment Team in order to estimate the impact of differences in EU law. The suggested quantifications represent for most part, with few exceptions discussed further below, a fair approximation. We should point out that the EU sample of banks has a meaningful coverage of the EU banking sector and that all EU banks, which were reviewed under the RCAP sample, are without exception well capitalised even when their Common Equity Tier 1 capital ratios are corrected for the identified differences in capital ratio definitions.

The report singles out two issues that, in the view of the assessors, require legislative change. These issues are certain exemptions from capital requirements for credit valuation adjustment (CVA) risk and the possibility to exempt permanently certain exposures from internal ratings based approaches. We are aware of the deviation from the current Basel III framework regarding CVA risk capital requirements and its materiality according to the agreed methodology. However, in our view, the issue should also be considered in the light of ongoing discussions in the Basel Committee. At its meeting on 22-23 September, the Committee decided to introduce major changes to the requirements for CVA risk. In particular, the Committee will consider integrating CVA capital charges into the capital charges for market risk more broadly and extending the possibilities to reduce CVA risk requirements through hedging. Given the uncertainty about the Basel Committee's approaches to this important issue, and given that the Committee itself indicated a clear deadline for introducing those major changes in the CVA framework, initiating legislative change now appears difficult to justify before knowing the outcome of this new work undertaken by the Basel Committee. However, subject to the final CVA risk standards that will be agreed and without prejudice to the legislative process, it is possible that a CVA risk requirement with broader scope for reduction by hedging would attract less criticism and that EU law might be able to adopt such an approach more readily as it would reduce charges for business with counterparties for which eligible hedges are difficult to obtain.

We acknowledge that in the Assessment Team's view, the Basel framework did not envisage, to the extent allowable in EU legislation, the application of standardised risk weights to central government exposures when a bank otherwise used internal ratings. Nevertheless, we think the assessment of this issue should reflect that the EU has already made provisions to limit over time the use of the so-called permanent use of the standardised approach. The legislation, indeed, envisages in CRR Article 150(4) that EBA issues guidelines to this end at the latest in 2018. The perspective of these guidelines coming into place aligns the EU approach, characterised as permanent by the assessment, with the transitional allowances available in the Basel framework.

We would like to re-emphasise that overall, we appreciate the quality, the thoroughness and the usefulness of the analysis that has been undertaken by the assessors. In a limited number of instances, the assessors have arrived, in full good faith, at interpretations of the Basel framework that one may not necessarily share. We would like to briefly discuss those instances in the following.

First, we think the approach of the EU legislation, which is to either consolidate or deduct insurance participations, is compatible with the Basel framework. The assessment however does not only refer to the Basel framework but also to a "frequently asked question" (FAQ), which was issued by the Basel Committee only after the agreement on the framework and goes beyond the Basel standards. The consolidation under the EU's Financial Conglomerates Directive can be an equivalent alternative to the crude deduction of insurance participations, and aims at eliminating double gearing while achieving enhanced risk sensitivity and ensuring sound incentives for an adequate allocation of capital resources in a conglomerate.

Second, the Assessment Team argues that mortgage loans cannot be subject to different capital requirements for the part up to a prudent loan-to-value ratio and the part beyond that ratio. We disagree with this view and maintain that it is not clearly supported by the Basel text. The Basel agreement merely requires that a preferential risk weight is allowed only for lending that is fully secured, subject to a substantial margin of additional security. This does not preclude that a part of a loan fulfils the requirement, while another part does not qualify as fully secured lending and is therefore subject to a higher risk weight. The amount of the loan that is fully secured is equally well protected in default by the collateral regardless of whether the loan as a whole exceeds the threshold for being fully secured.

Two additional issues concern the definition of capital section. First, we agree with the Assessment Team's observation that all Common Equity Tier 1 capital instruments that meet the 14 criteria set out in EU law in practice would be considered ordinary or common shares in "the ordinary usage" of the term. We also agree that going forward, transparency about the quality of capital instruments in the EU is ensured and in particular draw the Committee's attention to the recent EBA work in this area. Second, we do not think the derogations from the criteria available in the CRR for Common Equity Tier 1 capital issued by cooperative banks are inconsistent with the Basel text. In fact, their scope is limited enough in order to be sure that the quality of capital is preserved for the banks concerned. In this context, it must be noted that any redemptions of mutual shares are restricted to the limited nominal value of the instrument and there is no title to the related reserves. Finally, such redemptions are restricted to be implemented under the conditions of the newly adopted technical standards and can be stopped by the supervisor. The assessment rightly recognises the vagueness of the degree of flexibility that the Basel text considers appropriate, but should in our view have deferred to the EU legislators' judgement as to how appropriate flexibility can be applied: the Basel text explicitly states that deeming the instrument as equivalent is a decision of the local authorities and simply requires supervisors to share information "in order to ensure consistent implementation".

In concluding our response, we would like to thank once more the Assessment Team and the Basel secretariat for a rigorous and well conducted process.

1. Context, scope and main assessment findings

1.1. Context

1.1.1 Capital requirement regulation and directive

To foster stronger and harmonised capital regulations, the European Parliament and the Council adopted the CRR and the CRD IV implementing the Basel capital standards in the EU on 26 June 2013. Taking effect on 1 January 2014, the CRR and CRD IV are the primary binding legislation across all Member States implementing Basel III standards in the European Union.[3] The CRR is a directly applicable Regulation that applies to banks and their supervisors in the EU. By contrast, CRD IV is a Directive that requires the Member States to enact legislation that conforms to the requirements of that Directive. Failure to enact national legislation is immediately sanctioned by an infringement procedure. Generally speaking, the regulatory capital and other prudential requirements are contained in the Regulation, whereas the Directive inter alia requires Member States to vest their supervisory authorities with certain powers, for instance to impose specific capital requirements for risks not covered by the CRR's capital requirements. The EC and the EBA oversee the consistent application of EU law. The status of implementation of Basel III in the EU is indicated in Annex 3.

1.1.2 Assessment process

The assessment covered the nine Member States that are home to 14 global systemically important banks (G-SIBs). It was thus important to deal with issues at both an EU-wide level as well as with implementation aspects specific to the nine Member States. Several Member State-level decisions have repercussions for consistent EU-wide implementation of Basel standards. To obtain a full coverage of the EU-wide approach, the assessment work was undertaken in four phases:

(i) Pre-assessment on- and off-site discussions with the EC, EBA, and the ECB on the assessment principles and processes appropriate for the nine Member States;

(ii) Submission of a response by the EU to the RCAP self-assessment questionnaire followed by several rounds of off- and on-site discussions with the EC, EBA and ECB, the nine Member States, and some internationally active banks and bank analysts;

(iii) A final on-site visit to Brussels to conclude the discussion on the materiality of the findings and submission of the report; and

(iv) Post-assessment review and clearance phase to ensure the consistency and quality of the assessment.

For additional details of the assessment process, see Annex 4.[4]

1.1.3 EU banking system and capital ratios

The EU has a heterogeneous set of around 8,000 credit institutions (banks), ranging from some very small local banks to specialised banks plus some of the largest G-SIBs. These banks account for about EUR 45 trillion in total assets or 52% of global banking assets.

[3] A list of various Basel standards used for the RCAP assessment is given in Annex 2.

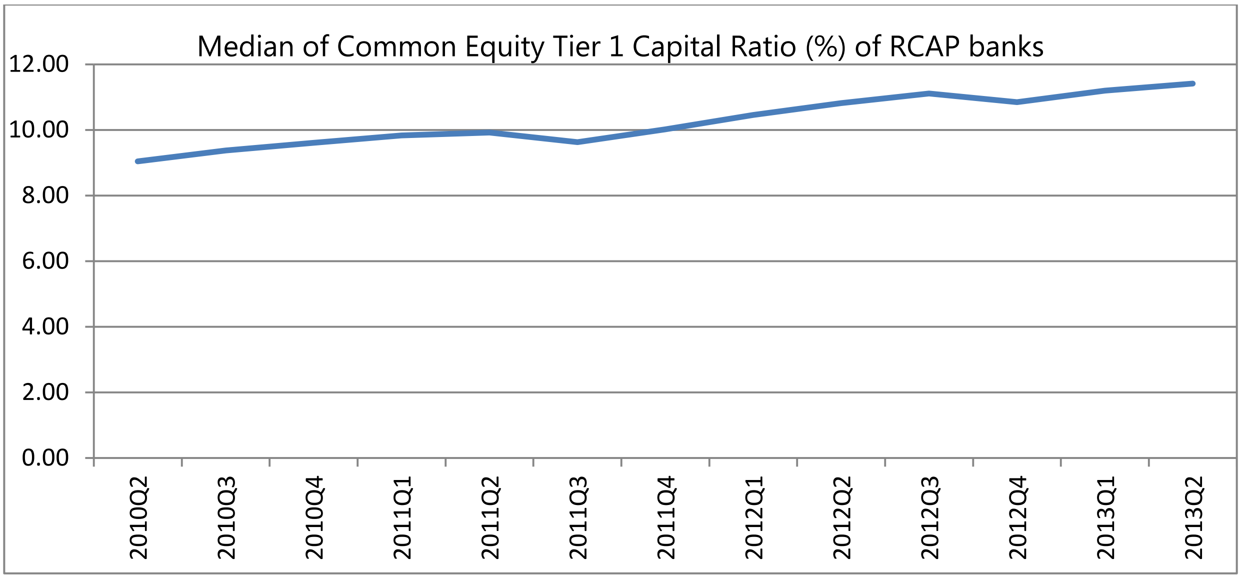
[4] The members of the RCAP Assessment Team and the Review Team are listed in Annex 5.

In broad terms, banks in the EU can be grouped into three categories: first, a very large group of small community-based or regional banks, most of which have assets of less than EUR 1 billion; second, a group of medium-sized banks with assets ranging from EUR 1 billion to EUR 100 billion which operate on a Member State basis; and a third group consisting of around 65 large banks with assets that exceed EUR 100 billion. Only a limited number of the latter have significant business activities outside the EU.[5] Moreover, there is a considerable diversity of business models (universal banks vs more specialised institutions) and legal forms (notably private corporations, public law corporations and cooperative/mutual institutions) across EU banks.

Within the EU, the nine Member States that are also members of the Basel Committee are home to around 4,000 EU banks that account for 86% of the total assets of all EU banks or 45% of global banking assets. As of June 2014, the nine Member States accounted for all of the 14 banking groups from the EU that were classified as G-SIBs by the Basel Committee. The largest banking groups in the EU are typically "universal banks" and some groups include subsidiary entities that offer insurance services and therefore fall under financial conglomerate regulation and supervision in the EU. Some of the large universal EU banks have evolved into groups with significant global capital market and trading operations. Key financial indicators of the nine Member States are shown in Annex 6.

European banks have strengthened their capital positions in recent years, but some dispersion remains among institutions and across the nine Member States.[6] Figure 1 displays the evolution of the median of Common Equity Tier 1 (CET1) capital ratios of the RCAP sample banks between June 2010 and June 2013. Median CET1 capital ratios of the top five banks in each of the nine BCBS member jurisdictions as of end-June 2013 and their dispersion are shown in Annex 6.

Evolution of Common Equity Tier 1 capital ratios of RCAP sample banks — Figure 1



Source: SNL Financial.

[5] Based on E Liikanen, *Report of the High-Level Expert Group on reforming the structure of the EU banking sector*, 2 October 2012.

[6] See also *European Financial Stability and Integration*, EC Staff Working Document, April 2014; *ECB Banking Structures Report*, November 2013; and *EBA 2013 Annual Report*, May 2014.

EU banks have also broadly implemented the Basel advanced approaches for capital requirements. Most of the internationally active banks in the nine Member States have completed the implementation processes. Considering the wide range of banks in the EU, the full menu of the capital measurement approaches available under the Basel framework has been offered under the CRD IV/CRR. Table 1 provides an overview of the status of adoption of the Basel advanced approaches by the 20 RCAP sample banks. A list of the banks included in the sample is given in Annex 12.

Status of implementation of Basel advanced approaches by 20 RCAP sample banks

Table 1

	Number of banks using advanced approaches as at end-June 2014
Credit risk (IRB other than securitisation)[7]	19
Credit risk (IRB securitisation)	17
Counterparty credit risk (Internal Model Method (IMM))	12
Counterparty credit risk (CVA-advanced)	11
Market risk (Internal Models Approach (IMA))	18
Operational risk (Advanced Measurement Approaches (AMA))	10

1.1.4 Institutional framework of EU banking regulation

In contrast to previous CRDs, the CRR incorporates a large portion of the Basel II, 2.5 and III framework directly into a legal instrument that applies to banks and supervisors across the EU as a whole. This superseded any pre-existing Member State requirements other than in areas where national discretion has been explicitly offered in the CRR.

The CRR and CRD IV apply to all banks and almost all investment firms in the EU. Given the need to reflect their diversity on the one hand, and the EU's emphasis on creating a "single rule book" for the entire banking system on the other, the regulatory structure seeks to balance these objectives to the extent possible. EU-level rules have been formulated in such a way as to encompass all institutions, regardless of size or systemic importance, and apply in all Member States (including Member States that are not members of the Basel Committee).

The systemic as well as economic importance of the whole range of institutions to which the CRD IV/CRR applies varies significantly across Member States. Thus, there is scope for individual Member States to mandate additional capital buffer requirements, which may oblige banks to operate with capital ratios that are well beyond Basel requirements.

In line with the Basel framework, CRD IV also requires that supervisors be empowered to impose additional and more stringent requirements on individual banks or subsets thereof. This applies not least where additional risks or characteristics of the business model warrant additional capital or

[7] All banks in the RCAP sample, apart from one, have migrated to the IRB approach.

disclosure requirements and is therefore of particular relevance to addressing the risks and business model characteristics that distinguish the large internationally active banks in the focus of the RCAP from the thousands of other EU banks.

1.1.5 Binding nature of regulatory instruments

The CRD IV is a binding directive that must be implemented by Member States in their national laws. This Directive requires Member States to vest competent authorities with sufficient powers to address particular risks in individual banks or sectors of their banking industry that are not well covered by the general requirements of Pillar 1 and to impose sanctions.

The CRR by contrast is a directly applicable Regulation, an EU law that immediately binds banks to comply with Pillar 1 and Pillar 3 minimum requirements. As such, it does not require implementing acts at EU or Member State level. This is the first time in EU history that banking legislation has been adopted via a directly applicable EU regulation, without resorting to mediation via national law. It is also a key element of a single rule book for EU banks. Nevertheless, the CRR also empowers the EC and the EBA to issue acts of secondary legislation (Delegated Acts, including Binding Technical Standards (BTS)) specifying additional detailed requirements through acts that are themselves laws directly binding on banks.

The EBA also issues Guidelines and Recommendations that are publicly available instruments about how requirements of EU law are to be applied by European regulators and supervisors. However, in justified instances, the nine Member States can choose not to follow EBA Guidelines and Recommendations. EU legislation, however, requires that all such instances and their reasons be placed in the public record.

This assessment relied upon the legal force of Directives and Regulations, including BTS. It also took into account the Guidelines and Recommendations of EBA to the extent that written confirmations were received from the nine Member States that they had implemented the guidelines and recommendations.

Annex 7 describes the structure and hierarchy of various Regulations, Directives and Technical Standards implementing Basel III in the EU that formed the basis for assessment and their hierarchy. The Assessment Team's view on the binding nature of the documents that formed the basis for assessment is contained in Annex 7 (C).

The issuance of BTS and Guidelines/Recommendations by the EBA under the CRR and CRD IV remains a work in progress. The EU authorities have made significant strides in fleshing out a substantial amount of details through the EBA to make the CRR and CRD IV requirements consistent across the nine Member States and the entire EU. As of mid-2014, close to 70 BTS have been submitted to the EC for endorsement covering areas such as banks' own funds, supervisory reporting, credit risk, market risk, liquidity and remuneration (Annex 8). In addition, the EBA has issued 10 Guidelines. Of the BTS that the EBA has submitted to the EC, 32 have already been adopted and have therefore entered into force. By the end of 2015, the EBA is expected to issue another 45 BTS and 30 Guidelines.

A number of BTS thus still need to be put in place for the overall framework of CRD IV/CRR to be complete in all details and to be fully operational. However, many of these BTS will go beyond what is described in the Basel framework, for instance by specifying harmonised rules for the entire EU in areas where the Basel framework allows national discretion. As discussed above, the CRD IV as a Directive, by contrast to the CRR as a Regulation, requires the Member States to issue corresponding laws in order to give it legal effect over banks and supervisory authorities. The status of adoption of these laws by the nine Member States that are members of the Basel Committee is indicated in Annex 9.

Supervisory authorities of the Member States ("competent authorities") are required by EU law to ensure that banks follow EU and Member State law. EU law requires that competent authorities be vested with appropriate sanctioning powers. In applying EU law, those supervisors are in certain instances explicitly empowered to make certain choices in the application of EU law to banks that they have authorised. They can also issue administrative guidance publicly that binds the way they apply EU law.

Collectively, Guidelines and standards at the EU level and choices and statements of administrative practices of individual supervisors were at times relevant in this assessment for verifying that EU laws are applied to large internationally active banks in conformity with the Basel framework. This assessment only takes into account those elements in place or to be in place very shortly as of June 2014. Hence, several of the initial findings of the Assessment Team were addressed during the process of preparing this report and other findings of this report may be addressed at the speed at which the EBA Guidelines and standards are introduced or where competent authorities are required to issue their own requirements. Full and complete implementation thus remains a work in progress in the EU and would benefit from follow-up RCAP work.

In addition to the CRR and CRD IV and the associated EBA standards and guidelines, other laws that implement some of the provisions of the Basel framework include the Directive establishing a framework for the recovery and resolution of credit institutions and investment firms, as published in the Official Journal of the European Union on 12 June 2014.[8]

1.1.6 Supervisory arrangements in the EU

Supervisory arrangements in the EU have recently undergone a significant transformation. Some of the changes will impact the manner in which Basel III requirements are implemented and enforced in the EU. A gist of these changes is given in **Annex 10**.

1.1.7 Areas where the EU regulations are stricter than the Basel requirements

Areas where the EU regulations are stricter than the Basel requirements are listed in **Annex 11**. These relate to the scope of application of the Basel framework, capital buffers, and eligibility criteria for recognising real estate collateral. EU authorities have also included regulations on compensation policies in the CRR. However, the Assessment Team has not reviewed them because they were not within the scope of this assessment given that the Basel capital framework does not address compensation policies.

1.2. Scope of the assessment

1.2.1 Scope

The Assessment Team took into consideration the CRR and CRD IV and other documents mentioned in Annex 7 that implement and bring into force the Basel capital framework in the EU. Within the agreed cut-off date for the assessment of end-June 2014 (see Annex 3), the assessment focused on two aspects:

(a) Comparison of the CRR and CRD IV, associated EBA BTS and guidelines (where the latter have been incorporated in Member State rules), and Member State rules to the capital requirements under the Basel framework to ascertain if all the required provisions have been adopted (*completeness* of the regulations); and

(b) Differences in substance between the above EU and Member State requirements relative to the Basel framework and their significance (*consistency* of the regulations).

8 Directive 2014/59/EU establishes a framework for the recovery and resolution of credit institutions and investment firms, http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0059&from=EN.

The assessment did not evaluate the adequacy of capital or resilience of the banking system in the EU, nor the supervisory effectiveness of the relevant supervising agencies. The assessment also did not involve verification of the actual implementation by banks.

1.2.2 Bank coverage for materiality evaluation

The identified findings were assessed for their materiality (current and potential) using both quantitative and qualitative information collected from the nine Member States and the EBA. Expert judgment was applied in drawing conclusions.

As per the RCAP methodology, the assessment of materiality was based on a sample of banks with significant cross-border activities outside the EU. Several large subsidiaries of foreign banks operating in the EU were also part of the sample for a holistic approach and to ensure that the materiality testing captured the interactions of the EU banking system with those of non-EU jurisdictions both from a competitiveness and a global financial stability perspective.

The sample covered more than half of total EU banking system assets and consisted of 20 banks. These included all 14 EU-based GSIBs; three other significant internationally active EU-based banks; plus three foreign bank subsidiaries operating in the EU. A list of the banks included in the sample is given in Annex 12.

The sample accounts for 81% of internationally active banks from the nine Member States and 61% of the banking assets of the entire banking system in the nine Member States. The sample included at least one bank each from seven of the nine BCBS member countries (Belgium and Luxembourg being the exceptions). It covered 87% of the consolidated banking system assets of the nine Member States.

The Assessment Team worked with summarised statistics supplied by the EBA without access to individual bank data in order to protect the anonymity of the sample banks. Thus, while the Assessment Team was able to obtain some satisfaction as to the reasonableness of how the data were processed, it accepted the quality of the data in good faith. By the same token, the need to protect the anonymity of banks meant that, except where noted based on other information, the Assessment Team was unable to draw any conclusions as to how the materiality of deviations varies across Member States because, in most cases, the sample included only one or two banks from individual Member States.

1.3 Assessment grading and methodology

The outcome of the assessment was summarised using a four-grade scale, both at the level of each of the 14 key components of the Basel framework and overall assessment of compliance: compliant, largely compliant, materially non-compliant and non-compliant.[9] The materiality of the deviations was assessed in terms of their current or, where applicable, potential future impact on capital ratios of the banks in the sample. The impact analysis did not extend to the wider EU economy or broader financial stability-related systemic risk.[10]

9 See https://www.bis.org/publ/bcbs264.pdf. This four-grade scale is consistent with the approach used for assessing countries' compliance with the Basel Committee's *Core principles for effective banking supervision*. The actual definition of the four grades has been adjusted to take into account the different nature of the two exercises. In addition, components of Basel III that are not relevant to an individual jurisdiction may be assessed as not applicable (N/A).

10 Due consideration was given to the number of banks having the relevant exposure, the size of exposures impacted, the range of impact and possibility of any rise in the relative proportion of the impacted exposures on the balance sheets of the banks in the foreseeable future.

The non-quantifiable assessment findings were discussed with the EU authorities and outcomes were guided by expert judgment. The Basel Committee guidance on principles to guide non-quantifiable findings was also kept in view.[11]

Ultimately, the Assessment Team relied on the general principle that the burden of proof rests with the assessed jurisdiction to show that a finding is not material or not potentially material. Also, EU/Member State measures wherever stronger than the minimum Basel requirements are fully in line with the nature of the international agreements. However, per the RCAP methodology these "super-equivalent" measures were not considered as compensating for inconsistencies or gaps identified elsewhere, unless they fully and directly address the identified inconsistencies or gaps

In cases where data limitations existed for quantifiable gaps, the team assessed materiality based on proxies such as the level of exposure to the affected asset class, the number of banks engaged in specific business activities, data from public sources, results of impact studies, or other similar types of information made available by the assessed jurisdiction. In these cases, the Assessment Team used its collective expert judgment to form a best-efforts estimate of the impact on banks' capital ratios and risk-weighted assets (RWAs).

Summary information on the materiality aspects of the assessment is provided in Section 2 and **Annex 13**.

1.4 Main findings

While the EU has made significant progress in introducing comprehensive requirements that apply directly and uniformly across the EU, it faces an important challenge in striking a balance across a wide range of banking institutions. That said, there are some deviations from the Basel framework that are material departures from the framework as well as many other deviations that are minor in terms of materiality. Of the 14 components assessed, eight are graded as compliant, four as largely compliant, one as materially non-compliant and one as non-compliant.

In determining the overall grade for the assessment, the Assessment Team took account of a number of factors, including data on the aggregate impact of deviations on the reported CET1 capital ratios of the banks in the RCAP sample, as well as information on practices in Member States. As a result, it was concluded that overall the EU capital regulations are **materially non-compliant** with the Basel framework.

A summary of the findings is given below. This should be read along with the list of detailed findings in Section 2A. Other observations related to the EU system are mentioned in Section 2B. The issues that were rectified during the assessment period are listed in Annex 1.

To foster more consistent implementation, the Assessment Team has identified four issues that would benefit from further guidance and clarifications from the Basel Committee. These are listed in Annex 14.

[11] This same approach has been followed to assess the materiality of differences for the standardised approaches, since EU banks in the sample use both standardised and advanced approaches. Evidence based on the partial use exposure of the banks in the RCAP sample has also been taken into account. In establishing the gradings for the standardised approaches, the team, in line with RCAP practice, has erred on the conservative side while recognising the relative importance of these approaches for the RCAP sample for the overall rating.

