Pills

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TOPICS:
MARKET AND COUNTERPARTY RISK, CREDIT RISK, OPERATIONAL AND IT RISK, CAPITAL AND LEVERAGE RATIO, LARGE EXPOSURE, LIQUIDITY RISK, OTHER RISKS

SOURCE:
European Banking Authority

The EBA Publishes its Regular Monitoring Report on Basel III Full Implementation in the EU

Overall Methodology Approach

- This latest Basel III monitoring exercise report is based on December 2020 data and it provides an **assessment of the impact of the full implementation of final Basel III reforms on EU banks**. The methodology applied in this report is consistent with that used in the BCBS in its parallel report that tracks the implementation of the Basel reforms globally.
- Following the BCBS methodology, the reforms mostly affect the **frameworks for credit risk, operational risk (OpRisk) and the leverage ratio (LR)**. Importantly, they also introduce the aggregate **output floor**. In the report, the credit risk impact is separately attributed to the standardised approach and the internal ratings-based approach. The report also quantifies the impact of the new version of the standards for **market risk** (the fundamental review of the trading book, FRTB), as set out in January 2019 . The changes on credit valuation adjustment (CVA) are also assessed. In conjunction with the BCBS Basel III regular monitoring exercise, the report also provides an update on the progress of the European banks in converging towards the new **capital requirements**. The present report also shows the **evolution of the CET1, Tier 1 and additional Tier 1 minimum required capital impact, and the associated capital shortfalls**.

Overview of the Results

- Overall, **the results of the Basel III capital monitoring exercise show that European banks' minimum Tier 1 capital requirement would increase by 13.7% at the full implementation date in 2028**, without taking into account EU-specific adjustments. Excluding the leverage ratio contribution, the impact of the reforms is 18%, of which the leading factors are the output floor (7.1%) and credit risk (5.1%). The minimum Tier 1 capital requirement for large and internationally active banks (Group 1) would increase by 14.4%. The respective requirement for the global systemically important institutions (subset of Group 1) and that of Group 2 banks would raise by 22.7% and 8.1%, respectively.
- In addition to the estimation of the impact of the implementation of the Basel III reforms, as finalised in December 2017, **the current monitoring exercise report also assesses the impact of implementing the net stable funding ratio (NSFR) framework**. The results show that in December 2020 EU banks required additional stable funding of EUR 8.1 billion to fulfil the minimum NSFR requirement of 100%

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