

# 1 CRD V: State of play

## Beginning of the negotiations on the Commission's risk reduction package

In 2015, the Commission issued a communication including several steps towards the completion of the Banking Union. Among the steps mentioned, the Commission committed to work on further reducing risk in the Banking Union. The Commission's recent proposal (risk reduction package) can be framed within these actions aimed at reducing risk in the European Banking sector.

## Towards the completion of the Banking Union

The risk reduction package presented by the Commission can be framed within the measures proposed by the Commission to further reduce risk in the Banking Union and with a view to its final completion. In a Communication of the Commission in 2015, the following measures were proposed:

- Reduction of national options and discretions
- Review of the Macro-prudential policy framework
- Harmonisation of national deposit guarantee schemes
- Final design of MREL and implementation of TLAC
- Operationalising the Single Resolution Fund
- Consistent application of Bail-In rules
- Insolvency Law
- Non-Performing Loans
- **Additional prudential measures: Leverage, stable funding, comparability of risk-weighted assets**
- Treatment of sovereign risk

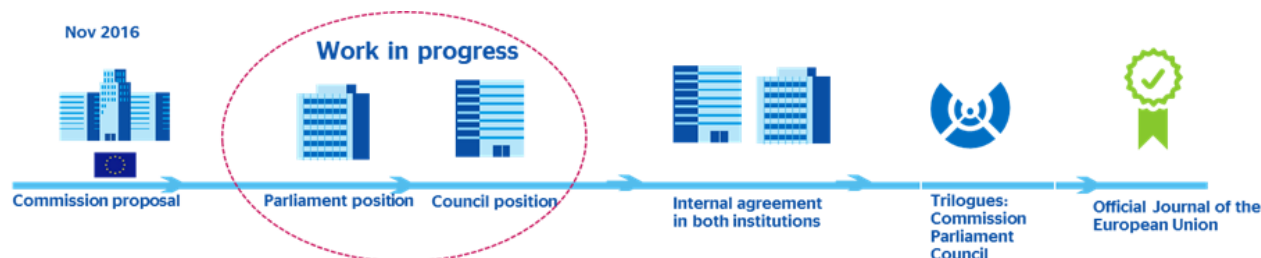
The Commission's proposal is a step in the right direction. It includes the implementation of several international standards into EU law (some regulatory pieces adopted by the Basel Committee after 2010 and the TLAC standard) and the introduction of a package of technical improvements (mainly identified as unintended consequences of the regulation in the Call for Evidence launched by the Commission).

## State of play of the negotiations in the Council and Parliament

The presentation of the Commission's proposal last November was only the first step in the legislative process of the European Union. Now, work is being developed in the Council and the Parliament, both of which need to reach an internal agreement before a final text can be agreed. Even though there seems to be widespread support for the proposal, further technical details are still being discussed. It is not clear how long this process will take, although we can expect at least one year of negotiations.

Figure 1

## The legislative process in the European Union



Source: BBVA Research

## Negotiations in the Council

Negotiations in the Council of the European Union started last December, although technical discussions began with the new year. The approach taken in the discussion has been to divide the proposal into: i) prudential and ii) resolution issues, with both sides being dealt with separately. For the resolution discussion please see next article. Regarding the prudential side, the main issues being discussed include:

- **IFRS 9:** The industry is asking for a freezing of the impact of the new accounting standards until a global solution is reached or at least until the accounting provisions come into force in the US, in order to avoid an unlevel playing field between both jurisdictions. Instead, the Commission proposes to phase-in the impact on capital of the new international accounting standards. A fast-track is being considered for this issue in order to ensure that any provision will be in force in time for the application of IFRS 9 (Jan 2018).
- **Deviations from Basel:** The Commission's proposal included targeted deviations from the Basel agreed standards in order to recognise specificities of the European Union (mainly regarding NSFR and FRTB). Not all Member States seem to agree with these deviations and it is being discussed whether they should be kept in the European prudential framework.
- **Technical improvements:** alongside the transposition of international standards, the proposal also included technical adjustments to the prudential framework. The extension of the SME supporting factor is being discussed with divergent views over the scope that this extension should have.
- **Remunerations:** the discussion has centred around the divergent interpretation of proportionality among Member States and if it applies to small subsidiaries of large institutions or groups. The proposal wishes to harmonise the use of proportionality by establishing common thresholds.
- **Intermediate Holding Company:** almost all Member States consider that the current drafting is not clear enough and require further clarifications regarding the operational aspects of the measure.

## Negotiations in the Parliament

Negotiations in the European Parliament have just begun and only a preliminary hearing has been held. Hokmark, Simon and Karas have been appointed as rapporteurs for this proposal. The intention is to have the report ready for June with rapporteurs voting by end-2017. Nevertheless there is a preference for quality over haste in the process. The Parliament prefers to keep a holistic view of the project and both sides (prudential and resolution) will be dealt with simultaneously. At this time in the negotiation MEPs have not gone deeply into the technical details of the proposal which is expected for coming sessions.

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