Summary assessment grading	Table 2
Key components of the Basel capital framework	**Grade**
Overall grade:	**MNC**
Scope of application	C
Transitional arrangements	C
Pillar 1: Minimum capital requirements	
Definition of capital and calculation of minimum capital requirements	LC
Capital buffers (conservation and countercyclical)	C
Credit risk: Standardised Approach	LC
Credit risk: Internal Ratings-Based Approach	MNC
Credit risk: Securitisation framework	LC
Counterparty credit risk framework	NC
Market risk: Standardised Measurement Method	LC
Market risk: Internal Models Approach	C
Operational risk: Basic Indicator Approach and Standardised Approach	C
Operational risk: Advanced Measurement Approaches	C
Pillar 2: Supervisory review process	
Legal and regulatory framework for the Supervisory Review Process and for taking supervisory actions	C
Pillar 3: Market discipline	
Disclosure requirements	C

Definition of the grades: C (compliant), LC (largely compliant), MNC (materially non-compliant) and NC (non-compliant). **Compliant**: if all minimum Basel provisions have been satisfied and if no material differences have been found that would give rise to prudential concerns or provide a competitive advantage to internationally active banks; **Largely compliant** with the Basel framework if only minor provisions have not been satisfied and only if differences that have a limited impact on financial stability or the international level playing field have been identified; **Materially non-compliant** with the Basel framework if key provisions of the framework have not been satisfied or if differences that could materially impact capital ratios and **Non-compliant** with the Basel framework if the regulation has not been adopted or if differences that could severely impact capital ratios and financial stability or international level playing field have been identified.

1.4.1 Scope of application

The EU's implementation of Basel standards on scope of application relating to requirements for consolidated banking groups, and the sublevels within a group is **compliant** with the Basel framework.

There is some discretion allowed to exclude de minimis subsidiaries plus some scope for supervisory discretion on a case-by-case basis. The nine Member States have confirmed that thus far they have not exercised the broader discretion in practice. As a result, these differences from the Basel standards are not material.

1.4.2 Transitional arrangements

The overall EU implementation of the transitional arrangements is **compliant** with the Basel framework with some minor deviations.

In recognition of the speed with which smaller institutions can be expected to adapt to the Basel III requirements, and the prevailing macroeconomic and financial environment in the EU, the CRR extended some of the transitional arrangements, notably deferred tax assets, beyond 1 January 2019 when all elements of Basel III should be fully phased in. However, data for the sample banks indicate that these extensions are not material.

The CRR also allows Member States to apply a floor based on the Basel II standardised approaches rather than the Basel I floor contemplated in the Basel framework, or to waive the floor entirely. However, the Assessment Team believes that the application of a Basel II standardised floor is consistent with the intent of the Basel framework. It also takes comfort from confirmations received from the nine Member States that, as of the assessment date, in no case has the floor been waived for any of the banks in the RCAP sample.

1.4.3 Definition of capital and calculation of minimum capital requirements

A key element of Basel III was the set of changes made to the standards that define the eligible components of regulatory capital. While the EU has implemented them, one material deviation remains, in addition to some others which were assessed as not material. The EU's implementation in this area is thus **largely compliant** with the Basel framework.

A material deviation exists with respect to *investments in the capital instruments of insurance subsidiaries*. Basel III requires significant investments in the capital of non-consolidated financial institutions (above a threshold) to be deducted from the corresponding tier of capital. The Basel framework allows for an alternative where the subsidiaries' activities are fully consolidated. The Basel Committee has also issued a separate FAQ document that requires that the bank demonstrate in each reporting period that consolidation results in a regulatory capital outcome that is at least as conservative as deduction.

In the view of the EU authorities, the requirement of the FAQ goes beyond the spirit of the Basel framework, which provides for consolidation as an equivalent alternative to deduction. The EU authorities also lean on their broader responsibilities for the adequate capitalisation of both bank and insurance activities and are of the view that the deduction requirement encourages incentives to undercapitalise insurance subsidiaries. Therefore, the CRR allows the supervisor to waive the deduction at the level of the bank capital requirement where the bank is subject to capital requirements at a consolidated conglomerate level under the Financial Conglomerate Directive (FICOD) rules. The CRR does not include the condition that the capital required under consolidation is at least as high as under the deduction approach and that the reported ratios are adjusted each period to reflect the lower figure.

The EC drafted their regulation proposal in June 2011 in good faith before the Basel Committee clarified its requirement in December 2011.[12] The Assessment Team took note of the view of the EU authorities that the December 2011 FAQ by the Basel Committee introduced an additional requirement to the Basel framework without the proper process associated with Basel standards. That said, the Assessment Team has taken the view that the BCBS requirement on consolidation vs deduction is the current agreed policy under Basel III and that all Basel Committee members are expected to implement the requirement based on the December 2011 FAQ. EU authorities also pointed out that the conglomerates capital ratio that must be disclosed in accordance with Article 49(5) is aimed at eliminating double gearing and making the actual level of capitalisation of the conglomerate known to market participants. However, this conglomerate capital ratio regime was not in effect at the time of the RCAP assessment. As a result, the materiality of this deviation was assessed by comparing the required capital under the FICOD (adjusted to approximate a bank-like capital ratio) to bank capital ratios under the Basel deduction approach. Based on this comparison, the FICOD ratio would materially understate capital for two banks in one euro area Member State. Although this comparison is imprecise and does not take into account bank behaviour that may result from banks being subject to a deduction regime, not reflecting assumptions about bank behaviour is consistent with the materiality analysis for other findings and with the RCAP methodology more generally.

CET1 instruments issued by mutually owned institutions: Basel III permits some flexibility in order to accommodate the nature of capital instruments of different mutually owned banks. However, the Assessment Team is concerned that the CRR concessions from the 14 CET1 criteria for mutuals go beyond the permissible flexibility in the Basel standard, while noting that this standard does not precisely define the extent of permissible flexibility. This is an area where the BCBS could provide additional guidance on the extent of flexibility considered appropriate for CET1 issued in mutual bank structures.

In the case of one banking group, the Assessment Team observed that individual instruments of some cooperative banks were being marketed as being redeemable, non-loss absorbing in liquidation, and paying a distribution based on the face value. In the Assessment Team's view, this goes beyond the limits of permissible flexibility in Basel III. The fact that regulatory approval is required for redemption and that redemption may be deferred does not, in the team's opinion, mitigate the public perception that these instruments are redeemable, despite the approval requirements set out in the CRR.

While the amount of such instruments is clearly material for banks with mutual structures, the Assessment Team understands that these are well understood capital structures supported by Member State law that have proven resilient in times of stress. Moreover, some of the internationally active parts of such banking groups are capitalised by common equity in the form of publicly listed ordinary shares, which serves as an alternative source of loss-absorbing capital. This is an area where the Assessment Team believes the Basel Committee could provide additional guidance on the extent of flexibility considered appropriate for CET1 issued in mutual bank structures. As a result, this issue is noted as a deviation, but the Assessment Team has not factored this element into the grade for the definition of capital category nor into the overall assessment grade.

[12] This was done through BCBS FAQ #14, see BCBS, *Basel III definition of capital – Frequently asked questions*, p 12, December 2011, www.bis.org/publ/bcbs211.htm.

Common shares as a constituent of CET1: The CRR requires CET1 instruments issued by joint stock banks to meet the 14 CET1 criteria laid out in Basel III. It does not, however, explicitly require them to be common shares as per the Basel standards. The EU authorities believe the 14 CET1 criteria are the only relevant requirements, as the term "common shares" does not have a consistent meaning in Member State or EU corporate law and does not convey a requirement of economic or legal substance.

The Assessment Team considered whether the omission of the term "common shares" has a practical impact. It arrived at a judgment that, although a deviation, the finding does not have a material impact in practice because other than for mutually owned institutions and state aid instruments (both of which are explicitly permitted under Basel III), instruments approved as CET1 are ordinary shares, or otherwise considered "common shares" in the ordinary usage. In addition, new supervisory approval and publication requirements for CET1 instruments in the EU should help to limit the risk that non-ordinary CET1 instruments could arise in the future.[13] That said, the Assessment Team recommends that EU practice in this area be followed up in future assessments given the new supervisory approval and publication requirements are a recent development.

Sovereign exposures classified as "available for sale" (AFS): Some euro area[14] Member States have taken advantage of an option in the CRR allowing banks to exclude unrealised gains or losses on exposures to governments classified as AFS from the calculation of their regulatory capital ratios if they applied that treatment before 1 January 2014. This treatment extends until the "endorsement"[15] of the new International Financial Reporting Standards (IFRS) 9 accounting standard. This is not a material finding currently due to recent declines in interest rates for some Member States' central governments and the fact that not all Member States have adopted this discretion. Indeed, if EU authorities were to remove this option now, it would actually increase capital ratios for banks that currently have net unrealised gains in their sovereign exposures classified as AFS. In the view of EU authorities, endorsement of IFRS 9 is firmly expected to occur by the end of 2015 and this will be early enough to prevent this option from having an impact in the future. The Assessment Team agrees that this finding is unlikely to be material in the future.

Other findings that were deviations but individually non-material included: (i) the treatment of non-voting CET1 instruments; (ii) the calculation of minority interests; (iii) former deductions from Tier 1 and Tier 2 capital; (iv) the waiver of de-recognition of fair values of certain liabilities; and (v) point-of-non-viability (PON) provisions in the new EU Bank Recovery and Resolution Directive (BRRD).

1.4.4 Capital buffers (conservation and countercyclical)

Basel III established a capital conservation buffer above the minimum capital requirements. The consequence of a bank's CET1 ratio falling into the buffer range is that the bank becomes subject to a restriction on the distribution of future earnings. The EU CRD IV accompanying the CRR (Directive 2013/36/EU) includes requirements for the capital conservation buffer and countercyclical buffer, and associated restrictions on distributions, consistent with Basel III requirements. The EU framework is therefore assessed to be **compliant** with the Basel buffer requirements.

13 EBA media release, "EBA publishes list of Common Equity Tier 1 (CET1) capital instruments", 28 May 2014, http://www.eba.europa.eu/-/eba-publishes-list-of-common-equity-tier-1-cet1-capital-instruments.

14 The euro area is an economic and monetary union of 18 European Union member states that have adopted the euro as their common currency and sole legal tender.

15 "Endorsement" in this context refers to a legal act of the European Commission, which turns the IFRS into binding European legislation.

The countercyclical buffer regime of Basel III works by extending the size of the capital conservation buffer when excess aggregate credit growth is judged to be associated with a build-up of system-wide risk. Here too, the EU framework is consistent with the Basel expectations for the countercyclical buffer. Provisions are included for Member State authorities to notify or consult with the EBA or European Systemic Risk Board (ESRB), depending on the size of the proposed capital buffer.

1.4.5 Credit risk: Standardised Approach

The Basel framework permits banks a choice between the Standardised and IRB approaches for credit risk. While the RCAP sample banks use the advanced IRB approach, their partial use exposure (ie the exposure that remains subject to the standardised approach) remains significant, ranging from 7% to 54% in the 20 banks in the RCAP sample (as of Q2 2013). The EU framework is judged as **largely compliant** with the Basel Standardised Approach for credit risk due to material exceptions relating to the treatment of loans to small and medium-sized enterprises and residential mortgages compared to the Basel framework in addition to some small technical deviations.

Under the transitional provisions in the CRR, capital requirements for credit risk on exposures to SMEs, both in the EU and abroad, are multiplied by a factor of 0.7619. This provision, applicable to SME exposures under both the Standardised and IRB approach, is a material deviation that EU authorities noted was introduced in response to local economic conditions. It is scheduled to be reviewed by 2017.

Lending secured by mortgages on residential property receives a favourable 35% risk weight in the Basel framework. This is on the understanding that such loans are subject to certain strict prudential criteria, including the existence of substantial margin of additional security over the amount of the loan. In assigning the risk weight, the CRR allows splitting of secured loans into two parts: (a) up to 80% of the value of the collateral, which is deemed to be secured by the value of the property and risk-weighted at 35%; and (b) the remainder which is deemed to be unsecured and risk-weighted at 100%. The EU authorities believe that the CRR treatment is consistent with that provided under the Basel framework because, as required therein, the amount of lending up to 80% of the value of the collateral (the loan-to-value threshold) is in any case protected by a substantial margin of security from the collateral value. The fact that the second part of the loan that exceeds the loan-to-value threshold is funded by the same bank does not, in the view of the EU authorities, impair the credit quality of the first part. Moreover, the EU authorities are of the view that having the entire loan provided by the same lender is prudent because it incentivises more effective and proactive credit risk management by the lender than if the loan was divided in two and the two parts were provided by two different lenders.

While the Assessment Team understands the reasoning behind the EU's position, it takes the view that such a form of "loan-splitting" would not ensure that a substantial margin of additional security over the amount of the loan is met in all cases. At least some of the margin for the first part of the loan would actually be funded by the lending bank itself, rather than by the borrower's equity or another lender. Moreover, a loan-splitting approach would likely result in lower capital charges over the life of the loan relative to two separate loans as declining loan balances will show up first in the higher-risk part. This deviation is thus a material departure from the spirit of the Basel requirements.

Other findings that were individually deviations but not material due to the small size of exposures under the Standardised Approach for the RCAP sample banks included the following: (i) the treatment of claims on banks, public sector entities and multilateral development banks, where the CRR mixes Basel options for assigning risk weights of rated and unrated exposures; (ii) the definition and preferential treatment of short-term claims where the CRR uses residual rather than original term to maturity; (iii) the treatment of covered bonds, where the EU sets risk weights that are one level lower than those applied to similarly rated unsecured claims on banks; (iv) the treatment of Undertakings for Collective Investment in Transferable Securities (UCITS)/mutual funds as financial collateral and weighted average of haircuts, where the look-through approach applies; (v) the treatment of trade finance, where the CRR allows a wider inclusion of claims with residual maturity of three months or less for low risk-weighting; and (vi) the methodology set out in the CRR to calculate the exposure to residual value risk in the case of leasing transactions, which could result in an underestimation of exposures.

1.4.6 Credit risk: Internal Ratings-Based (IRB) Approach

The EU regulations implementing the IRB approach for credit risk are **materially non-compliant** with the corresponding provisions under the Basel framework. This assessment is driven mainly by the severity of the impact of the two major departures from the Basel framework described below:

Permanent partial use: The Basel framework allows a bank to permanently apply the Standardised Approach for non-significant business units and asset classes that are immaterial in terms of size and perceived risk profile. By contrast, the scope allowed under the CRR extends well beyond that envisaged under the Basel framework. It covers a variety of exposures including sovereigns, Member State central banks and regional governments, local authorities, administrative bodies, public sector entities, institutions and intragroup exposures, and equity exposures incurred under legislative programmes to promote specified sectors of the economy. While the Standardised Approach risk weights for many jurisdictions can be higher than those under the IRB, the RCAP sample banks hold a significant amount of central government exposures that are eligible for zero risk weight under the Standardised Approach. As a result, permanent partial use leads to lower capital requirements relative to the Basel framework because these exposures would typically be subject to a small positive risk weight under the Advanced IRB Approach. Sovereign exposures subject to permanent and temporary partial use under the CRR constituted 9% of the total on-and off-balance sheet exposures of the RCAP sample banks. Data supplied by banks indicate that the permanent exclusion of sovereign exposures from the IRB Approach generally results in a material overstatement of their CET1 ratios relative to a situation where these exposures were fully covered by internal ratings. The EU authorities feel that the overstatement is based on a simplifying assumption as the same exposure might, for some significant part, be subject to transitional partial use or permanent partial use allowed under the Basel framework.

Exposures to SMEs: As noted in the previous discussion of the credit risk standardised approach, under the transitional provisions in the CRR, capital requirements for credit risk on exposures to SMEs, both in the EU and abroad and under both the standardised and IRB approaches, are multiplied by a factor of 0.7619. This is a material deviation that EU authorities noted was introduced in response to local economic conditions. It is scheduled to be reviewed by 2017.

There are also a number of *other findings* that are not individually material. They can be grouped around: (i) the application of the IRB scaling factor; (ii) the omission of undrawn commitments in setting the threshold for retail exposures; (iii) covered bond loss-given-default (LGDs) under the Foundation IRB Approach; (iv) expanded recognition of exposures that are treated as qualifying revolving retail exposure (QRRE); (v) expanded definition of small corporate borrowers that are eligible for a 2.5 year maturity; (vi) a lower maturity floor for purchased corporate receivables; (vii) reduced LGD for dilution risk for corporate receivables; (viii) a narrower definition of large regulated financial institutions in the application of the asset value correlation factor; (ix) lower risk weights and LGDs for some private equity exposures; (x) application of a 10% LGD floor for residential mortgage exposures to the entire pool of such exposures rather than sub-segments; and (xi) the absence of some qualitative criteria regarding derivation of estimates of EAD set out in the Basel framework.

1.4.7 Credit risk securitisation framework

Overall, the EU's securitisation framework is considered **largely compliant** with the Basel framework. Although most elements of the securitisation framework have been adopted in the EU, some differences from the Basel framework were identified. One potentially material finding relates to more liberal treatment of unrated securitisation exposures under both the Standardised and IRB Approaches. Non-material findings include: (i) allowing proportionate risk weighting between 250% and 1250% of exposures where the operational requirements regarding the use of external credit assessments are not fully met, as opposed to a fixed 1250% risk weight under the Basel framework in such situations (although the corresponding qualitative requirements are more comprehensive in the CRR than in the Basel framework) and (ii) an exemption for early amortisation that is not found in the Basel framework.

1.4.8 Counterparty credit risk framework

The EU's counterparty credit risk framework is considered **non-compliant** with the Basel framework. This assessment results from the exemption from the CVA-risk capital charge allowed under the CRR for transactions between EU banks and "CVA-exempted entities". Banks subject to the CRR can exclude exposures to pension funds, Member State central governments, regional governments and local bodies wherever they qualify for a 0% risk weight under the Standardised Approach for credit risk, as well as qualifying non-financial end-users. This constitutes a material departure from the Basel framework in that it materially boosts bank capital ratios. Data collected from the sample banks confirm that the exemptions allowed under the CRR resulted in materially higher reported capital ratios.

However, the Assessment Team notes that in contrast to some other jurisdictions, the CRR has adhered to the Basel framework by not recognising the market risk hedges of CVA.

Other non-material findings include (i) the option under the CRR of calculating the counterparty credit exposure value using the original exposure method of Basel I; and (ii) to use different credit conversion factors under the Current Exposure Method for banks that follow the extended maturity ladder approach[16] method for calculating market risk capital charge for commodities. Neither method is permitted under the Basel framework but Member State authorities confirmed that most RCAP sample banks do not use them (a very limited exception concerns the extended maturity ladder approach as explained in the section below on the market risk Standardised Measurement Method).

1.4.9 Operational risk: Basic Indicator Approach, Standardised Approach & Advanced Measurement Approaches

The EU's implementation of Basel operational risk capital requirements is considered **compliant** with the Basel framework on both counts with some minor deviations that are not material.

Under the EU's Standardised Approach to operational risk, outsourcing expenses to affiliated parties and other banks can be excluded from gross income, which is not permitted under the Basel framework. The EU authorities explained that this provision is intended to prevent double-counting of the same income in the Standardised Approaches to operational risk. The Assessment Team believes that outsourcing, whether to affiliates or other banks, does not eliminate operational risk and therefore it is not appropriate to exclude the related outsourcing expenses from capital calculations. Although no data could be made available, the Assessment Team considers this exemption as unlikely to be material.

There are a few findings regarding the EU's implementation of the AMA that are more in the nature of technical deviations that are not likely to have a material impact on the capital ratios. These include allowing the use of an allocation mechanism for the purpose of determining the regulatory capital requirement for subsidiaries, and allowing incorporation of diversification benefits in the calculation of capital requirements. Neither finding would have an impact on the consolidated capital of the banks in the RCAP sample. Moreover, Member State authorities confirmed that the sample banks are

[16] This approach permitted under the CRR allows a concessional set of spread rate, carry rate and outright rate with values lower than that under the standard maturity ladder approach. The extended maturity ladder approach is targeted at specialised commodities dealers that have not implemented internal models but want to use a more risk-sensitive approach.

not making use of these allowances. The CRR also does not explicitly include some of the qualitative requirements for use of the AMA. The Assessment Team does not consider these findings to be material.

Another difference relates to the recognition of the risk mitigating impact of "other risk transfer mechanisms" in addition to insurance in the CRR. The Basel framework does not explicitly allow banks to use operational risk mitigants other than insurance. But Member States reported that the RCAP sample banks are not utilising this provision; thus it is not material.

1.4.10 Market risk: Standardised Measurement Method

The EU's requirements implementing the Standardised Measurement Method for market risk are considered **largely compliant** with the Basel framework with one material deviation and other minor deviations. The most significant issue revolves around the treatment of closely correlated currencies. Other non-material issues for the RCAP sample banks revolved around capital charges for the use of appropriately diversified indices and the use of the extended maturity ladder approach where authorities in one Member State outside the euro area confirmed that two RCAP sample banks have been authorised to use this approach to a very small extent, which is not allowed under the Basel framework.

1.4.11 Market risk: Internal Models Approach (IMA)

The EU's regulations implementing the IMA for market risk are considered **compliant** with the Basel framework with some minor deviations. The latter include omission in the CRR of some details from the provisions of the Basel framework regarding stress testing; and the application of the stress scenarios for the correlation trading portfolio.[17] These issues were discussed with Member State authorities, who advised that these points are mostly covered in their own rules and supervisory practices.

1.4.12 Supervisory Review Process (Pillar 2)

The EU regulations implementing the supervisory review process are **compliant** with the corresponding provisions set out in Pillar 2 of the Basel framework. The CRD contains most of the provisions of the Basel framework. It also envisages the issuance of EBA Guidelines in the future to flesh out the implementation of Pillar 2 in the EU, but a timetable has not yet been set for the issuance of these guidelines.

There is, however, an existing EBA Guideline on the Application of the Supervisory Review Process (SRP) on Pillar 2 (GL03 of 25 January 2006) which was reviewed by the Assessment Team and covers the necessary missing items. The Member State authorities confirmed that this guideline has been fully implemented in their jurisdictions either in their own regulatory requirements or in some cases through their supervisory practices. Annex 15 describes the EU's future Pillar 2 supervisory review process.

1.4.13 Disclosure requirements (Pillar 3)

EU disclosure requirements are **compliant** with the corresponding provisions set out in Pillar 3 of the Basel framework. The few minor differences observed do not have any material impact on implementation of these requirements. They mainly revolved around the frequency of information disclosure. Information submitted by Member State authorities indicated that in practice most banks in the RCAP sample are generally following the Basel requirements.

[17] The EBA is required to issue guidelines on the application of the stress scenarios for the correlation trading portfolio, but the CRR did not set a date for these guidelines to be finalised.

1.4.14 Other observations

Interpretative issues

The Assessment Team could not assess a few provisions in the CRR as the corresponding provisions in the Basel framework are either open to different interpretations or do not exist. These provisions are listed in Annex 12. One of these provisions, affecting a sizeable amount of bank assets, relates to the owner-occupier requirement for residential mortgages under the credit IRB Approach. Basel states that residential mortgage loans are eligible for retail treatment provided that the credit is extended to an individual who is an owner-occupier of the property. But, it also provides flexibility to supervisors regarding buildings containing only a few rental units. The CRR does not include any provision requiring residential mortgage loans to be secured by owner-occupied properties. The EU authorities believe this is consistent with the Basel framework as there is scope for this Basel provision to be interpreted in different ways. This issue has also come up in a few earlier RCAP assessments and the assessment teams are generally of the view that there is need for more clarity in this provision. The EU RCAP Assessment Team understands that this issue is already receiving the Basel Committee's attention for a clarification. This is noted in the report simply as an observation.

Issues for follow-up RCAP assessments

The Assessment Team has identified nine issues for follow-up RCAP assessments as listed in Annex 16. These include major issues relating to definition of capital, credit risk, counterparty credit risk and market risk discussed in this section.

2. Detailed findings

The component-by-component details of the assessment of compliance with the risk-based capital standards of the Basel framework are detailed in this part of the report. These findings are presented in two sections.

Section A describes the findings that are considered as deviations. These deviations were assessed for their current and potential materiality on the RWA and CET1 ratios of banks in the sample based on data collected from banks and other information provided by the Member States authorities. The final conclusions on materiality reflect the Assessment Team's judgment taking into account all this information.

Section B lists the findings that are treated as the Assessment Team's observations (rather than deviations from the Basel standards) found relevant for the consistency and manner of implementation in the EU.

