DISCUSSION BY

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Prepared for the session

Disclosure of Stress Tests, Key Prudential Ratio's and TLAC/MREL amounts: MARKET CONFIDENCE AND EXPECTATIONS

EBI/Global Annual Conference on Banking Regulation

20 February 2020

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EU stress tests: possible improvements…

1. Use top-down approach for the supervisory leg…
   … to avoid gaming/beauty contest…
   … include contagion/2nd rounds/interactions with non-banking sector

2. Use unrestricted baselines (FCPs) as the basis for the bank leg…
   … to address structural issues (profitability, Basel III, climate change, low-for long)…
   … to challenge business models…

3. Use stress tests fully owned by the banks and/or sensitivity analysis (will it work?)
   … promote consistency with ICAAP… (will it work?)

4. The Stress Test as a component of a **Comprehensive Assessment**…
   … where the starting point, the baseline and the stress test play specific roles…

5. Use **holistic approach to capital measurement**…
   … leveraged ratios, risk based solvency measures, loss-absorbing measures…

6. Use a 5-years time horizon for the FCPs to fully **anticipate Basel III compliance**…

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P2G disclosure

CONS

- P2G is not a binding requirement in the recently agreed CRD5/CRR2 package;
- P2G does not determine automatic restrictions in the distribution of dividends;
- P2G has been introduced exactly to ensure that capital add-ons stemming from the stress tests are not included in the P2R as binding;
- There is the risk that the market perceives the P2G as binding, turning the P2G to a requirement;
- No disclosure of P2G retains some flexibility in times of crisis;
- P2G does not depend only on ST outcomes.

PROS

- Current disclosure practices (SW) have not had negative consequences;
- Differences approaches in different jurisdictions and/or different disclosure practices by different institutions at national level may occur;
- Increased transparency to market participants.

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MREL disclosure

PROS

- Constitutes material market information;
- Promotes market transparency and certainty;
- Provides flexibility in the transition period, as disclosure takes place only after complying with MREL requirements (2024).

BUT

- MREL calibration rules are very complex and resolution strategy specific;
- Ignores bail-inable liabilities not eligible for MREL, but that are eligible for loss absorption in resolution.

OTHER CONSIDERATIONS:

- TLAC vs MREL; Restoy’s “middle class”; capacity of the market to absorb large values of debt issuance; holders of MREL instruments.

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PILAR 1

- Reduction in the variability of risk-weighted measures of capital;
- Holistic approach to solvency measures (risk-weighted capital ratios and leverage ratio);
- Multi metrics approach.

PILAR 3

- BCBS guiding principles: clarity, comprehensiveness, usefulness/meaningfulness, consistency over time, comparability;
- Recognize the merit of the EBA transparency exercise;
- Concern 1: LCR disclosure could imply confidential information;
- Concern 2: Possible risk of disclosing strategic information on the institution.

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