Section A: Findings that are considered as "deviations"

2.1 Scope of application

Section grade	**Compliant**
Summary	There is some discretion allowed to exclude de minimis subsidiaries plus some scope for supervisory discretion on a case-by-case basis. However, this broader discretion is not used in practice. As a result, these differences are not material.
Basel paragraph number	Basel II: 24–27
Reference in the domestic regulations	CRR Articles 6–11, 14, 18, 19, 22, 436
Findings	The Basel framework requires that to the greatest extent possible, all banking and other relevant financial activities (both regulated and unregulated) conducted within a group containing an internationally active bank are captured through consolidation. Majority-owned or controlled banking entities, securities entities and other financial entities should generally be fully consolidated. As a carryover from previous CRDs, CRR Article 19 permits certain financial subsidiaries to be excluded from prudential consolidation. This includes a de minimis exemption under CRR Article 19 paragraph 1 for immaterial subsidiaries, as well as a case-by-case discretion available for competent authorities under CRR Article 19 paragraph 2 in certain circumstances. The Assessment Team believes the use of this discretion is not clearly circumscribed. This discretion is not consistent with the Basel II paragraph 26 wording, which only allows exemption from consolidation for securities activities and certain other very specific circumstances.
Materiality	In view of the Member State authorities' confirmation that the case-by-case waivers are not used in practice, this deviation is not considered to be material.

2.2 Transitional arrangements

Section grade	**Compliant**
Summary	Some of the transitional arrangements, notably for deferred tax assets, have been extended beyond 1 January 2019 when these elements of Basel III should be fully phased in. According to data provided, these extensions are not material in practice, with the exception of only one bank where the deviation was marginally material. Member States have discretion to apply a floor based on the Basel II standardised approaches rather than the Basel I floor contemplated in the Basel framework, or to waive the floor entirely. This is viewed by the Assessment Team as consistent with Basel II. In no case has the floor been waived for any of the RCAP sample banks.
Basel paragraph number	Basel II: 45–49
Reference in the domestic regulations	CRR Article 500
Findings	For banks using the IRB Approach for credit risk or the Advanced Measurement Approaches (AMA) for operational risk, the Basel framework sets a minimum floor on the resulting capital requirement based on a percentage of capital calculated under the Basel I framework. The CRR allows competent authorities discretion to apply a floor based on the Basel II standardised approaches rather than Basel I floor, or to waive the floor entirely. The Assessment Team believes that application of a Basel II standardised floor is consistent with Basel II. However, outright waiver of the floor is not consistent with the Basel framework. Given current concerns about the consistency of RWAs across banks using advanced modelling approaches, this would be contrary to the intent of the Basel framework.
Materiality	Member State authorities confirmed that the Basel II floor has not been waived for any of the banks

	in the RCAP sample.
Basel paragraph number	Basel III: 94(c)–(d)
Reference in the domestic regulations	CRR Articles 467–482
Findings	Under Basel III, various regulatory adjustments are fully deducted from CET1 with transitional phase-in by 1 January 2018. The CRR contains certain modifications to the Basel III transitional provisions. 1. Subject to the discretion of competent authorities, the CRR permits a more generous transitional phase-in period for certain deductions than under Basel III. In particular, deferred tax assets that rely on future profitability and arise from temporary differences, and certain equity investments in insurance companies may be permitted transitional phase-in over 10 years (until 2022) vs five years under Basel III. The EU authorities explained that, because DTAs depend on the tax and accounting law in Member States, the impact of DTA deduction is very uneven. Therefore, the CRR provides the possibility of an extended phase-in of the deduction in relation to DTAs existing prior to 1 January 2014. Five of the nine Member States indicated that they will permit the extended transition. Data indicate that this deviation is marginally material for one institution. 2. CRR Article 471 allows competent authorities to permit banks not to deduct those investments in insurance companies that existed prior to 31 December 2012 and which do not exceed 15% of the CET1 of the insurance company. These investments are risk-weighted at 370% until 2022. The Assessment Team confirmed that no Member States have exercised this discretion. On both issues, the Assessment Team focused on the impact as of the conclusion of the Basel III transitional period.
Materiality	Based on the data provided, the transitional treatment for DTAs will not have a material impact on the capital ratios of banks as it was only marginally material for one sample bank. This outcome is supported by the fact that this is only an issue for DTAs that existed prior to 1 January 2014. The materiality of those DTAs was assessed on the basis of the end of the transition period, taking into account the fact that within three years (by 2018) 50% of the DTA will be deducted from CET1 – an approach consistent with those allowed by the Committee in other cases. The exceptions concerning deduction of investments in insurance companies are not material.
Basel paragraph number	Basel III: 95–96
Reference in the domestic regulations	CRR Article 484
Findings	According to Basel III, to qualify for the transitional arrangements under paragraph 94, capital instruments must have been issued before 12 September 2010. In addition, transitional phase-out is not provided for non-complying CET1 instruments. The CRR transitional provisions apply to capital instruments issued before 31 December 2011. In addition, non-complying CET1 instruments are provided with transitional phase-out in the same manner as Additional Tier 1 instruments and Tier 2 instruments.
Materiality	The Assessment Team agreed that the slightly more generous transitional eligibility was a minor technical deviation that is not material given that banks were generally not issuing non-CET1 instruments during the period when the Basel III non-viability requirements were being finalised. With respect to CET1 transitional arrangements, the Assessment Team agreed this is a transitional matter only and thus is not material. The amount of non-complying CET1 instruments is very small based on the recent EBA transparency exercise.

2.3 Calculation of minimum capital requirements and definition of capital

Section grade	**Largely compliant**
Summary	A material deviation exists with respect to investments in the capital instruments of insurance subsidiaries. The CRR allows an option for the risk-weighting of these investments for banks subject to conglomerate consolidation, but without including the condition that the capital required under consolidation is at least as high as under the deduction approach. In practice this issue was only material for two sample banks, where it had resulted in a moderate overtsatement of CET1 ratios. Basel III permits some flexibility in capital instrument design for mutually owned banks. However, the CRR concessions from the 14 CET1 criteria for mutuals appear to go further and permit features that go beyond the permitted flexibility envisioned under Basel III. While the amount of such instruments is clearly material for two banking groups with mutual structures, the Assessment Team has not factored this element into the overall consistency evaluation given the mitigating circumstances in place and the lack of Basel Committee guidance on how to handle mutual bank capital structures. The CRR requires CET1 instruments issued by joint stock banks to meet the 14 CET1 criteria laid out in Basel III. It does not, however, explicitly require them to be common shares as per the Basel standards. The Assessment Team reviewed the CET1 instruments approved in each of the Member States in the sample and considered whether the omission of the term "common shares" has had a practical impact. The Assessment Team arrived at a judgment that, although a deviation, it does not have a material impact in practice because there are no instruments approved as CET1 that would not be considered ordinary shares, or "common shares" in the ordinary usage. Other non-material findings included: (i) the treatment of non-voting CET1 instruments; (ii) the deduction of certain items required to be risk-weighted at 1250%; (iii) the calculation of minority interests; (iv) the waiver of de-recognition of fair values of certain liabilities; (v) the exclusion of unrealised gains or losses on exposures to governments classified as "available for sale" from the calculation of regulatory capital ratios until a new IFRS accounting standard is endorsed to replace IAS 39; and (vi) point-of-non-viability (PON) provisions in the new directive establishing a framework for the recovery and resolution of credit institutions and investment firms in the EU.
Basel Paragraph number	Basel III: 49–50
Reference in the domestic regulations	CRR Article 10, 92, 93 and 94
Findings	The Basel framework's minimum capital requirements apply to all internationally active banks at every tier within a banking group. CRR Article 10 allows supervisory authorities discretion to provide exemptions from capital requirements for institutions within the same member state that are affiliated with a central body which supervises them. Article 10 applies to credit institutions where a large number of institutions (cooperatives) are the majority owners of a central institution, and where the central institution controls the affiliated institutions through control and equity interests
Materiality	Internationally active banks within cooperative structures could potentially be subject to this exemption. Member State authorities indicated that no exemptions have been provided to any internationally active banks; as a result, this difference is not material.
Basel Paragraph number	Basel III: 52–53
Reference in the domestic regulations	CRR Articles 26, 28 and 29
Findings	1. Basel III paragraph 53 stipulates that for an instrument to be included in CET1 capital it must meet all of the 14 specified criteria. For internationally active banks structured as joint stock companies, the criteria must be met solely with common shares. The CRR does not contain a requirement for CET1 instruments issued by joint stock companies to be common shares. The EU authorities are of the view that the 14 CET1 criteria are the only relevant

	requirements. A reference to "common shares" is neither needed nor meaningful in the EU context, since the term is neither defined in Basel III nor does it have a consistent meaning in national or EU corporate law. The Assessment Team believes Basel III uses the term "common shares" in its generally understood, common usage sense as being the primary traded share capital instrument of the company (often referred to as "ordinary voting shares" at European banks and in other EU regulations). The common shares requirement is additional to the 14 criteria; otherwise there would be no point to its explicit and highlighted inclusion. The CRR thus allows for the possibly of other types of instruments to be included in CET1. The Assessment Team acknowledges that mitigating these concerns are the requirements for pre-approval of CET1 instruments and the publication by the EBA of a list of all acceptable classes of CET1 instruments. The first version of this list was published during the course of the RCAP and was reviewed by the Assessment Team. This confirmed that there are no classes of CET1 instruments (other than those issued by non-joint stock companies or under state aid investments) that appear contrary to the Basel III "common shares" concept. The transparency arrangements make it unlikely that the impact would become material in the future. The Assessment Team also reviewed the capital structure of each bank in the sample through recent public financial statements or Pillar 3 reports. This did not reveal any CET1 instruments that would not be considered analogous to "common shares". In addition, Member State authorities each confirmed that there are no CET1 instruments approved other than ordinary shares for the RCAP sample banks (other than the mutual banks). 2. Basel III specifies that non-voting shares should be identical in all other respects to voting common shares. The CRR does not contain this requirement. CRR Article 28(3) allows the possibility of preferential distributions by way of dividend multiples. The Assessment Team understands that dividend multiples are considered necessary to compensate for the lack of voting rights. An EBA technical standard specifies that such dividends cannot exceed 125% of the payments on voting shares. The Assessment Team concurs that this is an appropriate limitation on this discretion. 3. CET1 may include "funds for general banking risk" (CRR Article 26(f)), which is not an element of CET1 explicitly permissible under Basel III. Funds for general banking risk is a local GAAP accounting item in some countries, which banks can set aside for unspecified risks. The EC indicated that all of the internationally active banks now use IFRS and therefore this item is not relevant as a component of capital. 4. Under CRR Article 29, exceptions from four of the 14 Basel III criteria are provided for CET1 instruments issued by mutually owned institutions. Specifically, these instruments may be redeemable at the option of a holder where required under national law and may be marketed as such. They may pay distributions based on purchase amount, may include a cap on distributions, and may not represent residual claim in liquidation. There are some limitations on these exceptions. In particular, institutions must have the right to defer redemption of these instruments indefinitely. The EU authorities' view is that the exceptions to the Basel III CET1 criteria appropriately reflect the legal structure of these institutions. In fact, Basel III and the CRR CET1 requirements have led to some strengthening of the terms of cooperative capital instruments in practice, in particular the right to defer redemption. However, the Assessment Team is concerned that deferral of redemption would most likely be interpreted as an indication of significant stress and could lead to further destabilisation. Overall, although the Assessment Team recognises that the Basel Committee intended some flexibility toward mutually owned banking organisations, its view is that these concessions taken together do not appear to fully "preserve the quality of capital" as set out in Basel III footnote 12. Mitigating these concerns somewhat is the fact that the entities within the mutual structures in the RCAP sample that are internationally active banks are supported by listed entities issuing ordinary shares to the market. According to the discussions with the most affected Member State authority, the mutually owned structures have proven resilient in times of stress. In addition, the Assessment Team acknowledges that little guidance has been provided by the BCBS on the extent of flexibility considered appropriate for CET1 issued in cooperative structures. The Basel Committee may wish to consider exchanging information on how the criteria for non-joint-stock companies are applied in practice in order to promote more consistent implementation.

Materiality	1. The Assessment Team reviewed the CET1 instruments issued by sample banks and also examined information received from Member States, the list of classes of CET1 instruments published by the EBA, and the publication and approval requirements for CET1 instruments. All of the instruments conform in practice to common equity instruments; thus the Assessment Team does not consider this deviation to be material. However, the Assessment Team recommends that follow-up work be conducted in the future to make sure that banks continue to adhere to the spirit of the CET1 definition. 2. The Assessment Team does not consider this issue to be material given the limitations on dividend multiples that simply reflect differences in voting rights. 3. The Assessment Team was advised by EU authorities that this reserve is not permissible under IFRS and is not used by banks in the sample. Therefore this issue is not material. 4. This issue is material for the two mutually owned banking groups in question. However, given the lack of specific guidance from the Basel Committee on how to handle mutually owned banks and the limited direct impact on the capital of the internationally active bank subsidiaries of those banking groups, this issue is not considered material for the overall compliance with the Basel III definition of capital requirements.
Basel paragraph number	Basel III: 62, 63 and 64
Reference in the domestic regulations	CRR Articles 81–86
Findings	In the context of determining the recognition in consolidated capital of minority interests and other capital issued out of consolidated banking subsidiaries held by third parties under Basel III, the amounts of allowable CET1, Additional Tier 1 and Total Capital of the subsidiary are calculated with reference to the minimum CET1 requirement of the subsidiary plus the capital conservation buffer (ie 7.0% of risk-weighted assets), the minimum Tier 1 requirement of the subsidiary plus the capital conservation buffer (ie 8.5% of risk-weighted assets) and the minimum Total Capital requirement of the subsidiary plus the capital conservation buffer (ie 10.5% of risk-weighted assets), respectively. The CRR minority interest calculations also include Pillar 2 capital adjustments and other capital buffers (eg countercyclical buffer) in subsidiary capital calculations. The Assessment Team questioned whether inclusion of the countercyclical buffer is a deviation as it is a component of the capital conservation buffer. Inclusion of additional capital requirements above the Basel framework minima will increase the amount of minority interests that can be recognised in capital at the consolidated level. There is a risk that Pillar 2 adjustments may be temporary and so could lead to inappropriate fluctuations in capital. EU authorities view the inclusion of other capital requirements and buffers applied to subsidiaries as consistent with the intent of Basel III that minority interests reflect actual capital requirements in subsidiaries. Inclusion of additional buffers and Pillar 2 adjustments is prudent and conservative practice and minority interest recognition should not be penalised as a result. The Assessment Team appreciates the logic underlying the EU's approach to the treatment of minimum capital requirements. However, the CRR provision is inconsistent with the Basel requirement as written. Future guidance on this issue from the Basel Committee on its intent could be useful. The CRR also exempts institutions that are part of a mutual network or cross-guarantee scheme from the minority interest limitations. However, the relevant Member State confirmed that this exemption does not apply to the internationally active banks in the mutually owned groups nor does it affect the consolidated group capital position.
Materiality	Based on data provided, this issue is not material. Potential materiality is not easy to assess as the Assessment Team does not know when the countercyclical capital buffer is likely to be invoked or by how much. But in any case, it has not been used yet and the possibility of the EU imposing this buffer in any material size in the next three to four years (the horizon generally taken for the assessing potential materiality) was judged to be low in the light of current economic conditions.
Basel paragraph number	Basel III: 75
Reference in the domestic regulations	CRR Article 33

Findings	Basel III requires banks to derecognise in the calculation of CET1 capital all unrealised gains and losses that have resulted from changes in the fair value of liabilities that are due to changes in the bank's own credit risk. CRR Article 33 provides an exception for deduction of own creditworthiness gains on certain covered bonds. The EU authorities confirmed that this provision is only allowed for a very limited class of mortgage bonds. The CRR wording has been tightened so that only these instruments could qualify for the treatment and this is supported by an EBA Technical Standard.
Materiality	Member State authorities confirmed that this provision has not been used by any of the banks in the sample. Therefore, this issue is not considered material.
Basel paragraph number	Basel III: 94(c)–(d)
Reference in the domestic regulations	CRR Articles 467–482
Findings	Basel III allows phase-in of the full recognition of unrealised gains and losses on in capital over a five-year period. 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, subject to the discretion of competent authorities. This treatment may be applied until the endorsement by the EC of IFRS 9 replacing IAS 39, which was published by the International Accounting Standards Board in July 2014. Some euro area Member States indicated that they permit this exclusion; another euro area Member State interpreted the provision as still subject to the Basel III-compliant five-year phase-in period. The current EBA stress test does not recognise the exclusion. The EC expects to be able to endorse IFRS 9 by end-2015, at which time the treatment will be fully aligned with the Basel framework.
Materiality	Information received from Member States indicates that the impact of the exclusion of losses (and gains) on AFS exposures to central governments has fluctuated over time. In some cases, RCAP sample banks would actually report higher capital ratios now if the exclusion was reversed given the net gains that currently exist in their sovereign AFS portfolios. Based on the information provided that this treatment currently results in more conservative capital ratios and the fact that the EC has confirmed that endorsement of IFRS 9 is expected by end-2015, this deviation is not considered material.
Basel paragraph number	Basel III: 84–86, BCBS FAQ 14 (p 12) Definition of Capital, December 2011
Reference in the domestic regulations	CRR Articles 36, 43, 47, 49 and 79
Findings	Basel II and III require significant investments in the capital of non-consolidated financial institutions to be deducted from the corresponding tier of capital, subject to CET1 thresholds. However, neither Basel II nor Basel III explicitly prohibited consolidation of insurance entities within a banking group. Previous CRDs permitted consolidation of insurance businesses, the approach used in some of the nine Member States. A subsequent Basel III FAQ issued by the BCBS in December 2011 confirmed that supervisors can permit banks to consolidate significant investments in insurance entities as an alternative to the deduction approach, but on the condition that the method of consolidation results in a minimum capital standard that is at least as conservative as that which would apply under the deduction approach. If the consolidation approach results in any of the bank's capital ratios being higher than the ratios calculated under a deduction approach, the bank must adjust the capital ratio downwards by applying a regulatory adjustment to the relevant component of capital. If the consolidation approach results in a lower (ie more conservative) capital ratio, this must be reported or disclosed by the bank. CRR Article 49 allows an option for consolidation (non-deduction) of insurance subsidiaries under a conglomerates policy. Under the CRR, these investments are risk-weighted as equity investments at the applicable risk weight for equities under the Standardised or IRB approaches. In addition, consolidated capital requirements are to be calculated under the Financial Conglomerates Directive (FICOD) and the associated EBA technical standard on the calculation of capital requirements for financial conglomerates, as published in the *Official Journal of the European Union* in January 2014. The FICOD ratio is defined as a coverage requirement (consistent with insurance solvency ratios) with a target equal to 100%. The numerator (own funds requirements) is the sum of banking requirements (determined under the CRR) and insurance requirements (determined under Solvency

	I currently and eventually Solvency II). The denominator (own funds) is determined as the own funds at the level of the financial conglomerate on a fully consolidated basis (after elimination of intragroup exposures). The FICOD ratio is to be reported on an annual basis to relevant competent authorities. This conglomerate capital reporting regime was not yet in place at the time of the RCAP and the assessment of the effectiveness of the FICOD and associated technical standards in addressing insurance and conglomerate capital adequacy was outside the scope of the RCAP. The CRR does not include the Basel Committee Basel III FAQ condition that the capital required under consolidation is at least as high as under deduction approach. However, CRR Article 49(6) does require that banks disclose the supplementary own funds requirement and the capital adequacy ratio of the financial conglomerate as calculated in accordance with the FICOD. The EBA technical standard provides additional guidance on what should be disclosed; however, it does not require this disclosure to be made in conjunction with other Pillar 3 disclosures (eg same location and frequency). The Assessment Team noted that the EC drafted its proposed regulation implementing Basel III in June 2011 before the BCBS FAQ was published in December 2011. Hence, it is acknowledged that the current EU rules were formulated in good faith and were overtaken by the FAQ. That said, the Assessment Team is of the view that the Basel Committee FAQ on consolidation vs deduction is agreed Basel Committee policy and should be respected by the member jurisdictions as envisioned under the RCAP. The EU authorities, however, believe that the FAQ goes beyond an interpretation of Basel III and introduced additional requirements even though in their view it has not been adopted in line with the due process set out in the charter for new Basel standards, which includes public consultation. EU authorities also pointed out that there is no clear guidance from Basel on how a conglomerate capital ratio should be calculated. One approach has been provided by the EU in the FICOD and related BTS. The EU authorities also insisted on their broader responsibilities for the adequate capitalisation of both bank and insurance activities and pointed out that the deduction requirement leads, by contrast to consolidation, to incentives to undercapitalise insurance subsidiaries.
Materiality	Material. To determine the materiality of this finding, the Assessment Team developed a methodology, in consultation with the EBA, for converting the FICOD capital measures into a bank-like capital ratio (capital compared to risk-weighted assets). This methodology was only an approximation for a variety of reasons, including the lack of a CET1 capital concept in insurance. This ratio was compared to bank capital ratios under the Basel deduction approach. Based on this comparison, the approximated FICOD ratio would materially understate capital for two banks in one euro area Member State. This comparison does not take into account bank behaviour that may result from banks being subject to a deduction regime. In particular, if banks were subject to deduction, they may reduce the amount of surplus capital at the level of the insurance subsidiary. Therefore, the EU authorities feel that it would be more appropriate to calculate materiality using only the minimum capital required of the insurance subsidiaries (as opposed to those subsidiaries' actual capital levels) as this would be more reflective of the capital of the insurance subsidiaries if banks were subject to the deduction treatment. If that were done, the approximated FICOD-based CET1 ratio would be materially lower (more conservative) than the Basel deduction approach for all of the affected banks. The Assessment Team did not adopt this approach given that behavioural assumptions are only speculative and have not been factored into materiality analysis for other findings, consistent with the RCAP methodology more generally. Moreover, the Team believed a conservative approach is warranted in this case given the significant role played by bank-insurance conglomerates in the EU financial system.
Basel paragraph number	Basel III: 90
Reference in the domestic regulations	CRR Articles 36, 89, 153, 258 and 379
Findings	Basel III requires that certain items, which under Basel II were deducted 50% from Tier 1 capital and 50% from Tier 2 capital (or had the option of being deducted or risk-weighted), will receive a 1250% risk weight. The CRR maintains the option for deduction rather than mandating a 1250% risk weight for such exposures. The Assessment Team believes that deduction treatment rather than a 1250% risk-weighting can

	result in a less conservative treatment in some instances, particularly when the capital ratios are higher than the regulatory minimum.
Materiality	The data analysis shows that this issue is not material.
Basel paragraph number	BCBS statement 13 January 2011, Annex 4–5
Reference in the domestic regulations	Directive establishing a framework for the recovery and resolution of credit institutions and investment firms in the EU (Articles 32, 59)[18]
Findings	Subparagraph 4(d) of Article 32 of the BRRD provides an exception from the conversion/write-down requirements in circumstances when government support has been provided to a bank that is not insolvent "in order to remedy a serious disturbance in the economy of a Member State and preserve financial stability." As this exception is open to interpretation, it could undermine the operation of the BCBS principle that all capital holders absorb losses before government support is provided. The EU authorities explained that any extraordinary public financial support that takes the form of an injection of own funds or is used for the purchase of capital instruments for solvent institutions would still be considered as state aid under the EC's State Aid rules, which spell out the circumstances under which the EC would approve government assistance to a financial institution.[19] Such a provision of state aid would need final approval by the Commission. Before exercising any recapitalisation to cover a capital shortfall, Member States must submit capital restructuring plans to the EC for approval. These plans should include burden-sharing measures by shareholders and subordinated creditors of the bank. The Assessment Team agreed that this provision provides comfort that shareholders will bear losses in these circumstances as envisioned under the Basel III non-viability rules. However, this exception could still leave the outcome open to political intervention.
Materiality	Given the limitations around its use, this exception is not considered material.

2.4 Capital buffers (conservation and countercyclical)

Section grade	**Compliant**
Summary	The CRD IV includes requirements for a capital conservation buffer and countercyclical buffer, and associated restrictions on distributions, consistent with the Basel III requirements. With respect to the countercyclical buffer, provisions are included for competent authorities to notify or consult with the EBA or ESRB, depending on the size of the proposed capital buffer.

2.5 Credit risk– Standardised Approach

Section grade	**Largely compliant**
Summary	Most findings are small technical deviations that are neither individually or cumulatively material, with two material exceptions relating to the SME adjustment factor and the treatment of residential mortgages. In the case of SME exposures, under the transitional provisions in the CRR, capital requirements for credit risk on exposures to SMEs, both in the EU and abroad, are multiplied by a factor of 0.7619. This treatment is scheduled to be reviewed by 2017. Data for the sample banks indicate that this issue would be a moderate deviation for a half dozen banks and a significant deviation for two other banks.

[18] Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms.

[19] Communication from the EC on the application, from 1 August 2013, of State Aid rules to support measures in favour of banks in the context of the financial crisis, 2013/C 216/01.

	In assigning the 35% residential mortgage risk weight, the CRR allows splitting of secured loans into two parts: (a) up to 80% of the value of the collateral, which is deemed to be secured by the value of the property and risk-weighted at 35%; and (b) the remainder which is deemed as unsecured and risk-weighted at 100%. While the EU authorities believe that the CRR treatment is consistent with that provided under the Basel framework, the Assessment Team takes the view that such a form of loan "splitting" would not ensure that a substantial margin of additional security over the amount of the loan is met in all cases. Moreover, it would likely result in lower capital charges over the life of the loan relative to two separate loans as declining loan balances will show up first in the higher-risk part. The data indicate that this would be a moderate deviation for five sample banks and not material for other sample banks. Other findings that were individually deviations but not material due to the small size of exposures under the Standardised Approach for the RCAP sample banks revolved around the following: (i) the treatment of claims on banks, public sector entities and multilateral development banks; (ii) the definition and preferential treatment of short-term claims where the CRR uses residual rather than original term to maturity; (iii) the treatment of covered bonds, where the EU sets risk weights that are one level lower than those applied to similarly rated unsecured claims on banks; (iv) the treatment of UCITS/mutual funds as financial collateral and weighted average of haircuts, where the look-through approach applies; and (v) the methodology set out in the CRR to calculate the exposure to residual value risk in the case of leasing transactions, which could result in an underestimation of exposures.
Basel paragraph number	Basel II: 57–58
Reference in the domestic regulations	CRR Article 115(1),(2) and (3); Article 116(1) (2) (3) and (4)
Findings	1. Under the Basel framework, claims on domestic public sector entities (PSEs) should be risk-weighted under either option 1 or 2 for claims on banks. The CRR applies option 1 to unrated PSEs and option 2 to rated PSEs. If the EU were to follow option 1 for all claims on PSEs, then, in addition to the unrated claims, the risk weight for all rated claims on the PSEs would also depend upon the credit rating of the sovereigns rather than their own ratings. It is unlikely that under option 1 any rated PSEs would end up with risk weights higher than they currently attract as per their own ratings. However, in the case of PSEs rated as BBB– to BBB+, the risk weight under option 1 may rise from 50% to 100% even if the sovereign also has the same rating. If the EU were to follow option 2, the unrated claims would have to be risk-weighted at 50% while they are risk-weighted based on the credit rating of the sovereigns. This method would deliver risk weights less conservative than Basel in all cases where the sovereign are rated AA– and above and qualify for a risk weight of 20%. The EU authorities believe that the treatment provided in the CRR is more risk-sensitive, as it applies the corresponding rating for rated PSEs and its sovereign rating for unrated PSEs to determine the risk weight instead of a 50% risk weight as set out under option 2 for claims on banks. The Assessment Team appreciates the rationale behind the treatment provided in the CRR. However, the Basel framework does not envisage such a mixing of options. 2. The CRR applies a flat 20% risk weight to all exposures to PSEs with an original maturity of three months or less. The Basel framework does not permit the preferential treatment for short-term claims under option 2 to be applied to PSEs.
Materiality	The data analysis shows that this deviation is not material.
Basel paragraph number	Basel II: 59
Reference in the domestic regulations	CRR Article117(1),(2)
Findings	The Basel framework requires claims on multilateral development banks (MDBs) to generally be based on external credit assessments as set out under option 2 for claims on banks but without using the preferential treatment. The CRR requires exposures to MDBs be treated in the same manner as exposures to institutions (banks), which allow option 1 for unrated MDBs and option 2 for rated MDBs (versus only option 2

	for MDBs as required under Basel framework). The EU authorities stated that they were not aware of any MDBs that are not rated and pointed out that the CRR did not explicitly provide for a treatment for unrated MDBs.
Materiality	The data received from sample banks showed that they did not have exposures to unrated MDBs. Hence, this deviation is not considered material.
Basel paragraph number	Basel II: 60–64
Reference in the domestic regulations	CRR Articles 119(1), (2) and (3), 120, 121 and 129
Findings	1. The Basel framework provides that claims on banks are to be risk-weighted based on either one of two options – the sovereign rating (risk weight one category less favourable) or the bank's own credit rating. The CRR, on the other hand, applies both options – the sovereign rating for unrated banks and the bank's credit rating for rated banks. The EU authorities believe that the treatment provided in the CRR is more risk-sensitive, as it applies the corresponding rating for rated PSEs and the sovereign rating for unrated PSEs instead of a 50% risk weight as set out under option 2 for claims on banks. The Assessment Team appreciates the rationale behind the treatment provided in the CRR. However, the Basel framework does not envisage such a mixing of options. 2. The Basel framework provides for preferential treatment of short-term claims, defined as those with an original maturity of three months or less. The CRR defines short-term claims as those with a residual maturity (as opposed to original maturity) of three months or less. The EU authorities believe that the economic substance of "residual maturity" and "original maturity" is the same and that overall the risk of residual-maturity loans defaulting in their last three months is less than that of loans with a three-month original maturity. The Assessment Team appreciates the rationale behind the treatment provided in the CRR. However, the Basel framework does not envisage this treatment. Moreover, the EU approach will in practice result in more claims being eligible for the risk weight applicable to short-term claims. 3. Under the Basel framework, where the national supervisor has chosen to apply a lower risk weight to exposures to their sovereign of incorporation denominated and funded in the domestic currency, it can assign a risk weight one category less favourable than that assigned to claims on the sovereign, subject to a floor of 20%, to claims on banks with original maturity of three months or less denominated and funded in the local currency. The CRR extends this treatment to exposures to unrated institutions with an original maturity of three months or less which are not denominated and funded in the domestic currency. 4. The Basel framework specifies that claims with a contractual maturity of less than three months that are expected to be rolled over do not qualify for preferential treatment. This requirement is not found in the CRR. 5. The Basel framework does not specify a specific capital treatment for covered bonds. Claims on covered bonds issued by banks would be risk-weighted based on the capital rules for claims on banks and recognition of eligible financial collateral under the standardised approach. Article 129 of the CRR applies a set of risk weights for covered bonds that are one notch lower than those normally applicable to unsecured claims on banks. The EU authorities stated that covered bonds are included due to the importance in some Member States, such as Germany, France and Denmark. They are of the view that the preferential treatment fills a gap in the Basel framework, which does not address this type of exposure. In addition, the over-collateralisation in the case of covered bonds justifies assignment of a lower risk weight to them than to unsecured exposures of the same credit rating. The Basel framework does not give freedom to competent authorities to specify risk weights (under the Standardised Approach) and LGDs (under the Foundation IRB approach) lower than what is stipulated in the Basel framework. In addition, while covered bonds are collateralised instruments, the collateral of mortgage loans (which generally forms the backing for covered bonds) is not eligible collateral under the Standardised Approach. The Foundation IRB approach allows banks to factor in the collateral of mortgages that generally form backing for the covered bonds in the LGD values and the adjustment is limited to a maximum of 10

	percentage points. The CRR however, allows a reduction of 33.75 percentage points in the LGD for covered bonds. Finally, the Assessment Team notes that the collateralisation of covered bonds is already taken into account by credit rating agencies in rating covered bond issues. That being the case, then applying a lower risk weight is tantamount to double counting the collateralisation.[20]
Materiality	1, 2, 3 and 4: Based on the data received, these deviations are not considered to be material. 5. The data received from sample banks showed that they had negligible exposure to covered bonds under the Standardised Approach. Hence, this deviation is not considered material.
Basel paragraph number	Basel II: 72–73
Reference in the domestic regulations	CRR Articles 124(1),(2) and 125
Findings	According to the Basel framework, lending fully secured by mortgages on residential property that is or will be occupied by the borrower, or that is rented, will be risk-weighted at 35%. In applying the 35% weight, the supervisory authorities should satisfy themselves, according to their national arrangements for the provision of housing finance, that this concessionary weight is applied restrictively for residential purposes and in accordance with strict prudential criteria, such as the existence of substantial margin of additional security over the amount of the loan based on strict valuation rules. As per CRR Article 125(a), exposures or any part of an exposure fully and completely secured by mortgages on residential property which is or shall be occupied or let by the owner, or the beneficial owner in the case of personal investment companies, shall be assigned a risk weight of 35%. The CRR (Article 125(2)(d) further requires that the part of the loan to which the 35% risk weight is assigned does not exceed 80% of the market value of the property in question or 80% of the mortgage lending value of the property in question in those Member States that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions. The EU authorities believe that the CRR treatment is consistent with that provided under the Basel framework because, as required therein, the amount of lending up to 80% of the value of the collateral is in any case protected by a substantial margin of security from the collateral value. The fact that there is a second part of the loan funded by the same bank does not, in the view of the EU authorities, impair the credit quality of the first part. They also believe their approach is prudent because having both segments provided by the same lender incentivises more effective and proactive credit risk management by the lender than if the loan was divided in two and the two subsequent loans were provided by two different lenders. The Assessment Team understands the economic reasoning behind the EU's position. However, the Basel requirements do not address loan-splitting into fully secured and not fully secured parts and the entire loan has to be treated as a single loan. The splitting of loans into two parts would not ensure that the condition of "existence of substantial margin of additional security over the amount of the loan" is met in all cases as part or the whole of the 20% margin would actually be funded by the lending bank itself rather than by the borrower's equity or another independent source of funds. Moreover, a loan-splitting approach would likely result in lower capital charges over the life of the loan relative to two separate loans as declining loan balances will show up first in the higher-risk tranche in the EU approach, whereas if the loan was in fact two separate loans they would likely both be amortising concurrently.
Materiality	Based on the data received, this deviation is considered material for five sample banks where the impact would be moderate.

[20] The treatment of covered bonds under the foundation IRB approach in the CRR also differs from that in the Basel framework (see Section 2.6). While the impact of the deviations under both the Standardised Approach and Foundation IRB approach is judged to be not material, the bases of this conclusion under the two approaches are different. Under the Standardised Approach, low materiality is attributed to low exposures, while that under the Foundation IRB is based on the findings of an EBA study that justified low LGD for covered bonds.

Basel paragraph number	Basel II: 81
Reference in the domestic regulations	CRR Articles 130, 133 and 134
Findings	The Basel framework, under the Standardised Approach, does not prescribe a specific methodology to measure the "residual value" exposure in the case of leasing transactions. The CRR provides a specific formula to compute the residual value for the purpose of arriving at the risk-weighted amount of such exposures. However, it appears that an inconsistency has inadvertently arisen between the relevant provisions applicable to the IRB and those related to the standardised approach in the CRR. While the IRB Approach correctly uses the term "exposure value" in the formula [(1/t* Exposure value], the Standardised Approach uses the term "residual value" [(1/t* Residual value], to calculate the risk-weighted asset amount. The Assessment Team believes that use of "residual value" in the formula coupled with further discounting could potentially result in a significant underestimation of the risk-weighted assets amount in respect of "residual value exposures" in the case of leasing transactions under the Standardised Approach. Some Member States are aware of the inconsistency between the IRB and the Standardised Approach and have already rectified the inconsistency in their supervisory practices. Other Member States define the residual value as the value at the end of the lease term, which is the same as the Basel definition.
Materiality	The Assessment Team believes that this is a technical deviation, the impact of which is not likely to be material.
Basel paragraph number	Basel II: 145–146
Reference in the domestic regulations	CRR Articles 197 and 198
Findings	The Basel framework recognises UCITS and mutual funds as eligible financial collateral only where the UCITS/mutual fund is limited to investing in instruments listed in paragraphs 145 and 146 ("eligible instruments"). The CRR allows UCITS/mutual funds that are not limited to investing in eligible instruments as eligible financial collateral. In such cases, institutions are allowed to use units or shares in the UCITS/mutual fund as collateral up to an amount equal to the value of eligible assets held by the UCITS/mutual funds under the assumption that the Collective Investment Undertaking (CIU) or any of its underlying CIUs have invested in non-eligible assets to the maximum extent allowed under their respective mandates. The EU authorities are of the view that, since institutions may use units or shares in the UCITS/mutual fund as collateral only up to an amount equal to the value of eligible assets held by the UCITS/mutual fund, the treatment should be considered as prudent. The Assessment Team appreciates the rationale behind the treatment provided in the CRR. However, the Basel framework does not allow partial recognition of UCITS as collateral where these can invest in ineligible instruments.
Materiality	Based on the data provided, the finding is not considered material.
Basel paragraph number	Basel III: 147–155
Reference in the domestic regulations	CRR Articles 223, 224, 225(1) and 228
Findings	According to the Basel framework (paragraph 151), the standard supervisory haircut for UCITS/mutual funds is the highest haircut applicable to any security in which the fund can invest. The CRR implements the Basel treatment in Article 224(5). However, the same paragraph allows banks to apply a volatility haircut for CIUs equal to the weighted average of haircuts applicable to instruments the CIU has invested if they are able to "look through" the CIU. The EU authorities believe that the weighted average of haircuts accurately reflects the volatility of the instruments and therefore should not be considered as an imprudent approach. The Assessment Team appreciates the rationale behind the treatment provided in the CRR.

	However, the Basel framework does not envisage the approach followed in the CRR.
Materiality	Based on the data received, the finding is not considered material.
Basel paragraph number	None.
Reference in the domestic regulations	CRR Article 121(4)
Findings	According to the Basel framework, exposure to unrated banks on account of short-term self-liquidating letters of credit is allowed to be risk-weighted at 20% where the original maturity of the claim is three months or less. However, the CRR allows a 50% risk weight for trade finance exposures to unrated institutions, which is further reduced to a 20% risk weight where the residual maturity of such exposures is three months or less. This treatment results in a wider inclusion of claims for low risk-weighting not envisaged under the Basel framework.
Materiality	The data analysis shows that the finding is not material.
Basel paragraph number	?
Reference in the domestic regulations	CRR Recitals and Article 501
Findings	The CRR applies a downward adjustment (76%) for RWAs in respect of exposures to SMEs located both in and outside of the EU. This adjustment is not found in the Basel framework. EU authorities noted that this was a rational policy response to local economic conditions and was not intended to be a permanent provision as it is scheduled to be reviewed by 2017.
Materiality	The data analysis shows that the downward adjustment for SME lending for exposures under the Standardised Approach leads to a material overstatement of the CET1 ratio of some banks in the data sample. A half dozen sample banks would have moderate capital or RWA impacts while two others would have impacts on the cusp between moderate and significant.

2.6 Credit risk – IRB Approach

Section grade	**Materially non-compliant**
Summary	Material deviations from the Basel framework revolve around the exclusion of some significant exposures from the IRB framework and more liberal risk weights for exposures to SMEs in the EU and abroad. In the case of the former, the exclusions cover a variety of exposures including sovereigns, Member State central banks and regional governments, local authorities, administrative bodies, public sector entities, intragroup exposures, and equity exposures incurred under legislative programmes to promote specified sectors of the economy. Most of these exposures are eligible for zero risk weight under the standardised approach, whereas they would typically be subject to a small positive risk weight under the advanced IRB approach. Data for the sample banks indicate that the impact on the CET1 ratios of four banks would be significant while that for one would be moderate. In the case of SME exposures, under the transitional provisions in the CRR, capital requirements for credit risk on exposures to SMEs, both in the EU and abroad, are multiplied by a factor of 0.7619. This deviation is scheduled to be reviewed by 2017. The data indicate that the deviations caused signficant overstatement of CET1 ratios of three banks while the impact on two others would be on the cusp between significant and severe. A large number of other findings are not individually material but collectively help to reinforce the materially non-compliant grade for this component. They can be grouped as follows: (i) the application of the IRB scaling factor; (ii) the omission of undrawn commitments in setting the threshold for retail exposures; (iii) covered bond LGDs under the Foundation IRB Approach; (iv) more liberal modelling parameters for corporate exposures; (v) a narrower definition of large regulated financial institutions in the application of the asset value correlation factor; (vi) lower risk weights and LGDs for some equity exposures; (vii) application of a 10% LGD floor for residential mortgage exposures to the entire pool of such exposures rather than sub-segments; and (vii) the

	absence of some qualitative criteria regarding derivation of estimates of EAD set out in the Basel framework.
Basel paragraph number	Basel II: 273
Reference in the domestic regulations	CRR Recitals and Article 501
Findings	The CRR applies a downward adjustment (76%) for RWAs in respect of exposures to SMEs located both in and outside the EU. This adjustment is not found in the Basel framework. EU authorities noted that this was a rational policy response to local economic conditions and was not intended to be a permanent provision as it is scheduled to be reviewed by 2017.
Materiality	The data analysis shows that the downward adjustment for SME lending leads to material overstatement of the CET1 ratio of the banks in the data sample. The impact on three banks would be significant while two others would be on the cusp of being severe.
Basel paragraph number	Basel II: 14 and 44
Reference in the domestic regulations	CRR Articles 92, 153, 154 and 261
Findings	The Basel framework applies a scaling factor of 1.06 in order to broadly maintain the aggregate level of minimum capital requirements at the time the framework was adopted. The scaling factor is applied to the risk-weighted asset amounts for credit risk assessed under the IRB approach. The CRR incorporates the 1.06 scaling factor within the IRB RWA formulae. As a result, it does not apply the scaling factor to supervisory slotting RWA or any other non-formula based IRB capital calculations (eg securitisation exposures where the ratings-based approach is used and equity exposures where an internal approach is not used). EU authorities note that paragraph 14 of the Basel II text requires the application of the scaling factor "to the risk-weighted asset amounts under the IRB approach" and interpret this to mean to risk-weighted assets actually derived from the banks' IRB approaches as opposed to fixed risk weights. The Assessment Team does not agree with the interpretation of the EU authorities with respect to the scaling factor and believes that the Basel framework unambiguously requires that the scaling factor applies to the entire amount of RWA under the IRB approaches, including those measured using fixed risk weights within the IRB approach.
Materiality	The impact of this difference on reported CET1 ratios of banks was not significant and thus the difference is not considered to be material. Potential future materiality is also limited by the fact that, even though the EU treatment has existed since CRD III, the amount of exposures excluded from the application of the scaling factor continue to be low.
Basel paragraph number	Basel II: 231–233
Reference in the domestic regulations	CRR Article 147(5)
Findings	The Basel framework provides that loans extended to small businesses (either directly, or through or guaranteed by an individual) and managed as retail exposures are eligible for retail treatment provided that the total exposure (on a consolidated basis) is less than EUR 1 million. Paragraph 147(5) of the CRR uses a EUR 1 million limit based on the total amount owed (so excludes undrawn commitments which arguably are included under the Basel framework), and excludes exposures secured by residential property collateral (a provision which is not in the Basel framework). The EU authorities think that "total exposure" is not a defined term in the Basel framework and could be interpreted as the amount owed, and that it is at least unclear whether, and subject to which conversion factors, undrawn amounts should be incorporated in the total exposure. In the view of the Assessment Team, the EUR 1 million threshold includes undrawn commitments. So, the CRR allows exposures that should be corporate to be included as retail, thus resulting in lower RWAs.

Materiality	The Assessment Team is of the view that the exclusion of undrawn commitments is not material as the deviation could affect RWAs only in marginal cases where the total exposure might breach the threshold if these commitments are included.
Basel paragraph number	Basel II: 234
Reference in the domestic regulations	CRR Article 154(4)
Findings	Under the Basel framework, QRRE is unsecured. The CRR recognises collateralised credit facilities linked to a wage account as QRRE. In this case, the CRR says amounts recovered from the collateral shall not be taken into account in the LGD estimate. That said, this could still potentially lead to the EAD being measured in a concessionary manner if there is no legal certainty as to the netting of the balances in the wage accounts against the exposures in case of default. Moreover, it could include exposures in QRRE exposures that otherwise would be considered as other retail.
Materiality	The EU authorities believe that the materiality of this difference is partly mitigated given that recoveries from the collateral are not taken into account in the LGD which, to that extent, results in a more conservative approach for measuring risk weights. In addition, the Member States confirmed that netting was either not permitted or did not occur in their jurisdictions. Therefore, this deviation is not considered material.
Basel paragraph number	Basel II: 259
Reference in the domestic regulations	CRR Articles 148 and 150
Findings	The Basel framework allows a bank to permanently apply the Standardised Approach for non-significant business units, and asset classes that are immaterial in terms of size and perceived risk profile. The CRR allows banks to permanently exempt certain exposures including the following: (1) exposures to (a) central governments and central banks and (b) institutions where the number of material counterparties is limited and it would be unduly burdensome for the bank to implement a rating system (Article 150 1(a) and (b)); (2) exposures to non-significant business units (Article 150 1(c)); (3) exposures to central governments and central banks of Member States and their regional governments, local authorities, administrative bodies and public sector entities provided that (a) there is no difference between the exposures to that central government and central bank and those other exposures because of specific public arrangements and (b) exposures to the central government and central bank are assigned a 0% risk weight under (i) the Standardised Approach Ratings-Based Approach look-up table or (ii) CRR article 114(4), which says that Member States and central governments are assigned a 0% risk weight for exposures funded in the domestic currency of the Member State (Article 150 1(d)); (4) bank exposures to a counterparty that is its parent, its subsidiary, or a subsidiary of the parent, provided that the counterparty is an institution or financial holding company, mixed financial holding company, financial institution, asset management company or ancillary services undertaking subject to prudential requirements or an undertaking linked by a relationship within the meaning of Article 12(1) of the Directive 83/349/EEC (Treaty of Consolidated Accounts) (Article 150 1(e)); (5) exposures to counterparties with which the bank has entered into an institutional protection scheme that is a contractual or statutory liability arrangement which protects the bank and ensures the bank's solvency and liquidity (Article 150 1(f)); and (6) unfunded state and state-reinsured guarantees referred to in Article 215(2) (Article 150 1(j)). The Assessment Team notes that new Article 150(4) requires the EBA to issue guidelines in 2018 on the application of item (3) above, recommending limits in terms of percentage of total balance sheet and/or risk-weighted assets to be calculated in accordance with the Standardised Approach. As per Article 150 (3), to determine the conditions of application in respect of some other exposures under the permanent partial use, the EBA shall develop draft regulatory technical

	standards and the EBA is required to submit the draft regulatory technical standards to the Commission by 31 December 2014.
Materiality	The data analysis showed that subjecting the aforesaid sovereign exposures permanently to the Standardised Approach on average resulted in significant overstatement of the CET1 ratio of the banks in the data sample. The impact on four banks would be significant and the impact on one other bank would be moderate. This is to some extent mitigated by other non-sovereign exposures, where the use of the Standardised Approach is in some cases more conservative. Nonetheless, as a result of the significant sovereign exposures for banks, these deviations are considered to be material.
Basel paragraph number	Basel II: 266, 328 and footnote 68
Reference in the domestic regulations	CRR Article 164(4)
Findings	The Basel framework requires that, owing to the potential for very long-run cycles in house prices which short-term data may not adequately capture, LGDs for retail exposures secured by residential properties cannot be set below 10% for any sub-segment of exposures to which the formula in paragraph 328 is applied. Footnote 68 adds that the 10% LGD floor shall not apply, however, to sub-segments that are subject to or benefit from sovereign guarantees. CRR article 164(4) sets out that exposure weighted-average LGD for all retail exposures secured by residential property and not benefiting from guarantees from the central government shall be no lower than 10%. This would prevent the application of the floor at the sub-segment level as the sub-segments having LGD less than 10% could be effectively subject to that LGD if the weighted average LGD for all sub-segments put together is above 10%. The EU authorities maintained that, since the Basel framework defines residential mortgages as a segment of the retail portfolio and goes on to explicitly refer only to two sub-segments of residential mortgage loans, namely conventional residential mortgage loans and residential mortgage loans subject to sovereign guarantees (to which the LGD floor does not apply), the CRR is consistent with the Basel framework in applying the floor across the entire residential sub-segment not subject to sovereign guarantees. The Assessment Team believes that, under the Basel framework, the term "segment" is intended to have the same meaning as the term "pool". While it is unclear what is meant by the term sub-segment, it can be inferred that a sub-segment is no larger than a segment. Therefore, it also can be inferred that the 10% LGD floor for exposures secured by residential property should be interpreted to mean a pool of loans that is no larger than the segment or pool level. The Assessment Team also does not believe that the only two sub-segments envisaged under the Basel framework are "government-guaranteed sub-segment" and "non-government-guaranteed segment". However, the Basel requirements do not mandate sub-segmentation, and considering the nature of portfolio of the residential loans of a bank and homogeneity of the exposures, it is possible for a bank to have a single segment of residential loans. The CRR requirements would turn out to be consistent with the Basel requirements only in that case. In other cases, these would result in lower capital requirements.
Materiality	Based on data received, this deviation is not considered material.
Basel paragraph number	Basel II: 270–272
Reference in the domestic regulations	CRR Articles 142(4) and 153
Findings	The Basel framework applies a multiplier of 1.25 to the correlation parameter of all exposures to large "regulated financial institutions" whose total assets are greater than or equal to USD 100 billion, based on the most recent audited financial statement of the parent company and consolidated subsidiaries. Basel defines "regulated financial institution" as a parent and its subsidiaries where any substantial legal entity in the consolidated group is supervised by a regulator that imposes prudential requirements consistent with international norms. CRR Article 142(4) defines "large financial sector entity" based on the total assets of the entity (greater than or equal to EUR 70 billion) on an individual or consolidated basis excluding other

	assets of its parent at the consolidated level. Paragraph 272, amended by Basel III, is more comprehensive as it extends to exposures to any entity of a group where parent or subsidiaries have consolidated assets above a comparable threshold of USD 100 billion.
Materiality	Based on data received, this deviation is not considered material.
Basel paragraph number	Basel II: 286–295
Reference in the domestic regulations	CRR Articles 4(1),(54), 161, 202, 228(2), and 230(1)–(2)
Findings	1. Basel framework paragraph 287 assigns a 45% LGD for the foundation approach to senior claims on corporates, sovereigns, and banks not secured by recognised collateral. Basel framework paragraphs 289–293 address requirements for collateral recognition and the method for recognising collateral under the foundation approach. The LGD floor for exposures collateralised by residential real estate and commercial real estate with a loan-to-value (LTV) of 70% or lower is 35% (paragraph 295). The CRR sets out an LGD of 11.25% for covered bonds as defined in Article 124, which is well below the LGD floor of 35% for the secured portion of senior positions under the Basel framework. The EU authorities argue that covered bonds are collateralised by residential mortgages, commercial mortgages and public sector commitments according to clear rules existing in national covered bond legislation. The national covered bond frameworks may differ substantially, but Article 129 of the CRR defines a number of minimum requirements that bonds have to meet in order to qualify for the preferential LGD, including a maximum LTV of 80% for residential mortgages, 60% for commercial mortgages and ships. These strict LTV limits reduce the LGD substantially. The EBA recently conducted a study that also considered the LGD on residential mortgages. The study revealed the fairly low LGDs of residential mortgages, where the third quartile showed an LGD of around 15% for IRB banks. No information exists for commercial mortgages or public sector loans, but given the low LTV levels of 60% for commercial mortgages and the stability of the relevant European commercial real estate markets, there is not significant reason to believe that LGDs would be substantially different for these loans than for residential mortgage loans. Moreover, the EU authorities argue that the LGD of the underlying loans of a covered bond is an upper bound for the LGD of the covered bond itself that only comes to bear if the underlying loans default. This is so because of the dual recourse structure of the covered bond which, in the case of issuer default, grants bondholders a claim against the borrowers of the underlying loan, which again is for mortgage loans collateralised by the relevant mortgage collateral. The EU authorities therefore conclude that the covered bond holders are protected with high-credit quality standards that consequently give access to only high-quality collateral, where the credit risk is still borne by the institution. However, the Assessment Team notes that, while empirically a LGD of 11.25% may be a reasonably conservative choice for the LGD of covered bonds, this LGD is significantly lower than the 35% LGD under the IRB Foundation Approach for the secured portion of senior positions under the Basel framework. 2. Basel framework paragraph 288 sets the LGD under the Foundation Approach for all subordinated claims on corporates, sovereigns, and banks at 75%. Unlike the Basel framework, the CRR sets minimum LGD for exposures secured by receivables, residential real estate or commercial real estate at 65%. For other physical collateral, the LGD floor is set at 70% (Article 230(2)). The Basel framework is silent on applying LGD* for subordinated exposures, although it could be inferred from the text in Basel framework paragraph 291 and the table in paragraph 295 for minimum LGD for secured senior exposures, that the Basel framework was not intended to allow banks to recognise collateral for purposes of calculating LGD for subordinated exposures.
Materiality	1. The Assessment Team believes that jurisdictions do not have the freedom to prescribe their own measure of LGD for any exposure class including sovereigns under the Foundation IRB Approach. While given their risk profile, covered bonds may deserve special consideration for LGD under the Foundation Approach, no special treatment is provided for in the Basel framework.

	2. Taking account of the information provided by the EU authorities (including a report on the study of default/loss history of covered bonds conducted by the EBA), in the judgment of the Assessment Team this deviation is not likely to be material.
Basel paragraph number	Basel II: 319
Reference in the domestic regulations	CRR Article 162(4)
Findings	Basel framework paragraph 319 provides discretion to national supervisors to allow banks to assume an effective maturity (M) equal to 2.5 years for facilities to certain smaller domestic corporate borrowers if reported sales (ie turnover) as well as total assets for the consolidated group for which the firm is a part are less than EUR 500 million. CRR Article 162(4) allows banks to assign M of 2.5 years for exposures to corporates which primarily own and let non-speculative residential real estate property provided that the corporate is situated in the EU and has consolidated sales and consolidated assets of less than EUR 1 billion. The EU authorities indicated that, given their field of activity, real estate companies are small by turnover and most other criteria, but large in total assets (ie the real estate they own). It would be disproportionate to apply to them the same total asset threshold as for other corporates. The Assessment Team appreciates the rationale behind the EU's contention. However, the Basel provision does not envisage any national discretion in this regard.
Materiality	The effects of this difference do not appear to be material.
Basel paragraph number	Basel II: 322
Reference in the domestic regulations	CRR Article 162(2)
Findings	Basel framework paragraph 322 allows supervisors to grant exceptions from the one-year maturity floor for transactions that are not part of a bank's ongoing financing of an obligor. In granting such exemptions, the supervisor should define the types of short-term exposures that might be considered eligible for this treatment. CRR Article 162(2) (e) allows M for purchased corporate receivables where a bank has approval to use an IRB approach to calculate PD to be no less than 90 days. A 90-day maturity floor can reduce capital requirements relative to a one-year floor. The EU authorities maintain that this CR provision is in line with paragraph 322 of the Basel text, based on their interpretation that purchased receivables never constitute a part of the bank's ongoing financing of the obligor of the receivable because (a) typically, the bank will not even have a client relationship with the obligor and (b) in the rare cases where the obligor of the receivable happens to be a client of the bank, the amount of ongoing financing provided will be independent from the purchased receivable, which is the result of an isolated decision of the seller of the receivable to sell that specific receivable in question. The Assessment Team is of the view that there is a significant possibility of some of the customers of the sellers of the receivables ("obligors" of the bank) to avail themselves of regular financing from the bank through this mode of finance. In that case, the condition set out in the Basel framework for waiver of the one-year maturity floor – "the transactions should not be part of the bank's ongoing financing of an obligor" – is not satisfied. However, the seller can effectively be an obligor with an ongoing relationship with the bank.
Materiality	The data analysis shows that this deviation is not material.
Basel paragraph number	Basel II: 344–358
Reference in the domestic regulations	CRR Articles 155, 158(7) and (8), 165
Findings	1. Under the Basel framework paragraph 344 (simple risk weight method), a bank applies a 300% risk weight to equity holdings that are publicly traded and a 400% risk weight to all other equity holdings.

	The simple risk weight approach under CRR Article 155(2) applies a risk weight of 190% for private equity exposures in sufficiently diversified portfolios, 290% for exchange-traded equity exposures and 370% for all other equity exposures. However, those risk weights are for unexpected losses only, and there is an expected loss charge of 0.8% and 2.4%, which is not required by the Basel framework. This expected loss charge is equivalent to a 10% and 30% risk weighting, respectively, under CRR Article 158(7). The splitting of expected loss (EL) and unexpected loss (UL) charges for equities is not envisaged in the Basel framework. The EU approach will always result in lower minimum required capital (MRC) because the UL charges based on RWA will be lower, and result in lower levels of capital than the Basel framework. For a given bank, the overall impact of these two differences may result in higher or lower capital ratios, depending on whether the bank's eligible provisions are higher or lower than expected losses and, if higher, whether the inclusion of excess eligible provisions in Tier 2 capital was constrained by the 60 basis point limit under the Basel Framework. 2. Basel framework paragraph 350, which addresses use of the PD/LGD approach for equity exposures, says: "An LGD of 90% would be assumed in deriving risk weight for equity exposures." CRR Articles 155(3) and 165(2) say: "For private equity exposures in sufficiently diversified portfolios a LGD of 65% may be used."
Materiality	The effects of these differences are not considered material.
Basel paragraph number	Basel II: 364–368
Reference in the domestic regulations	CRR Articles 153(6) and (7), 157, 160(4) and (6), 161(1)
Findings	Basel framework paragraph 369 says that, for dilution risk, the corporate risk weight function must be used with PD set to EL and LGD set to 100%. The CRR sets the LGD for dilution risk at 75% for corporate receivables (161(1) (g)) and more broadly for all purchased receivables (164(1)).
Materiality	Based on the data received, the effect of this difference is not considered material.
Basel paragraph number	Basel II: 441–443
Reference in the domestic regulations	CRR Article 190
Findings	The Basel framework (paragraph 441) requires that a bank's independent credit risk control unit be responsible for the production and analysis of summary reports from the bank's rating system, which must include historical default data sorted by rating at the time of default and one year prior to default; grade migration analysis; and monitoring of trends in key rating criteria. The CRR includes the general production and analysis of summary report requirements, but does not specify the content of the reports as required by the Basel standards. However, the EBA *Guidelines on the implementation, validation and assessment of Advanced Measurement (AMA) and Internal Ratings-Based Approaches* (GL10 of 4 April 2006) has specified the criteria of the summary reports and has requested the reports be prepared on a half-yearly basis. Bank supervisors are required to follow the guidelines when approving IRB models.
Materiality	This finding is not material based on confirmations received from the Member State authorities that the EBA guideline has been implemented.
Basel paragraph number	Basel II: 474–479
Reference in the domestic regulations	CRR Article 182
Findings	The Basel framework (paragraph 476) requires the criteria by which estimates of EAD are derived be plausible and intuitive, and represent what the bank believes to be material drivers of EAD. The

	choices must be supported by credible internal analysis by the bank. The bank is also required to be able to provide a breakdown of its EAD experience by factors it sees as the drivers of EAD. Across facility types, a bank is also required to review its estimates of EAD at least on an annual basis. The CRR does not have these specific requirements. CRR Article 182.1(f) only requires that if institutions use different estimates of conversion factors for the calculation of risk-weighted exposure amounts and internal purposes, it shall be documented and be reasonable. However, the EBA *Guidelines on the implementation, validation and assessment of Advanced Measurement and Internal Ratings-Based Approaches* (GL10 of 4 April 2006) does contain requirements similar to those of the Basel framework.
Materiality	This finding is not material based on the confirmations received from the Member State authorities that the EBA guideline has been implemented.
Basel paragraph number	Basel II: 506–510
Reference in the domestic regulations	CRR Articles 199 and 208
Findings	The Basel framework (paragraph 510) specifies four additional collateral management requirements. The CRR is silent on the fourth additional collateral requirement as stipulated by the Basel standards: "the bank must appropriately monitor the risk of environmental liability arising in respect of the collateral, such as the presence of toxic material on a property."
Materiality	The Assessment Team believes this is a technical difference that is not material.
Basel paragraph number	Basel II: 511–520
Reference in the domestic regulations	CRR Articles 199(5) and 209
Findings	The Basel framework (paragraph 511) defines eligible financial receivables as claims with an original maturity of less than or equal to one year where repayment will occur through the commercial or financial flows related to the underlying assets of the borrower. However, the CRR does not have these requirements. The EU authorities noted that, in practice, they cannot envisage financial receivables that do not fulfil this condition, ie that are not repaid "through the commercial or financial flows related to the underlying assets of the borrower".
Materiality	The finding is not considered to be material as the Member State authorities confirmed that banks in their jurisdictions comply with the spirit of the requirements set out in the Basel framework despite the absence of specific corresponding provisions in the CRR.

2.7 Credit Risk Securitisation framework

Section grade	**Largely compliant**
Summary	Although most elements of the Basel securitisation framework have been adopted in the EU, numerous differences between the CRR and the Basel securitisation framework under both the Standardised and IRB approaches were found. A potentially material deviation relates to the more liberal treatment of unrated securitised exposures provided in the CRR under both the Standardised and IRB approaches. Two non-material deviations relate to (i) a proportionally increasing risk weight for failure to meet due diligence requirements specified under the Basel securitisation framework, and (ii) an exemption for early amortisation that is not found in the Basel framework.
Basel paragraph number	Basel II: 565
Reference in the domestic regulations	CRR Articles 267, 268 and 269, Regulation nos 1060/2009, 406, 407
Findings	Under the Basel framework, the consequence of failing to perform the level of due diligence as specified therein is a 1250% risk weight by Basel III.

	Under the CRR, where an institution does not meet the due diligence requirements in Article 406 in any material respect by reason of the negligence or omission of the institution, the competent authorities shall impose a proportionate additional risk weight of no less than 250% of the risk weight (capped at 1250 %) which shall apply to the relevant securitisation positions in the manner specified in Article 245(6) or Article 337(3), respectively. The additional risk weight shall progressively increase with each subsequent infringement of the due diligence provisions. As this is an additional risk weight, the sum of the normal risk weight and the additional risk weight may exceed 1250% and be more penal than deduction. The Basel framework does not allow for such proportionate consequences. While the proportionate approach under EU framework can result in risk weights of more than 1250% over time, until that time, the risk weight can be significantly lower than the 1250% required under the Basel framework for failure to meet the due diligence standards.
Materiality	The EBA reported that there had been relatively few breaches of due diligence requirements. In the judgment of the Assessment Team, this deviation is not considered material.
Basel paragraph number	Basel II: 566–576, 609, 610 and 615
Reference in the domestic regulations	CRR Articles 109, 251, 252, 253, 254, 256, 263 and 266
Findings	1. The Basel framework (paragraph 566) requires that the banks that apply the standardised approach to credit risk for the type of underlying exposure(s) securitised must use the standardised approach under the securitisation framework. Under paragraph 606, it is further stated that banks may not use the IRB Approach to securitisation unless they receive approval to use the IRB approach for the underlying exposures from their national supervisors. CRR Article 109(1) permits a bank using the standardised approach to use the internal assessment approach under Article 259(3), which comes under the IRB Approach for securitisation exposures to asset-backed commercial paper (ABCP) programmes. 2. The Basel framework (paragraph 567) requires that unrated exposures under the Standardised Approach for securitisation be assigned a risk weight of 1250%. Exceptions to a 1250% risk weight are allowed for (i) unrated senior securitisation exposures (paragraphs 572 and 573), (ii) second loss positions or better in ABCP programmes (paragraphs 574 and 575), and (iii) unrated liquidity facilities (paragraph 576). It further sets out that under the Internal Ratings–Based Approach a bank must assign a 1250% risk weight to securitisation exposures where the bank is not able to apply the Ratings-Based Approach (RBA), Internal Assessment Approach (IAA) or Supervisory Formula (SF) approach for any of the securitisation exposures (paragraph 609). Alternatively, for a bank using the IRB Approach, the maximum capital requirement for a securitisation exposure it holds is equal to the IRB capital requirement that would have been assessed against the underlying exposures had they not been securitised and treated under the appropriate sections of the IRB framework (paragraph 610). Unrated exposures including the unrated liquidity facilities where a bank is not able to use the IAA or the SF would fall in the domain of this provision. CRR Article 253 allows banks using the Standardised Approach for a securitisation exposure to use a concentration ratio to calculate risk weights for exposures that are unrated. CRR Article 259(1)(e) allows a bank using an IRB Approach for a securitisation exposure to calculate the risk weight for an unrated position in an ABCP programme using a concentration ratio (in accordance with Article 253 or 254), if the unrated position is not in commercial paper and falls within the scope of application of an IAA for which permission is being sought. The aggregated exposure values treated by this exception shall not be material and in any case less than 10 % of the aggregate exposure values treated by the institution under the IAA. The institution shall stop making use of this when the permission for the relevant IAA has been refused. Further, for unrated liquidity facilities, the CRR (Article 263) allows a bank to assign a liquidity facility the highest risk weight that would be applied under the standardised approach to any of the securitised exposures, had they not been securitised. While the concentration ratio is allowed under the Basel trading book framework, it is not allowed under the Basel banking book framework. The EU authorities assert that the concentration ratio is a conservative approach. The Assessment Team notes that under the Standardised Approach for securitisation, the EU treatment expands exceptions provided under Basel paragraph 572 which permit unrated most senior securitisation exposures to attract a more favourable treatment than a 1250% risk

	weight. The EU standardised approach treatment of unrated non-senior securitisation exposures is more sensitive than, but not as conservative as, the treatment under the Basel securitisation framework. Specifically, the concentration ratio may not turn out to be a conservative approach in all situations. Generally, unrated non-senior securitisation exposures in the banking book would be assigned a risk weight of 1250%. The approach set out in the CRR will be at the most equivalent to that provided in Basel framework for the most senior unrated tranches and very junior unrated tranches. However, it would be less conservative for other unrated tranches. 3. The CRR (Article 252) includes a cap for originators and sponsors using the standardised securitisation framework equal to the risk-weighted exposure amount for securitised exposures had they not been securitised. There is no such cap in the Basel standardised securitisation framework. The EU authorities justify the risk weight exposure amount cap to both originators and sponsors based on the notion that the capital requirement for exposures to a securitisation should not exceed the capital requirement for all securitised exposures. The EU points out that the Basel IRB securitisation framework provides a similar cap. They also assert that since only the smaller banks would use the standardised approach for securitisation exposures, the consequences of this difference are not material.
Materiality	Differences identified in findings 1 and 3 are not considered material, either individually or collectively, considering that, in practice, the sample banks made little use of the exceptions to the Basel securitisation framework that are included in the CRR. The deviation in finding 2 is considered potentially material given that the amount of unrated securitisation exposures totals about 25% of all securitisation exposures, and that a potential significant risk weight benefit can be obtained using the concentration ratio relative to a 1250% risk weight.
Basel paragraph number	Basel II: 590–605
Reference in the domestic regulations	CRR Article 256
Findings	The Basel framework provides certain exemptions from calculation of a capital requirement for early amortisations (paragraph 593). However, subject to approval from the competent authority, Article 256(7) of the CRR permits a special treatment for circumstances where the early amortisation is triggered by a quantitative value in respect of something other than the three-month average excess spread. This provision is not in the Basel framework.
Materiality	As the Member States reported that banks in their jurisdiction did not apply the exception permitted under the CRR Article 256(7), the Assessment Team does not consider the deviation to be material.

2.8 Treatment of Counterparty Credit Risk and Cross-Product Netting (Annex 4)

Section grade	**Non-compliant**
Summary	The CRR diverges from Basel III by exempting transactions between EU banks and "CVA-exempted entities" from a CVA-risk capital charge. Banks subject to the CRR can exclude exposures to pension funds, Member State central governments, regional governments and local bodies wherever they qualify for a 0% risk weight under the Standardised Approach for credit risk, as well as qualifying non-financial end-users. This deviation results in significant overstatement of the CET1 ratios of EU banks. The data indicate a severe impact for five banks from the perspective of overstated CET ratios and for four arising from an understatement of RWAs for this component. Although not a factor in the assessment, this issue also assumes significance given the global nature of over-the-counter (OTC) swap markets. Other non-material findings include (i) the option under the CRR of calculating the counterparty credit exposure value using the original exposure method of Basel I; and (ii) to use different credit conversion factors under the Current Exposure Method for banks that follow the extended maturity ladder approach method for calculating the market risk capital charge for commodities.
Basel paragraph number	Basel II Annex 4: 91–96

Reference in the domestic regulations	Part III, Title II, Chapter 6, Section 4, Articles 274–275 and 385
Findings	Use of the original exposure method of Basel I to calculate the counterparty credit exposure value is not permitted under the Basel framework. However, the CRR allows it. In addition, the CRR allows a different set of credit conversion factors (CCFs) under the Current Exposure Method for banks that follow the extended maturity ladder approach method for calculating market risk capital charge for the exposure to commodities. The Assessment Team took note of the assertions from the EU authorities that these variations from the Basel rules are likely not material. However, based on responses to the Member State questionnaires, two banks in the RCAP sample appear to use the extended maturity ladder approach method for calculating market risk capital charge for their exposure to commodities.
Materiality	Most of the Member State authorities reported that banks in their jurisdictions did not use the extended maturity ladder approach. But authorities in one Member State outside the euro area reported that two sample banks have been using this approach to a very limited extent. This deviation is not considered to be material.
Basel paragraph number	Basel III: 97–103
Reference in the domestic regulations	Part III, Title VI, Articles 381, 382, 383
Findings	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). The Assessment Team understands that these CVA exemptions have been introduced based on EU parliamentary decisions to ensure consistency under EMIR, ie to avoid both collateral and CVA charge costs for non-financial corporates and pension funds, and with the aim of limiting disruptions in EU sovereign debt markets. Recent CRR amendments of Article 382 (from November 2013) ensure that "where an institution ceases to be exempt through crossing the exemption threshold or due to a change in the exemption threshold, outstanding contracts shall remain exempt until the date of their maturity". As mandated by CRR Article 456(2), the EBA has also initiated a CVA data-gathering process (on a voluntary participation basis) and will submit by 1 January 2015 an assessment report on regulatory CVA capital requirements to the EU Commission (the Assessment Team has not received any indication that this report may lead to recommendations to adjust the exemptions defined in Article 482). The Assessment Team considers that these CVA-exempted entities are counterparties for which the recent Basel CVA modelling requirements are technically the most subject to model risk (due to the use of proxies to replace unobservable credit spread data). However, the Assessment Team also considers these variations from the Basel rules as overall difficult to justify and maintain on the basis that they: • Have raised industry-wide concerns due to the potential impact of these CVA exemptions on pricing (CVA risk must be recognised for CVA-exempted entities under IFRS 13), level playing field (incentive for CVA-exempted entities to use EU dealers) and possible regulatory arbitrage (through trades between exempt and non-exempt banks). • Have created divergences of views and practices among EU Member States concerning the use of Pillar 2 "add-ons" to mitigate the effect of the CVA exemptions (ie some Members States recognise the need for this compensation of under-capitalised counterparty credit spread risk in Pillar 1 regulatory capital whilst others consider that the explicit nature of the CVA exemptions constrains their ability to use Pillar 2); and • Are not currently subject to global monitoring processes, eg providing transparency on the effect of the exemptions and on the non-financial non CVA-exempted entities.
Materiality	Data received confirmed the severe materiality of the exemptions granted to the RCAP sample banks for the calculation of CVA-variability capital charge. As a result, this deviation is considered to be material.

2.9 Operational risk – Basic Indicator Approach and the Standardised Approach

Section grade	**Compliant**
Summary	The CRR has implemented all elements of the Basel framework relating to the Basic Indicator and the Standardised Approaches, except that it allows outsourcing expenses to affiliated parties and other banks to be excluded from gross income, which is not permitted under the Basel framework. The effect of this difference is not likely to be material.
Basel paragraph number	Basel II: 649–651
Reference in the domestic regulations	CRR Articles 315 and 316
Findings	Under the CRR standardised approach to operational risk, outsourcing expenses to affiliated parties and other banks may be excluded from gross income, which is not permitted under the Basel framework. The EU authorities explained this provision is intended to prevent double-counting of the same income, whether within a group or between multiple regulated institutions. The Assessment Team accepts that this deviation would not have an impact on the capital levels of a consolidated group as intragroup exposures would be eliminated on consolidation. Although the Assessment Team does not accept that it is appropriate to exclude outsourcing expenses to unaffiliated banks, it is highly unlikely that outsourcing between unaffiliated banks is prevalent due to competitive and confidentiality considerations. Outsourcing, whether to affiliates or other banks, does not eliminate operational risk and it is therefore not appropriate to exclude outsourcing income from capital calculations.
Materiality	Data were not available to assess the materiality of this deviation. In the judgment of the Assessment Team, however, this deviation is unlikely to be material for the reasons stated above.

2.10 Operational risk – Advanced Measurement Approaches (AMA)

Section grade	**Compliant**
Summary	The few findings regarding the EU's implementation of the AMA are more in the nature of technical deviations that are not likely to have a material impact on the capital ratios. These include allowing use of an allocation mechanism for the purpose of determining the regulatory capital requirement for subsidiaries, and allowing incorporation of diversification benefits in the calculation of capital requirements. The CRR also does not explicitly include some of the qualitative requirements for use of the AMA. Another difference relates to the recognition of the risk-mitigating impact of "other risk transfer mechanisms" in addition to insurance in the CRR, which the Basel framework does not explicitly allow. Member States reported that the RCAP sample banks are actually not utilising this provision and have no plans to do so.
Basel paragraph number	Basel II: 656 and 657
Reference in the domestic regulations	CRR Article 20
Findings	Under the Basel framework, a bank adopting the AMA may, with the approval of its host supervisors and the support of its home supervisor, use an allocation mechanism for the purpose of determining the regulatory capital requirement for internationally active banking subsidiaries. However, this allocation mechanism is to be considered only in cases where the subsidiaries are not deemed to be significant relative to the overall banking group. In addition, diversification benefits should not be incorporated in cases where the standalone capital requirements are considered appropriate for the subsidiaries. The CRR allows use of an allocation mechanism for operational risk capital across subsidiaries but

	there are no criteria or limitations on the methodology used. The use of an allocation mechanism is not limited to subsidiaries that are not significant and subsidiaries are not required to conduct their own assessment of the subsidiaries' risk and capital adequacy. A draft forthcoming regulatory technical standard on AMA assessment did not address these gaps. The EU authorities noted that such provisions were more appropriately implemented by competent authorities as part of supervisory practice rather than prescribed within the CRR. Responses from Member States indicate that, while a few of the banks in the sample use an allocation methodology for AMA, this is not applied to calculated capital for any of the internationally active subsidiary banks outside the EU.
Materiality	In the judgment of the Assessment Team, this deviation is unlikely to be material.
Basel paragraph number	Basel II: 665
Reference in the domestic regulations	Not found.
Findings	The Basel framework requirements relating to certain general conditions for use of the AMA (initial monitoring of AMA by supervisors, allocation of economic capital) are not reflected in the CRR. The EU authorities consider that these issues are dealt with by Member States in their implementation of AMA approvals. In addition, the requirements are addressed to some extent in a forthcoming EBA technical standard on assessment methodologies for the advanced measurement approaches for operational risk. Member States indicated that to a large extent these requirements are currently fulfilled by supervisory implementation. The Assessment Team agreed that the requirement for monitoring by supervisors is more appropriately assessed through supervisory implementation. In addition, the other qualitative requirements (internal capital allocation, parallel run) will be adequately addressed in a new EBA RTS, *Draft Regulatory Technical Standards on assessment methodologies for the Advanced Measurement Approaches for operational risk under Article 312 of Regulation (EU) No 575/2013*.
Materiality	In the judgment of the Assessment Team, this deviation is not material.
Basel paragraph number	Basel II: 677–679
Reference in the domestic regulations	CRR Articles 323 and 454
Findings	The Basel framework does not explicitly allow banks to use operational risk mitigants other than insurance. However, Basel II footnote 110 notes that the Committee intends to continue an ongoing dialogue with the industry on the use of risk mitigants for operational risk and, in due course, may consider revising the criteria for, and limits on, the recognition of operational risk mitigants on the basis of experience. Under the CRR and its predecessor CRDs, risk mitigation is not limited to insurance but can also include "other risk transfer mechanisms where the institution can demonstrate that a noticeable risk mitigating effect is achieved". Member States indicated that this provision has not been used in practice despite the provision being in place since the adoption of Basel II. Member States also indicated that they have no plans to approve any other risk transfer mechanisms.
Materiality	Not currently material and unlikely to be material in the future.

2.11 Market risk – Scope of application and Standardised Measurement Method

Section grade	**Largely compliant**
Summary	The most significant issue revolved around the 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. Other non-material issues for the RCAP sample banks revolved around the 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.
Basel paragraph number	Basel II: 683(i)–689(iv), 718(xlix)–(liii)
Reference in the domestic regulations	CRR Article 94 (Derogation for small trading book business), Articles 355 and 361 (Extended maturity ladder approach)
Findings	1. Under the Basel framework (maturity ladder approach, 718(xlix)–(liii)), the capital charge for positions exposed to commodity risk is measured using various attributes including spread rate (1.5%), carry rate (0.6%) and outright rate (15%). The CRR, in certain situations (where institutions undertake significant commodities business, have an appropriately diversified commodities portfolio, and are not yet in a position to use internal models for the purpose of calculating the own funds requirement for commodities risk) permits institutions to use the extended maturity ladder approach. This approach allows a concessional set of spread rate, carry rate and outright rate with values lower than that under the standard maturity ladder approach, resulting in a lower capital charge. The extended maturity ladder approach is aimed at specialised commodities dealers that have not implemented internal models but want to use a more risk-sensitive approach. The Basel framework expects institutions engaging in sophisticated commodities activities to use the Internal Models Approach. 2. According to CRR Article 94, in the case of a very small trading book portfolio, the capital requirements are allowed to be calculated using the credit risk framework instead of the market risk framework. The Basel framework does not permit such an exception.
Materiality	1. Most Member State authorities confirmed that the extended maturity ladder approach was not used by banks in their jurisdictions. However, authorities in one Member State outside the euro area reported that two sample banks have been authorised to use this approach. Although authorisation has been granted, one bank is not using the extended maturity ladder approach and the other is using it only to a very limited extent. Therefore, this deviation is not considered material. 2. The second issue is not considered to be material as Member States have confirmed that no bank in the RCAP sample is using this approach.
Basel paragraph number	Basel II: 718 (xxv)–(xxvii)
Reference in the domestic regulations	CRR Article 344(4); EBA/ITS/2013/10 (On appropriately diversified indices)
Findings	The Basel framework (paragraph 718(xxv)) requires banks to maintain an additional capital charge of 2% as the specific risk on the net long or short position in an index contract comprising a diversified portfolio of equities. However, the CRR states that this specific risk can be ignored if the stock index future is exchange traded and represents a relevant and appropriately diversified index. In fact, the BTS on appropriately diversified indices identified a set of indices that is so well diversified that a position in an index product does not incur any, not even a 2%, specific charge.
Materiality	Based on the data provided, this deviation is not considered material.

Basel paragraph number	Basel II: 718(xli), (xlii)
Reference in the domestic regulations	CRR Article 351 (De minimis and weighting for foreign exchange risk); Article 354 (closely correlated currencies) and EBA/ITS/2013/09 (on closely correlated currencies)
Findings	The Basel framework requires that banks maintain a capital charge of 8% on their net open positions that are exposed to foreign exchange risk. It also provides that a bank doing negligible business in foreign currency and which does not take foreign exchange positions for its own account may, at the discretion of its national authority, be exempted from capital requirements on these positions subject to certain conditions. The criteria for exemptions from the capital requirements provided under the CRR Article 351 are not consistent with those in the Basel framework. Further, Article 354 introduces a lower (4%) capital charge for closely correlated currencies under the standardised measurement method. This is not envisaged under Basel framework. The EU authorities are of the view that the differentiated capital requirements are appropriate as different currency pairs exhibit different volatilities.
Materiality	Based on the data provided, this deviation is considered material for only two banks in the RCAP sample. One would be moderately affected and the other bank would be on the cusp between a moderate and significant impact.

2.12 Market risk – Internal Models Approach

Section grade	**Compliant**
Summary	Two non-material findings were identified. These were omission in the CRR of some details from the provisions of the Basel framework regarding stress testing; and details on the application of the stress scenarios for correlation trading portfolios. These issues were discussed with Member State authorities, who advised that these points are mostly covered in their own rules and supervisory practices.
Basel paragraph number	Basel II: 718(lxxvii)–(lxxxiv)
Reference in the domestic regulations	CRR Article 368(1)(g)
Findings	The Basel framework (718(lxxvii)–(lxxxiv)) requires that banks using the internal models approach for meeting market risk capital requirements must have in place a rigorous and comprehensive stress-testing programme. Detailed requirements of the stress scenarios are stated in paragraphs 718(lxxviii)–(lxxxiv). The Assessment Team observes that these Basel requirements (in particular the reference to (i) supervisory scenarios requiring no simulations by the bank; (ii) scenarios requiring a simulation by the bank; and (iii) scenarios developed by the bank itself to capture the specific characteristics of its portfolio) have not fully been reproduced in the CRR. Nevertheless, the CCR does contain the following: • CRR Article 368(1)(g) provides the Basel provisions mentioned in 718(lxxiv)(g) concerning the qualitative criteria, in terms of a routine and rigorous programme of stress testing, that banks would have to meet before they are permitted to use a models-based approach; and • These provisions 718(lxxiv)(g) have some overlaps with the other aforesaid Basel requirements 718(lxxvii)–(lxxxiv). The Member States have also indicated that they are using additional guidance which fully adopts the Basel framework, or that they cover in their local supervisory practices the Basel stress-testing rules not mentioned in the CRR.
Materiality	Based on the information provided by the Member States, the Assessment Team does not consider these deviations to be material.
Basel paragraph number	Basel II 718(lxxxvii)–(xcviii) as amended by Basel 2.5, Basel 2.5 Annex.

Reference in the domestic regulations	CRR Article 377
Findings	The Basel framework (Basel II 718(lxxxvii)–(xcviii)) permits banks meeting certain conditions to calculate specific risk capital charges for the correlation trading portfolio using a comprehensive risk-modelling approach. Basel 2.5 Annex provides guidance on the stress testing that should be undertaken to satisfy one of these conditions. CRR Article 377 sets out requirements for an internal model for correlation trading, but CRR Article 377.5 omits many details of the Basel provision on the application of the stress scenarios for the correlation trading portfolio. According to CRR Article 377.5, the EBA will issue guidelines on the application of the stress scenarios for the correlation trading portfolio, but the Assessment Team observes that these guidelines are not available and that no deadline has been specified to produce them. The Assessment Team also observes that Member States indicate that they consider these elements of the Basel framework in their supervisory practices, but in general have not translated these requirements into their local guidelines.
Materiality	Based on the information provided by the Member States, the Assessment Team does not consider these deviations to be material.

2.13 The Second Pillar – Supervisory review process

Section grade	**Compliant**
Summary	The CRD contains most of the provisions of Basel framework. It also envisages the issuance of EBA Guidelines in the future to flesh out the implementation of Pillar 2 in the EU, but a timetable has not yet been set for their issuance. There are, however, existing EBA *Guidelines on the Application of the Supervisory Review Process under Pillar 2* (GL03 of 25 January 2006), which were reviewed by the Assessment Team and cover the necessary missing items. Member State authorities confirmed that this guideline has been fully implemented in their jurisdictions either in their own regulatory requirements or in some cases through their supervisory practices.
Basel paragraph number	Basel II: 719–760
Reference in the domestic regulations	CRD IV Articles: 73, 74, 76, 79–87, 97, 98, 102, 104
Findings	The Basel framework requires the supervisory authorities to implement a supervisory review process under Pillar 2. In addition, banks should have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels. The CRD IV contains most of the provisions of the Basel framework, and Article 74 of the CRD IV envisages issuance of Guidelines by the EBA on the implementation of Pillar 2. The EU authorities advised that EBA Guidelines have not yet been issued and there is no confirmed timetable for their issuance. There are however existing EBA *Guidelines on the Application of the Supervisory Review Process under Pillar 2* (GL03 of 25 January 2006), which were reviewed by the Assessment Team. Annex 15 provides a description of the EU's Pillar 2 supervisory process.
Materiality	The finding is not material as the Member State authorities confirmed that they have implemented the Guideline.

2.14 The Third Pillar – Market discipline

Section grade	**Compliant**
Summary	The few minor differences observed have no material impact on implementation of these requirements as they simply revolved around the frequency of information disclosure. But in practice most banks in the RCAP sample are generally following the Basel requirements on this front and are not expected to reduce the frequency of their disclosures in the future.
Basel paragraph number	Basel II: 818, paragraphs 5–7 of Composition of capital disclosure requirements, June 2012.
Reference in the domestic regulations	CRR Articles 433, CRD Article 104.1(l)
Findings	Under the Basel framework, the disclosures in Pillar 3 should be made on a semiannual basis, subject to some exceptions. Further, "large internationally active banks and other significant banks (and their significant bank subsidiaries) must disclose their Tier 1 and total capital adequacy ratios, and their components, on a quarterly basis." The Basel framework requires large banks to make certain minimum disclosures with respect to certain defined key capital ratios and elements on a quarterly basis, regardless of the frequency of financial statement publication. The CRR requires Pillar 3 disclosures to be "at least on an annual basis". The CRR does not specify requirements for "internationally active banks" but instead requires institutions to take account of their business characteristics to assess the need to disclose more frequently than annually. CRD Article 104(1)(l) stipulates that supervisors shall have the power to require additional disclosures by institutions. CRR Article 433 requires the EBA to issue guidelines by 31 December 2014 on institutions assessing more frequent disclosures. In addition, the Assessment Team confirmed that the nine Member States generally do not require more frequent Pillar 3 disclosures than the frequency required by the CRR.
Materiality	This deviation is considered not material since the Member States confirmed that in practice most banks in the RCAP sample generally follow the Basel requirements. It is also unlikely to be potentially material in the future because banks are unlikely to reduce the frequency of their disclosures at any time soon.
Basel paragraph number	Basel II: 825, Table 4
Reference in the domestic regulations	CRR Articles 442, 452
Findings	The CRR/CRD IV does not include the Basel II qualitative disclosure requirements for banks that have partly but not fully adopted either the foundation IRB or the advanced IRB approach. The fourth bullet of Table 4(a) in the Basel framework is not included in the CRR/CRD text.
Materiality	This deviation is considered not material given that the missing item is a very small part of the whole Pillar 3 disclosure requirements and that the Member States noted that in practice several RCAP sample banks disclose this item on their own.

Section B: Findings that are considered as "observations"

Basel paragraph number	Basel II: 219
Reference in the domestic regulations	CRR Article 147(2)(c) and (8), and 153(5), 153(9)
Observations	The Basel framework recognises five subclasses of specialised lending (SL) within the corporate asset class for the purpose of a distinct treatment for risk-weighting under the IRB approach. The CRR neither mentions nor defines the five subclasses of specialised lending exposures. It also does not set out the slotting criteria for mapping of internal grades to the five supervisory categories, as required under the relevant Basel provisions. Paragraphs 181 to 189 of the Committee of European Banking Supervisors (CEBS) *Guidelines on the implementation, validation and assessment of Advanced Measurement (AMA) and Internal Ratings-Based (IRB) Approaches (GL10)* provide guidance to competent authorities. These guidelines are not mandatory and the individual supervisory authorities could allow banks to follow an approach different from that set out in the guidelines. Thus, the Basel provisions potentially could be implemented in some Member States in a manner different from that envisaged under the Basel framework. According to Article 153(9), the EBA shall develop draft regulatory technical standards to specify how institutions shall take into account the factors referred to in Article 153(5) when assigning risk weights to specialised lending exposures. The EBA shall submit those draft regulatory technical standards to the Commission by 31 December 2014. In general, the Member States reported that they applied slotting criteria and risk weights for specialised lending categories that are consistent with the Basel standards. Therefore, the omission from the CRR is noted as an observation, not a deviation.
Basel paragraph number	Basel II: 231–233
Reference in the domestic regulations	CRR Article 147(5)
Observations	The Basel framework provides that residential mortgage loans are eligible for retail treatment regardless of exposure size, provided that the credit is extended to an individual who is an owner-occupier of the property (with the understanding that supervisors exercise reasonable flexibility regarding buildings containing only a few rental units). Otherwise these exposures are treated as corporate. The CRR does not include a provision requiring that residential mortgage loans be owner-occupied. EU authorities assert that this is not inconsistent with the Basel requirements because the third sentence in Paragraph 231 (second bullet), allows for the inclusion of loans secured by a single or small number of condominium or cooperative residential housing units in a single building or complex. And, the second bullet also defers to Member State authorities to set the maximum number of housing units per exposure. Considering that there is scope for this Basel provision to be interpreted in different ways, the Assessment Team notes this as an observation only.
Basel paragraph number	Basel II: 242
Reference in the domestic regulations	CRR Articles 153(6), 154(5)
Observations	Basel framework paragraph 242 (fourth bullet) says national supervisors must establish concentration limits above which capital charges must be calculated using the minimum requirements for the bottom-up approach for corporate exposures. The CRR says the institution shall have effective policies and procedures for monitoring on an aggregate basis single-obligor concentrations both within and across purchased receivables pools. The CRR does not specify a limit. The Assessment Team could not find reference in the CRR to the limitations on the use of the top-down approach in particular, where it would be an "undue burden" for the bank to calculate

	PD/LGD for the individual exposures or the exposures are purchased for inclusion in asset-backed structures. However, as the Basel framework does not articulate a concentration limit or standards for establishing a concentration limit, the Assessment Team notes this difference as an observation, not a deviation.
Basel paragraph number	Basel II: 275–284
Reference in the domestic regulations	CRR Article 153(5)
Observations	Under the Basel framework (paragraph 275), banks that do not meet the requirements for the estimation of PD under the corporate IRB approach will be required to map their internal grades to five supervisory categories, each of which is associated with a specific risk weight. The slotting criteria on which this mapping must be based are provided in Annex 6 of the framework. While the risk weights in the CRR appear to align with those in the Basel framework, the categories in Article 153(5) Table 1 are not defined. However, in view of the fact that, in general, the Member States report that they apply the Basel slotting criteria and risk weights for specialised lending, the omission from the CRR is noted as an observation, not a deviation. In addition, the EBA plans to issue a BTS in this area.
Basel paragraph number	None
Reference in the domestic regulations	CRR Article 266(1)
Observations	CRR Article 266(1) says that the risk-weighted exposure amount of a securitisation position to which a 1250% risk weight is assigned may be reduced by 12.5 times the amount of any specific credit risk adjustments treated in accordance with Article 110 made by the institution in respect of the securitised exposures. The Assessment Team acknowledges that the EU regulations seek to fill a gap in the Basel framework with respect to calculating the exposure amount for securitisation exposures, and notes this only as an observation that does not influence the component or overall grade.
Basel paragraph number	Basel II: Annex 4 126–127
Reference in the domestic regulations	Articles 306(1)(b) (trade exposures) and 309 (pre-funded default fund contributions and unfunded commitments)
Observations	Basel paragraph 127 is not fully reflected in the CRR. Unlike the Basel text, the CRR does not require supervisors to determine the calculations for unfunded commitments. In practice, this omission implies that EU banks must theoretically take into account infinite exposures towards central counterparties (CCPs) for the calculation of capital requirements, if they were to use CCPs requiring unlimited binding commitments. The Assessment Team understands that the EU regulation (EMIR) prevents EU CCPs from requiring unlimited binding commitments, and that most CCPs outside the EU do not require such commitments. On the basis that this treatment is more conservative than Basel, the Assessment Team does not consider this omission in the CRR to be a deviation.
Basel paragraph number	Basel II: Annex 4 110–119 and 120–125
Reference in the domestic regulations	Part Three, Title II, Chapter 6, Section 7 (contractual netting) and Articles 107(2) and 303–306, Article 310 (Method 2).
Observation	The EU method 2 includes trade exposures of client in the definition of trade exposures (TEi). This treatment is more conservative than the Basel treatment and hence is not a deviation.
Basel paragraph number	Basel II: 683(i)–718
Reference in the domestic regulations	CRR Articles 345, 348–350
Observations	The CRR lays down specific own funds requirements for the positions in CIUs and those arising from underwriting equity and debt instruments. In the case of the latter, the CRR allows a reduction in the positions for the purpose of calculating the capital charge, which progressively declines from 100% on the day of underwriting to 0% for positions older than five working days.

	The Basel framework does not set out a specific methodology or requirement for measuring capital charge for banks' exposure to CIUs and the positions arising from underwriting. Moreover, the treatment provided in the CRR appears reasonable. Therefore, these differences are noted here as observations, not as deviations.
Basel paragraph number	Basel II: 689(i)
Reference in the domestic regulations	CRR Articles 102–106 (especially Article 106(3))
Observations	The Basel framework is silent on the treatment of internal hedges other than those relating to credit risk. The CRR defines and recognises internal hedges in the calculation of capital requirements for position risk provided that they are held with trading intent and that the requirements of Articles 102–106 are met. These EU provisions focus on internal hedges between the trading and banking books. They do not refer explicitly to the treatment of internal hedges between trading books in different legal entities.
Basel paragraph number	Basel II: 708(i), 718(lxxxvi)
Reference in the domestic regulations	CRR Article 363(2) (Permission to use internal models). In addition, according to Article 363(4)(c) a BTS will be developed by the EBA on the conditions under which the share of positions covered by the internal model (IM) within a risk category shall be considered significant.
Observations	The Basel framework provides some flexibility to banks using a combination of different capital measurement methods within a single broad market risk factor (equity, foreign exchange, interest rate, commodities) to include all their operations on a worldwide basis. Banks which adopt the modelling alternative for any single risk category are expected over time to include all their operations and to move towards a comprehensive model (ie one that captures all market risk categories). Accordingly, the Assessment Team considers that the CRR remains ambiguous concerning the Basel expectation for movement towards a comprehensive model. Indeed, CRR Article 363(2) simply allows banks to use internal models for each risk category if the internal model covers a significant share of the positions of a certain risk category, and CRR Article 363(4)(c) mentions that a future EBA technical standard should define the conditions under which the share of positions covered by the internal model within a risk category shall be considered *significant*. In terms of defining these conditions, the Assessment Team also observed the diversity of supervisory practices mentioned by the Member States. In particular, the following items should be noted: • lacks of measure to assess and monitor SMM and IMA shares by risk categories in some Member States which do not set expectations to bring SMM exposures within IMA over time, as opposed to requirement to monitor the materiality of SMM positions and bring them into the IMA in case they become material; • permissions to permanently exclude relevant exposures from the IMA scope of application, as opposed to objectives to cover all relevant risk factors in IMA (eg rules of thumb stating minimum coverage level in IMA of 90% of positions, or aligned with IRB minimum objective of 85%) in certain Member States; and • rules to split IMA and SMM exposures (even permitting banks to compare between standard rules and internal models outcomes in terms of RWAs), as opposed to requirements to identify and separately capitalise in Pillar 1 via capital add-ons risks related to exposures not well captured in IMA.

Annex 1: List of issues that the EU intends to address

Issues that the EU intends to address — Table A.1

Basel Paragraph	Reference to EU document and paragraph	Brief description of the forthcoming correction
Credit risk: IRB		
Basel II: 259	CRR Arts 148 and 150	The EU authorities are of the view that the overstatement of CET1 ratios by the EU banks is based on an assumption that the same exposure might, absent the specific allowances in EU rules, for a significant part still be subject to transitional partial use or permanent partial use allowed under the Basel framework. Nevertheless, they intend to seek to significantly limit in volume this permanent use of the Standardised Approach. The legislation envisages in CRR Article 150(4) that EBA will issue guidelines to this end by 2018, and the EU authorities believe that it may be possible for this to be done at an even earlier date.

Annex 2: List of capital standards under the Basel framework used for the assessment

(i) *International Convergence of Capital Measurement and Capital Standards: A Revised Framework*, (Basel II), June 2006

(ii) *Enhancements to the Basel II framework*, July 2009

(iii) *Guidelines for computing capital for incremental risk in the trading book*, July 2009

(iv) "Basel Committee issues final elements of the reforms to raise the quality of regulatory capital", *Basel Committee press release*, 13 January 2011

(v) *Revisions to the Basel II market risk framework: Updated as of 31 December 2010*, February 2011

(vi) *Basel III: A global regulatory framework for more resilient banks and banking systems*, December 2010 (revised June 2011)

(vii) *Pillar 3 disclosure requirements for remuneration*, July 2011

(viii) *Treatment of trade finance under the Basel capital framework*, October 2011

(ix) *Interpretive issues with respect to the revisions to the market risk framework*, November 2011

(x) *Basel III definition of capital – Frequently asked questions*, December 2011

(xi) *Composition of capital disclosure requirements: Rules text*, June 2012

(xii) *Capital requirements for bank exposures to central counterparties*, July 2012

(xiii) *Regulatory treatment of valuation adjustments to derivative liabilities: final rule issued by the Basel Committee*, July 2012

(xiv) *Basel III counterparty credit risk – Frequently asked questions*, November 2011, July 2012, November 2012

Annex 3: Implementation of the Basel framework as of 30 June 2014

Overview of adoption of capital standards

Table A.2

Basel III Regulation	Date of issuance by BCBS	Transposed in EU rules	Date of implementation in the EU	Status
Basel II				
Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version	June 2006	14 June 2006	July 2006	4
Basel 2.5				
Enhancements to the Basel framework Guidelines for computing capital for incremental risk in the trading book Revisions to the Basel II market risk framework	July 2009	24 November 2010	1 January 2011	4
Basel III				
Basel III: A global regulatory framework for more resilient banks and banking systems – revised version	June 2011 (Consolidated version)	27 June 2013[21]	1 January 2014	4
Pillar 3 disclosure requirements for remuneration	July 2011	30 November 2013	1 January 2014	4
Treatment of trade finance under the Basel capital framework	October 2011	30 November 2013	1 January 2014	4
Composition of capital disclosure requirements	June 2012	30 November 2013	1 January 2014	4
Capital requirements for bank exposures to central counterparties	July 2012	30 November 2013	1 January 2014	4

Number and colour code: 1 = draft regulation not published; 2 = draft regulation published; 3 = final rule published; 4 = final rule in force. For rules which are due for implementation as on 30 June 2012, the following colour code is used: Green = implementation completed; Yellow = implementation in process; Red = no implementation.

21 The CRD IV/CRR implementing Basel III in the EU issued on 27 June 2013 is a set of consolidated regulations that replace the previous Directives that implemented Basel II and 2.5 in the EU.

Annex 4: Details of the RCAP assessment process

A. Off-site evaluation

- Agreement on principles and process for the assessment
- Completion of a self-assessment questionnaire by the EU authorities
- Evaluation of the self-assessment by the RCAP Assessment Team
- Independent comparison and evaluation of the domestic regulations issued by EU authorities with corresponding Basel III standards issued by the BCBS
- Identification of observations for discussion with the EU authorities
- Refinement of the list of observations based on clarifications provided by EU authorities and developing this into a structured list of preliminary findings
- Assessment of materiality of deviations for all quantifiable deviations based on data and non-quantifiable deviations based on expert judgment
- Forwarding of the preliminary draft report to the EU authorities
- Receipt of comments on the detailed findings from the EU authorities

B. On-site discussions and assessment

1. Meetings with the EU authorities

10–11 September 2013

- Finalisation of the principles and process for the assessment

20–21 November 2013

- Introductory meeting of the RCAP Assessment Team with the EU authorities

23–24 January 2014

- Discussion of individual observations with the EU authorities

2–6 and 12 June 2014

- Meetings with the EU authorities to discuss the draft report and materiality of the findings
- Assignment of component grades and overall grade
- Submission of the detailed findings to EU authorities with grades

2. Meetings with EU banks and other market participants

21–22 January 2014

- Meetings with select banks and bank analysts in the UK

13–14 March 2014

- Meetings with the supervisory authorities and select banks in France and Germany

C. Review and finalisation of the RCAP report

- Review of comments by the RCAP Assessment Team, finalisation of the draft report and forwarding to US authorities for comments
- Review of EU authorities' comments by the RCAP Assessment Team
- Review of the draft report by the RCAP Review Team
- Review of the draft report by the Peer Review Board
- Reporting of findings to the SIG by the Assessment Team Leader
- Presentation of the report to the BCBS by the Assessment Team Leader and its approval

Annex 5: RCAP Assessment Team and Review Team

Team Leader:[22]

Mr Mark Zelmer	Office of the Superintendent of Financial Institutions, Canada

Team Members:

Ms Denise S K Tai	Hong Kong Monetary Authority, Hong Kong
Ms Heidi Richards	Australian Prudential Regulation Authority, Australia
Mr Manabu Kishimoto	Financial Services Agency, Japan
Mr Marc Salomone	Swiss Financial Market Supervisory Authority, Switzerland
Ms Maria Beatriz Dominguez Torrado	National Banking and Securities Commission, Mexico
Mr Mark Ginsberg	Office of the Comptroller of the Currency, USA

Supporting Members:

Mr Rajinder Kumar	Basel Committee Secretariat
Ms Sarah Bell	Basel Committee Secretariat
Ms Catherine Girouard	Office of the Superintendent of Financial Institutions, Canada

Review Team Members:[23]

Mr Anthero de Moraes Meirelles	SIG member, Central Bank of Brazil
Mr Kozo Ishimura	SIG member, Financial Services Agency, Japan
Mr Neil Esho	Basel Committee Secretariat
Mr T Kirk Odegard	SIG member, Board of Governors of the Federal Reserve System
Mr Wang Shengbang	China Banking Regulatory Commission, China

[22] The Team Leader and the Assessment Team worked closely with Mr Udaibir Das, Head of Basel III Implementation at the Basel Committee Secretariat. Ms Tamara Gomes of the Basel Committee Secretariat provided inputs to the materiality analysis of the assessment.

[23] The Review Team provided an additional level of quality assurance for the report's findings and conclusions. The Assessment Team also benefitted from useful feedback from the RCAP Peer Review Board.

Annex 6: Key financial indicators of EU banking system (Aggregate data for the nine Member States)

Overview of banking system for nine Member States as of June 2013 — Table A.3

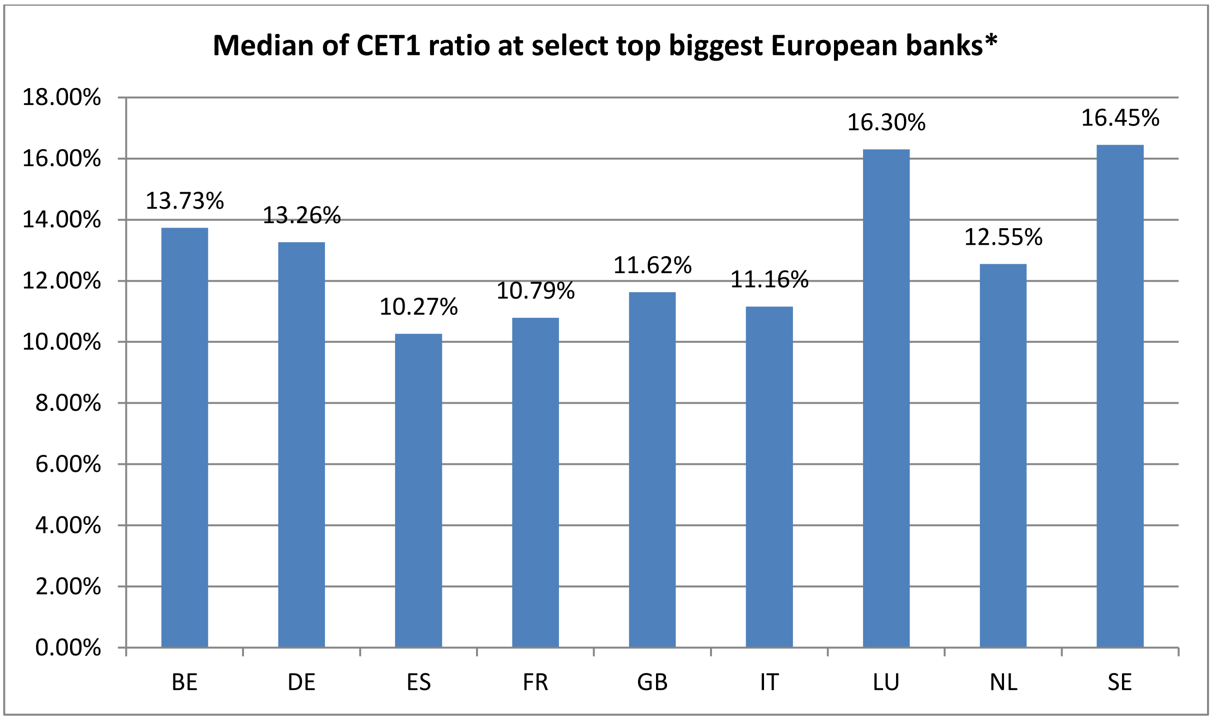
Number of banks	
Number of banks operating in EU Basel Committee member countries	3992
Number of banks required to implement Basel standards (according to domestic rules)	All
Number of Global Systemically Important Banks (G-SIBs)	14
Capital standards under the Basel framework	
Number of banks required to implement Basel equivalent standards	29
Use of advanced approaches by banks	166
Capital adequacy (17 EU RCAP sample banks that participate in Basel QIS exercises) (EUR millions; percent) Source: QIS data	
Total capital	799 237
Total Tier 1 capital	698 735
Total CET1 capital	660 211
Total risk-weighted assets	7 437 057
RWAs for credit risk (percent of total RWAs)	77.26%
RWAs for counterparty credit risk (percent of total RWAs)	4.70%
RWAs for market risk (percent of total RWAs)	6.09%
RWAs for operational risk (percent of total RWAs)	9.88%
Total off-balance sheet bank assets[24]	5 639 277
Capital Adequacy Ratio (weighted average)	10.75%
Tier 1 Ratio (weighted average)	9.40%
CET1 Ratio (weighted average)	8.88%

Source: EBA.

[24] Includes derivatives at fair value and the credit equivalent amount of non-market related off-balance sheet exposures.

Median Common Equity Tier 1 capital ratios of top five banks in each of the nine member states as at end-June 2013

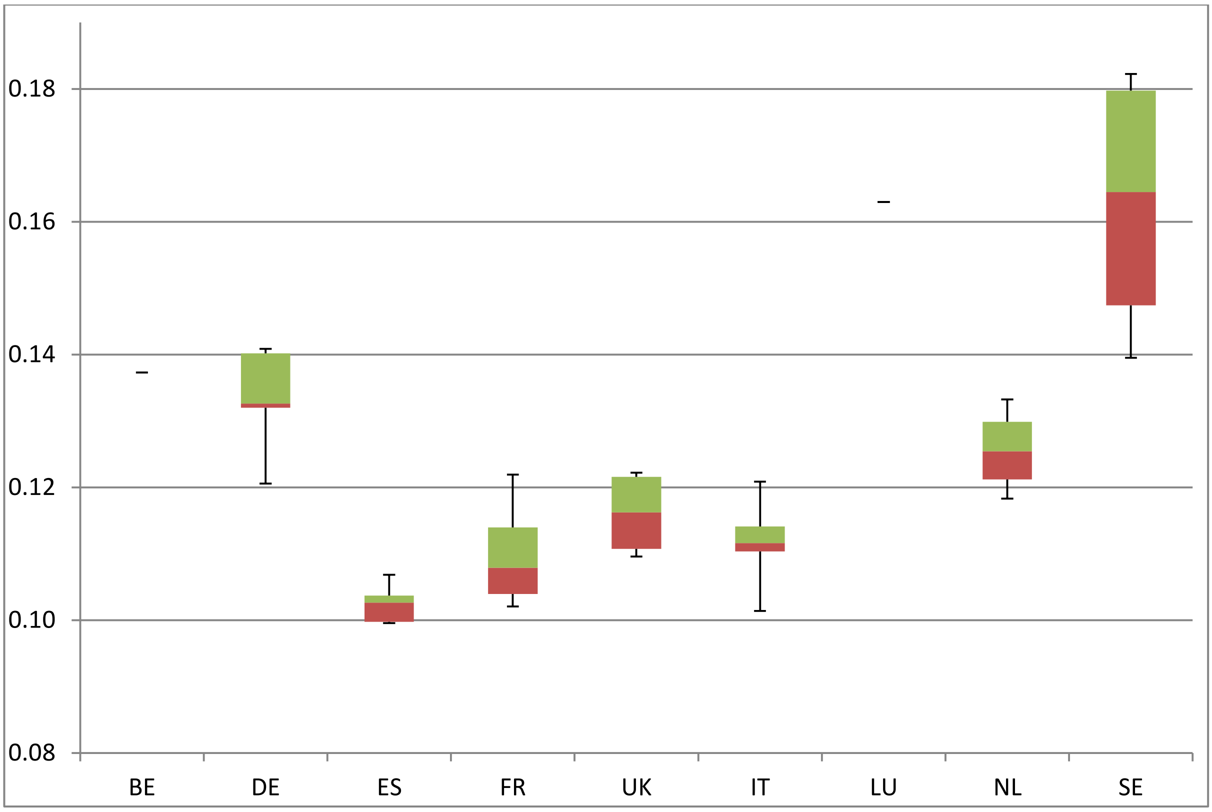
Figure A.1



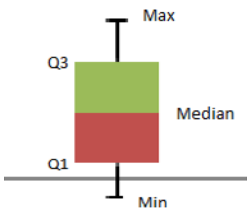
Source: EU-wide 2013 Transparency Exercise data.

*Five largest banks where data available.

The dispersion of CET1 ratio within each of the nine Member States   Figure A.2



Note: For BE and LU there is only one bank; therefore, the graph does not include information on these jurisdictions. For the other jurisdictions, the sample comprises the four (ES, FR, GB) or five (DE, IT) largest banks represented in the EBA transparency exercise.[25]



25 Interpretation of the boxplot:

Annex 7: Local regulations issued by the European Union for implementing Basel capital standards

A. Overview of issuance dates of important EU capital rules

Table A.4

Domestic regulations	Name of the document, version and date
Domestic regulations implementing Basel II	DIRECTIVE 2006/48/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) DIRECTIVE 2006/49/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast)
Domestic regulations implementing Basel II.5	DIRECTIVE 2010/76/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies
Domestic regulations implementing Basel III	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 as corrected by: Corrigendum of 2 August, 2014 to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Corrigendum of 30 November 2013 to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (1) as corrected by: Corrigendum of 2 August to Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC Various BTS and Guidelines issued by the EBA under the above Regulations and Directives Directive 2014/59/EU establishes a framework for the recovery and resolution of credit institutions and investment firms.

B. Hierarchy of EU laws and regulatory instruments

Table A.5

Level of rules (in legal terms)	Type
Laws (CRD IV, CRR and the BRRD)	Enacted by the European Parliament and the Council.
Regulations (BTS drafted by the EBA)	Regulatory technical standards and implementing technical standards (often collectively referred to as "Binding Technical Standards" or "BTS" are legal acts drafted by the European Banking Authority and adopted by the European Commission by means of Regulations or Decisions.
Prudential standards	The above Laws and Regulations constitute the prudential standards for banks in the EU.
Administrative instruments (eg conditions on banking authorities, directions)	
Other regulatory documents (prudential practice guides, other guidance and letters to industry)	Issued by the EBA.

C. Assessment of eligibility of EU regulatory documents

Table A.6

	Criterion	Assessment
(1)	The instruments used are part of a well defined, clear and transparent hierarchy of legal and regulatory framework.	All the Regulations and Directives listed in Table A.4 of this Annex are the legislations enacted by the European Parliament and the Council. They are legally enforceable across all 28 Member States. *BTS drafted by EBA*: BTS are legal acts which specify particular aspects of an EU legislative text (Directive or Regulation) and aim at ensuring consistent harmonisation in specific areas. BTS are finally adopted by the European Commission by means of Regulations or Decisions. According to EU law, Regulations are directly applicable and binding in their entirety. This means that they do not have to be transposed into national law but confer rights or impose obligations directly in the same way as national law. Directives are addressed to the Member States and are binding with respect to the intended result. Directives lay down certain end results that must be achieved in every Member State. Each directive specifies the date by which the national law must be adapted. National laws must be interpreted in a way that gives full effect to the directives (and the EU law in general). The (regulatory and implementing) technical standards remain in draft stage until final formal approval by the EBA Board of Supervisors following which in order to become European law the process for adopting technical standards must be completed. This process provides for a review of the draft regulatory technical standards by the European Commission. The European Commission may not change the content of a draft RTS or ITS without prior coordination with the Authority. Moreover (as stated in EU legislation), "given the technical expertise of the Authority in the areas where regulatory technical standards should be developed, note should be taken of the Commission's stated intention to rely, as a rule, on the draft regulatory technical standards submitted to it by the Authority". For regulatory technical standards, there is a period of objection for the Council and the European Parliament (however, no amendments are possible). *Recommendations and Guidelines*: The Guidelines issued by the EBA are an important tool for fostering convergence of supervisory practices across the EU. Although they are not legally binding, supervisory authorities and institutions across the European Union must make every effort to comply with them. Supervisory authorities, in particular, are obliged to inform the EBA of their compliance or intention to comply with them and to also explain the reasons for an eventual non-compliance. A recommendation issued by EBA sets out its view of appropriate supervisory practices within the European System of Financial Supervision and of how Union law should be applied in a particular area. The Guidelines and Recommendations require approval of the EBA's Board of Supervisors. However, unlike the BTS, these are finalised at the level of EBA and are not required to be endorsed by the European Commission.

(2)	They are public and easily accessible	All the Regulations, Directives, and BTS are published in the Official Journal of the European Union and are accessible to all. The Official Journal is also publically available on the internet. Guidelines are publically available on the EBA website.
(3)	They are properly communicated and viewed as binding by banks as well as by the supervisors.	*Regulations, Directives and BTS:* These instruments are not notified to the banks individually, as they are officially published. As indicated above Regulations, Directives and the BTS are legally binding. *Recommendations and Guidelines:* The EBA expects all competent authorities to whom the recommendation is addressed to comply with it. Competent authorities to whom the recommendation applies should comply by incorporating it into their supervisory practices as appropriate (eg by amending their legal framework or their supervisory processes). In accordance with Article 16(3) of the EBA Regulation, competent authorities must make every effort to comply with the guidelines and recommendation. The EBA shall publish the fact that a competent authority does not comply or does not intend to comply with a guideline or recommendation.
(4)	They would generally be expected to be legally upheld if challenged and are supported by precedent.	The above Regulations, Directives and the BTS are laws and cannot be challenged in courts.
(5)	Consequences of failure to comply are properly understood and carry the same practical effect as for the primary law or regulation.	Regulations, Directives, and BTS are all legislative instruments and breaches are by consequence breaches of law in each case.
(6)	The regulatory provisions are expressed in clear language.	The regulatory provisions are expressed in clear language.
(7)	The substance of the instrument is expected to remain in force for the foreseeable future	These instruments are expected to remain in in force for the foreseeable future, subject to review wherever it has been provided in the Regulations and Directives themselves.

Annex 8: Position of EBA standards and guidelines required to be issued according to the CRD IV/CRR

Serial No.	Reference Article of the CRD/CRR	Subject in brief	Due date for issuance	Status as on 30 April 2014
Regulatory technical standards (2013–2017)				
1.	CRR Art 110(4)	Specification of the calculation of specific and general credit risk adjustments	25/07/2013	Adopted by the European Commission 20/12/2013 and entered into force 19/03/2014
2.	CRR Art 26(4), 27(2), 28(5)(a), 29(6), 32(2), 36(2), 41(2), 52(2), 76(4), 78(5), 79(2), 83(2), 481(6) and 487(3)	Own Funds (Part 1, 2 and Gain on Sale)	25/07/2014	Adopted by the European Commission 7/01/2014 and entered into force 3/04/2014
3.	CRR Art 49(6)	Financial conglomerates	26/07/2013	Adopted by the European Commission 21/01/2014 and entered into force 23/04/2014
4.	CRD Art 94(2)	Identified staff	16/12/2013	Adopted by the European Commission 4/03/2014 – not yet entered into force.
5.	CRR Art 33(4)	Close correspondence	30/09/2013	Adopted by the European Commission 12/03/2014 and entered into force 9/06/2014
6.	CRR Art 143(5), 312(4)(b)(c)	Materiality of model changes and extensions (credit and operational risk)	5/12/2013	Adopted by the European Commission 12/03/2014 and entered into force 9/06/2014
7.	CRD Art 50(6)	Information exchange	16/12/2013	Adopted by the European Commission 12/03/2014 and entered into force 9/06/2014
8.	CRR Art 329(3), 352(6), 358(4)	Risks in activities of options and warrants	17/12/2013	Adopted by the European Commission 12/03/2014 and entered into force 9/06/2014
9.	CRD Art 77(4)	Definition of materiality thresholds for specific risk	17/12/2013	Adopted by the European Commission 12/03/2014 and entered into force 9/06/2014
10.	CRR Art 341(3)	Definition of the term market	21/12/2013	Adopted by the European Commission 12/03/2014 and entered into force 9/06/2014
11.	CRR Art 383(7)	Determination of methods for CVA capital charge	21/12/2013	Adopted by the European Commission 12/03/2014 and entered into force 9/06/2014
12.	CRD Art 94(2)	Instruments used for variable remuneration	18/02/2014	Adopted by the European Commission 12/03/2014 and entered into force 9/06/2014
13.	CRR Art 410(2)	Securitisation retention requirement	17/12/2013	Adopted by the European Commission 13/03/2014 – not yet entered into force
14.	CRD Art 140(7)	Geographical location of a relevant credit exposure	20/12/2013	Adopted by the European Commission 4/06/2014 – not yet entered into force
15.	CRD Art 35(5), 36(5), 39(4)	Passporting notifications	13/12/2013	Adopted by the European Commission 4/06/2014 – not yet entered into force

16.	CRR Art 390(8)	Transactions with exposures to underlying assets	5/12/2013	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
17.	CRR Art 36(2), 73(7), 84(4)	Own funds Part 3	13/12/2013	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
18.	CRR Art 97(4)	Own funds based on fixed overheads	30/01/2014	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
19.	CRR Art 419(5)	The use of derogations for currencies with insufficient liquid assets	27/03/2014	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
20.	CRR Art 423(3)	Additional collateral outflows on derivatives contracts	27/03/2014	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
21.	CRR Art 28(5)	Own funds Part 4	27/03/2014	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
22.	CRR Art 105(14)	Prudent valuation adjustments	27/03/2014	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
23.	CRD Art 131(18)	Identification of G-SIIs	5/06/2014	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
24.	CRR Art 304(5)	Margin Periods Of Risk	30/06/2014	Draft standard not yet finalised by EBA
25.	CRR Art 443	Disclosures of unencumbered assets	30/06/2014	Draft standard not yet finalised by EBA
26.	CRR Art 495(3)	Grandfathering of SA approach for equity exposures	30/06/2014	Draft standard not yet finalised by EBA
27.	CRR Art 194(10)	Eligible collateral within CRM framework	30/09/2014	Draft standard not yet finalised by EBA
28.	CRR Art 124(4), 164(6)	Risk weights for mortgage lending	31/12/2014	Draft standard not yet finalised by EBA
29.	CRR Art 144(2), 173(3), 180(3)(b)	PD estimation	31/12/2014	Draft standard not yet finalised by EBA
30.	CRR Art 148	Roll out	31/12/2014	Draft standard not yet finalised by EBA
31.	CRR Art 150(3), 152(5)	Permanent partial use of SA	31/12/2014	Draft standard not yet finalised by EBA
32.	CRR Art 153(9)	Risk weights for specialised lending exposures	31/12/2014	Draft standard not yet finalised by EBA
33.	CRR Art 178(6)	Definition of default – Thresholds for past-due items	31/12/2014	Draft standard not yet finalised by EBA
34.	CRR Art 181(3), 182(4)(a)	Own downturn LGD	31/12/2014	Draft standard not yet finalised by EBA
35.	CRR Art 180(3)(a), 181(3)(b), 182(4)(b)	PD estimation (data waiver)	31/12/2014	Draft standard not yet finalised by EBA
36.	CRR Art 183(6)	Conditions for conditional guarantees	31/12/2014	Draft standard not yet finalised by EBA
37.	CRR Art 363(4)(a)	Materiality of model extensions and changes (market risk)	31/12/2014	Draft standard not yet finalised by EBA
38.	CRR Art 363(4)(b)	Assessment methodology	31/12/2014	Draft standard not yet finalised by EBA
39.	CRR Art 440(2)	Countercyclical buffer disclosures	31/12/2014	Draft standard not yet finalised by EBA
40.	CRD Art 78(7)	Benchmarking exercise	31/12/2014	Draft standard not yet finalised by EBA

41.	CRD Art 51(4)	Functioning of colleges	31/12/2014	Draft standard not yet finalised by EBA
42.	CRD Art 116(4)	Functioning of groups	31/12/2014	Draft standard not yet finalised by EBA
43.	CRR Art 422 (9)(10), 425 (5)(6)	Criteria for intragroup outflows	1/01/2015	Draft standard not yet finalised by EBA
44.	CRR Art 221(9)	Immaterial portfolios	31/12/2015	Draft standard not yet finalised by EBA
45.	CRD Art 8(2)	Authorisation of credit institutions	31/12/2015	Draft standard not yet finalised by EBA
46.	CRR Art 443	Disclosures of unencumbered asset	1/01/2016	Draft standard not yet finalised by EBA
47.	CRR Art 314(5)	Combined use of different approaches	31/12/2016	Draft standard not yet finalised by EBA
48.	CRR Art 316(3)	Relevant indicator under accounting standards	31/12/2017	Draft standard not yet finalised by EBA

Serial No.	Reference Article of the CRD/CRR	Subject in brief	Due date for issuance	Status as on 30 April 2014
Implementing technical standards (2013-2017)				
1	CRR 437(2), 492(5)	Own funds disclosure	25/07/2013	Adopted by the European Commission 20/12/2013 and entered into force 20/01/2014
2	CRR Art 99(5), 99(6), 101(4), 394(4), 430(2), 415(3)	Supervisory reporting	26/07/2013	Adopted by the European Commission 16/04/2014 - not yet entered into force
3	CRR Art 520	Reporting of hypothetical capital of a CCP	19/12/2013	Adopted by the European Commission 12/15/2014 and entered into force 2/06/2014
4	CRD Art 50(7)	Information exchange	16/12/2013	Adopted by the European Commission 4/06/2014 - not yet entered into force
5	CRR Art 410(3)	Supervisory practices relating to the securitisation retention rules	17/12/2013	Adopted by the European Commission 4/06/2014 - not yet entered into force
6	CRD Art 143(3)	Supervisory disclosure	19/12/2013	Adopted by the European Commission 4/06/2014 - not yet entered into force
7	CRR Art (100)	Reporting on unencumbered assets	30/10/2013	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
8	CRD Art 35(6), 36(6), 39(5)	Passporting notifications	13/12/2013	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
9	CRD Art 113(5)	Joint decisions	13/12/2013	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
10	CRR Art 344(1)	Diversified indices	17/12/2013	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
11	CRR Art 354(4)	Closely correlated currencies	17/12/2013	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
12	CRR Art 415(3)	Additional liquidity monitoring metrics	18/12/2013	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
13	CRR Art 99(4)	Forbearance and non-performing exposures	26/02/2014	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
14	CRR Art 416(5)	Currencies with narrow CB eligibility	27/03/2014	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
15	CRR Art 419(4)	Currencies with insufficiency of liquid assets	27/03/2014	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
16	CRR Art 451(2)	Disclosure template for leverage ratio	5/06/2014	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission
17	CRR Art 441(2)	Disclosing the values of indicators by G-SIIs	5/06/2014	Draft standard submitted by EBA (see issuance date), but not yet adopted by the European Commission

18	CRR 136(1), 136(2), 136(3)	Mapping of external credit assessments for exposures	1/07/2014	Draft standard not yet finalised by EBA
19	CRR Art 270(1)	Mapping of external credit assessments for securitisation exposures	1/07/2014	Draft standard not yet finalised by EBA
20	CRR Art 20(8)	Joint decision on approval of internal models	31/12/2014	Draft standard not yet finalised by EBA
21	CRD Art 78(8)	Benchmarking exercise	31/12/2014	Draft standard not yet finalised by EBA
22	CRD Art 51(5)	Functioning of colleges	31/12/2014	Draft standard not yet finalised by EBA
23	CRD Art 116(5)	Functioning of groups	31/12/2014	Draft standard not yet finalised by EBA
24	CRD Art 8(3)	Authorisation of credit institutions	31/12/2015	Draft standard not yet finalised by EBA
25	CRD Art 22(9)	Notification on proposed acquisitions	31/12/2015	Draft standard not yet finalised by EBA
26	CRR Art 318(3)	Principles for business line mapping	31/12/2017	Draft standard not yet finalised by EBA

Annex 9: CRD IV implementation across the nine Member States

Status of domestic legislation implementing CRD IV in the nine Member States

While the CRD IV has to be transposed into national law, the CRR and BTS are directly applicable in all Member States (ie no transposition is needed).

Belgium	Transposition is completed.
France	Transposition is completed.
Germany	Transposition is completed.
Italy	Partial transposition. (Partly transposed. Partly in Parliament (sanctions, remuneration) partly in consultation.)
Luxembourg	Partial transposition. (In Parliament. Expected adoption in June. Secondary legislation issued already.)
The Netherlands	Partial transposition. (Partly transposition through Government decrees. Partly in Parliament. Full transposition expected end of July 2015.)
Spain	Partial transposition. (Partly transposed. Partly in Parliament. Entry into force is imminent.)
Sweden	Transposition is completed.
United Kingdom	Transposition is completed.

Annex 10: Recent changes in the supervisory arrangements in the EU

In the wake of the financial crisis, three European supervisory authorities (ESAs) were established on 1 January 2011 to introduce a supervisory architecture: the European Banking Authority (EBA), which deals with bank supervision, including the supervision of the recapitalisation of banks; the European Securities and Markets Authority (ESMA), which deals with the supervision of capital markets and carries out direct supervision with regard to credit rating agencies and trade repositories; and the European Insurance and Occupational Pensions Authority (EIOPA), which deals with insurance supervision.

The 28 Member State supervisors are represented in all three supervising authorities. Their role is to contribute to the development of a single rulebook for financial regulation in Europe, solve cross-border problems, prevent the build-up of risks, and help restore confidence.

A European Systemic Risk Board (ESRB) was established to monitor and assess potential threats to financial stability that arise from macroeconomic developments and from developments within the financial system as a whole ("macroprudential supervision"). To this end, the ESRB provides an early warning of system-wide risks that may be building up and, where necessary, issues recommendations for action to deal with these risks.

One of the most significant achievements within the euro area concerns the advances towards a banking union complementing member state policy measures. The banking union in the euro area comprises five mutually reinforcing elements: (i) a single rulebook for banks; (ii) a single framework (or "manual") for banking supervision; (iii) a single mechanism for resolving banks; (iv) a common backstop in case temporary fiscal support is needed; and (v) a common system for deposit protection. As a first pillar of the banking union, a single supervisory mechanism (SSM) is being set up by a Regulation for participating Member States, including euro area countries and non-euro area Member States that enter into a close cooperation agreement with the ECB. The Regulation confers specific micro- and macroprudential tasks upon the ECB with strong systemic aspects in both areas. At a microprudential (ie institution-specific) level, the ECB will, in the initial stage, exercise direct supervisory power over "significant" credit institutions that, either because of their overall size or their importance for the economy of the EU or any participating Member State or their significance in cross-border activities, may pose risks to the financial system in the EU, either directly or through cross-border contagion channels.

Around 130 significant euro area banks representing about 85% of the total banking assets in the euro area will fall under the direct supervision of the ECB in November 2014. The SSM is predicated on close cooperation in banking supervision between the ECB and the participating Member States. Under the Mechanism, both the ECB and national competent authorities shall be subject to a duty of cooperation in good faith, and an obligation to exchange information. Also, supervisory tasks not conferred on the ECB will remain with the Member State authorities.[26] The competent authorities of the

[26] Those tasks include the power to receive notifications from credit institutions in relation to the right of establishment and the free provision of services, to supervise bodies which are not covered by the definition of credit institutions under Union law but which are supervised as credit institutions under Member State law, to supervise credit institutions from third countries establishing a branch or providing cross-border services in the Union, to supervise payments services, to carry out day-to-day verifications of credit institutions, to carry out the function of competent authorities over credit institutions in relation to markets in financial instruments, consumer protection, and the prevention of the use of the financial system for the purpose of money laundering or terrorist financing.

participating Member States will also continue to carry out supervisory tasks not conferred on the ECB by this Regulation. The Member States also retain the responsibilities and related powers to apply macroprudential tools not provided for in relevant acts of Union law.

From the perspective of this assessment, it must be noted that, according to what is described above, from November 2014 onwards, the ECB rather than individual Member State authorities will be the competent authority for the supervision of all the large internationally active banks located in seven of the nine Member States. By contrast, Sweden and the United Kingdom will continue to have their own competent authorities for the supervision of the large internationally active banks that they have authorised. All supervisory authorities, be they at the Member State level (eg Bank of England or Swedish FSA) or at the Union level (eg ECB), will remain subject to EBA legal acts as explained above.

Annex 11: Areas where EU requirements are regarded by EU authorities to be stricter than the Basel standards[27]

In several places, the EU authorities believe that they have adopted a stricter approach than the minimum standards prescribed by Basel. Alternatively, they consider that they have simplified or generalised an approach in ways that do not necessarily result in stricter requirements under all circumstances, but never result in less rigorous requirements than the Basel standards. The following list provides an overview of these areas. It should be noted that these areas have not been taken into account as mitigating factors in the overall assessment of compliance.

Scope of application of Basel capital standards

In terms of scope, the contribution of CRR and CRD IV to financial stability is not confined to large internationally active banks. The scope of Basel III is officially limited to internationally active banks. The EU authorities believe that restricting its scope to this population leaves the risk of major gaps in prudential coverage. Consequently, EU legislation implementing Basel III also applies to all other banks in the EU and investment firms. As a result, it applies to around 40% of total world banking assets, which means an additional 20% of world banking assets are effectively subject to Basel III requirements.

While Basel III applies to internationally active banks at a consolidated level and to each internationally active bank at each tier within a consolidated group, European legislation applies at the level of each legal entity, except for clearly defined exceptions. Consequently, EU authorities believe that EU legislation is more effective in promoting the financial soundness of individual subsidiaries.

Capital buffers

EU legislation also foresees a range of other powers for national authorities to use in responding to the emergence of localised systemic risks in their jurisdictions by raising capital requirements beyond the regulatory minima and capital conservation buffer. This includes scope for imposing a countercyclical buffer or a systemic risk buffer, and measures intended to limit system-wide exposure to real estate overheating. These are in addition to the Basel requirements to provide for buffers for systemically relevant institutions. For example, through the "systemic risk buffer", Member State authorities can increase CET1 capital to cover "structural systemic risk" by up to 3% of risk-weighted assets (until end-2014) and by up to 5% (as from 2015). Since the entry into force of these measures earlier this year, and up to the end of October 2014, 10 Member States have notified the European Systemic Risk Board of their intention to use these instruments.[28] This includes some instruments that either apply to other

[27] This annex was prepared by the EU authorities and delivered to the Assessment Team after the team had completed its on-site technical work. It makes references to various measures applicable to banks that were not in scope for this assessment. The Assessment Team has not cross-checked or assessed the contents of this Annex.

[28] The notifications received by ESRB are published on the following website: http://www.esrb.europa.eu/mppa/html/index.en.html.

types of financial institutions, such as insurance companies, or that were not within scope for this assessment.

Credit risk

The EU has strengthened the treatment of real estate collateral relative to Basel III. First of all, there are additional qualitative standards, for instance relating to the quality of collateral. The EU has also set a binding LTV limit for the preferential treatment of residential real estate loans in the standardised approach, which is not foreseen in Basel III. Member State authorities are also required to monitor the quality of mortgage loans on an ongoing basis and are required to tighten eligibility standards when necessary.

Other measures

EU authorities believe that remuneration policies can encourage excessive risk-taking behaviour and can therefore undermine sound and effective risk management and the stability of credit institutions at least as much as inadequate levels of capital. EU legislation therefore sets standards for remuneration that EU authorities believe go beyond current international agreements. It contains an express obligation for credit institutions to establish and maintain, for categories of staff whose professional activities have a material impact on the risk profile, remuneration policies and practices that are consistent with effective risk management. In particular, a maximum ratio between the fixed and the variable component of the total remuneration has been established. Under Pillar 2, supervisory authorities are allowed to require institutions to limit variable remuneration as a percentage of net revenues where it is inconsistent with the maintenance of a sound capital base.

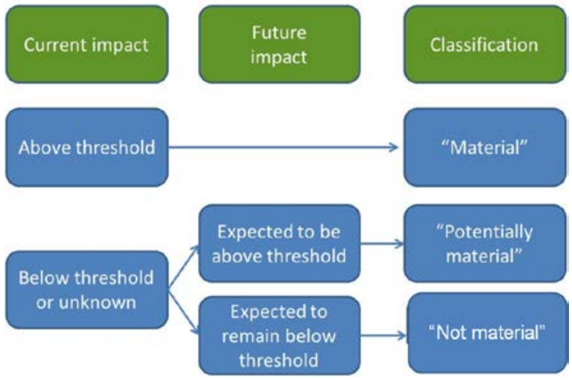
Annex 12: List of banks included in the sample for assessment of materiality of deviations

Name of the jurisdiction	Name of the bank
France (4)	BNP Paribas BPCE Crédit Agricole Société Générale
Germany (2)	Commerzbank Deutsche Bank
Italy (1)	Unicredit
The Netherlands (2)	ING Bank Rabobank
Spain (2)	BBVA Santander
Sweden (1)	Nordea
United Kingdom (5)	Barclays HSBC Lloyds Banking Group Royal Bank of Scotland Standard Chartered
Sub-total (17 banks)	
EU-incorporated foreign bank subsidiaries (3)	Goldman Sachs Credit Suisse Merrill Lynch
Grand total (20 banks)	

Annex 13: Materiality assessment

The assessment of materiality distinguished between quantifiable and non-quantifiable gaps. For the EU RCAP, an attempt was made to quantify the impact of all quantifiable gaps for each bank in the sample affected by the gap. In total, 54 gaps/differences were assessed based on bank data and data available to EU authorities. In those cases where the computation of the impact was not straightforward, the computation erred on the conservative side. Where no data were available to quantify gaps, the review team relied on expert judgment. Following this approach, an attempt was made to determine whether gaps were "not material," "material" or "potentially material".

Classification of quantifiable gaps — Figure A.3



Number of gaps / differences by component — Table A. 7

Component	Non-material	Material	Potentially material
Scope of application	1	0	0
Transitional arrangements	3	0	0
Definition of capital	6	1	0
Capital buffers	0	0	0
Pillar 1			
Minimum capital requirements (general)	1	0	0
CR: Standardised Approach	7	2	0
CR: IRB	14	2	0
CR: Securitisation	2	0	1
Counterparty credit risk	1	1	0
MR: Standardised approach	2	1	0
MR: Internal Models	2	0	0
OR: SA/BIA	1	0	0
OR: AMA	3	0	0
Pillar 2	1	0	0
Pillar 3	2	0	0

Note: Materiality is defined according to quantitative benchmark thresholds (for the quantifiable gaps) and expert judgment (for the non-quantifiable gaps). See Section 2 with the detailed assessment findings for further information.

Annex 14: Areas for further guidance from the Basel Committee

CET1 instruments issued by mutually owned institutions

Under CRR Article 29, exceptions from four of the 14 Basel III criteria are provided for CET1 instruments issued by mutually owned institutions. Specifically, these instruments may be redeemable at the option of a holder where required under national law and may be marketed as such, they may pay distributions based on purchase amount, may include a cap on distributions, and may not represent a residual claim in liquidation. There are some limitations on these exceptions. In particular, institutions must have the right to defer redemption of these instruments indefinitely. The EU authorities' view is that the exceptions to the Basel III CET1 criteria appropriately reflect the legal structure of these institutions. In fact, Basel III and the CRR CET1 requirements have led to some strengthening of the terms of cooperative capital instruments in practice, in particular the right to defer redemption. However, the Assessment Team is concerned that deferral of redemption would most likely be interpreted as an indication of significant stress and could lead to further destabilisation.

Overall, although the Assessment Team recognises that the Basel Committee intended some flexibility toward mutually owned banking organisations, its view is that these concessions taken together do not appear to fully "preserve the quality of capital" as set out in Basel III footnote 12. Mitigating these concerns somewhat is the fact that the entities within the mutual structures in the RCAP sample that are internationally active banks are supported by listed entities issuing ordinary shares to the market. According to the discussions with the most affected Member State authority, the mutually owned structures have proven resilient in times of stress. In addition, the Assessment Team acknowledges that little guidance has been provided by the BCBS on the extent of flexibility considered appropriate for CET1 issued in cooperative structures. The Basel Committee may wish to consider exchanging information on how the criteria for non-joint-stock companies are applied in practice in order to promote more consistent implementation.

Minority interests

In the context of determining the recognition in consolidated capital of minority interests and other capital issued out of consolidated banking subsidiaries held by third parties under Basel III, the amounts of allowable CET1, Additional Tier 1 and Total Capital of the subsidiary are calculated with reference to the minimum CET1 requirement of the subsidiary plus the capital conservation buffer (ie 7.0% of risk-weighted assets), the minimum Tier 1 requirement of the subsidiary plus the capital conservation buffer (ie 8.5% of risk-weighted assets) and the minimum Total Capital requirement of the subsidiary plus the capital conservation buffer (ie 10.5% of risk-weighted assets), respectively. The CRR minority interest calculations also include Pillar 2 capital adjustments and other capital buffers (eg countercyclical buffer) in subsidiary capital calculations. The Assessment Team questioned whether inclusion of the countercyclical buffer is a deviation as it is a component of the capital conservation buffer. Future guidance on this issue from the Basel Committee on its intent could be useful.

Residential mortgage loans

The Basel framework provides that residential mortgage loans are eligible for retail treatment regardless of exposure size, provided that the credit is extended to an individual that is an owner-occupier of the property (with the understanding that supervisors exercise reasonable flexibility regarding buildings containing only a few rental units). Otherwise these exposures are treated as corporate. The CRR does not include a provision requiring that residential mortgage loans be owner-occupied. EU authorities believe this is consistent with the Basel requirements because the third sentence in Paragraph 231 (second bullet) also allows for the inclusion of loans secured by a single or small number of condominium or cooperative residential housing units in a single building or complex. And, the second bullet defers the setting of the maximum number of housing units per exposure to Member State authorities. The Assessment Team notes that there is scope for this Basel provision to be interpreted in different ways and therefore requests further guidance from the Basel Committee on this issue.

Foreign exchange and interest rate commitments

The Basel framework requires that, to the extent that foreign exchange and interest rate commitments exist within a bank's retail portfolio for IRB purposes, banks are not permitted to provide their internal assessments of credit equivalent amounts. Instead, the rules for standardised approach continue to apply. There is no corresponding provision in the CRR. The EU authorities pointed out that it is not clear how the credit equivalents of "foreign exchange and interest rate commitments" should be calculated. The Assessment Team agrees that this provision of the Basel framework is open to different interpretations regarding the approach to be followed to determine the credit equivalent amount in respect of the exposures referred to. The Assessment Team notes that further guidance from the Basel Committee would be useful.

Internal hedges

The Basel framework is silent on the treatment of internal hedges other than those relating to credit risk. The CRR defines and recognises internal hedges in the calculation of capital requirements for position risk provided they are held with trading intent and that the requirements of Articles 102 to 106 of the CRR are met. These EU provisions focus on internal hedges between trading and banking books. They do not refer explicitly to the treatment of internal hedges between trading books in different legal entities. The EU description of internal hedges highlights a significant difference with the market risk practices in place in other jurisdictions, highlighting a need for the Basel Committee to clarify the current Basel framework.

Permission to use internal models for market risk

The Assessment Team observes differences among the EU Member states in term of supervisory expectations concerning the move by banks towards the use of a more comprehensive market risk models (ie ones which capture all market risk categories), and a corresponding large diversity of supervisory practices in relation to the banks' combination of different capital measurement methods for market risk. In this context, the Basel framework provides that the Basel Committee will in future review the flexibility provided to the supervisory authorities in the matter. Given the differences in the ways in which this Basel provision is implemented in the Member States, the Assessment Team recommends that the Basel Committee should review the flexibility as envisaged under the framework.

Annex 15: EU's Pillar 2 Supervisory Review Process

The EBA has recently issued draft guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP), developed pursuant to Article 107(3) of the CRD, which will provide the basis for a common SREP process in the EU and which is expected to be applied in supervisory processes and procedures by 1 January 2016. The draft guidelines have been developed reflecting latest supervisory best practices from national authorities. It should be noted that since the guidelines are only under consultation and not finalised, the guidelines may be further amended after the consultation with the public.

The common SREP framework introduced in these guidelines is built around:

(a) Business model analysis;

(b) Assessment of internal governance and institution-wide control arrangements;

(c) Assessment of risks to capital, and adequacy of capital to cover these risks;

(d) Assessment of risks to liquidity and funding, and adequacy of liquidity resources to cover these risks.

The focus of the business model analysis is on the assessment of the viability of the institution's current business model and sustainability of its strategic plans. This can reveal key vulnerabilities facing the institution that may not be revealed by other elements of the SREP. Competent authorities should score the risk to the viability of an institution stemming from its business model and strategy.

The focus of the assessment of internal governance and institution-wide controls is on (i) ensuring that these are adequate to its risk profile, business model, size and complexity of the institution, and (ii) assessing the degree to which the institution adheres to the requirements and standards of good internal governance and risk control arrangements. Competent authorities should score the risk to the viability of an institution stemming from deficiencies identified in governance and control arrangements.

Through the assessment of risks to capital and risks to liquidity and funding, using a consistent set of criteria introduced in the draft guidelines, competent authorities should assess material risk to which the institution is or might be exposed focusing on the assessment of both risk and quality of risk management and controls. Competent authorities should score the scale of the potential prudential impact on the institution posed by the risk.

Through the assessment of the adequacy of the institution's own funds, competent authorities should determine the quantity and composition of additional own funds required to cover risks the institution is or might be exposed to in addition to those covered by the minimum own funds requirements, and whether own funds requirements can be met over the economic cycle. In addition to the determination of such additional own funds requirements, competent authorities should score the risk to the viability of the institution given the quantity and composition of own funds held.

Similarly, through the assessment of the adequacy of the institution's liquidity resources competent authorities should determine whether the liquidity held by the institution ensures an appropriate coverage of risks to liquidity and funding. Competent authorities should determine whether the imposition of specific liquidity requirements is necessary to capture risks to liquidity and funding to which an institution is or may be exposed. Competent authorities should score the risk to viability of the institution stemming from its liquidity position and funding profile.

All of the above elements are assessed and scored on scale of one to four. The outcome of the assessments, both individually and considered in a holistic manner, form the basis for the overall SREP assessment, which represents the up-to-date supervisory view of the institution's risks and viability. The summary of the overall SREP assessment should capture this view, and should also reflect any supervisory findings made over the course of the previous 12 months and any other developments that have led the competent authority to change its view of the institution's risks and viability. It should form the basis for supervisory measures and communication with the institution. The summary should also include the overall SREP score and scores for SREP elements.

The SREP framework is also supported by the regular (quarterly) monitoring of financial and non-financial indicators aimed at capturing changes in the financial conditions and risk profiles of institutions and prompting updates of the SREP assessments based on the new material information.

Annex 16: List of issues for follow–up RCAP Assessments

The RCAP has identified the issues enumerated below for follow-up RCAP assessments that the EU should consider to evaluate progress in aligning the EU capital regulations with the Basel Framework.

1. Treatment of investments in the capital instruments of insurance subsidiaries in the application of the Basel capital framework on a consolidated basis.
2. Constraining the flexibility inherent in applying the capital regime to banks orgainsed as mutuals so as to align it with the spirit of the Basel Framework.
3. Review of the EU practice in relation to the new supervisory approval and publication requirements for CET1 instruments in the EU to see if any instruments that are not classified as "common shares" are included in CET1.
4. Phasing out of the prudential filter applied to gains and losses in respect of sovereign exposures classified as available for sale.
5. Phasing out of the scaling factor of 0.7619 applied to SME exposures.
6. Adressing the splitting of mortgage loans between the secured portion attracting a 35% risk weight and an unsecured portion risk-weighted at 100%.
7. Phasing out of the permanent partial use of credit exposures under the IRB approach.
8. Aligning the treatment of unrated securitisation exposures with that provided under the Basel framework.
9. Phasing out of the exemptions of certain exposures from the CVA-risk capital charge.
10. Aligning the treatment of closely correlated currencies with that provided under the Basel framework.
11. In the context of the institutions' activities in options, evaluating the BTS defining a range of methods to reflect in the own funds requirements other risks, apart from delta risk, in a manner proportionate to the scale and complexity of such activities (CRR Article 358(4))