Regulation Flash

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Economic Analysis

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Basel III monitoring exercise: EBA report

In March the 6th 2014, the European Banking Authority (EBA) published its fifth report of the Basel III monitoring exercise and summarizes the aggregate results using data as of 30 June 2013. In general terms, the report shows a remarkable progress in the implementation of the prudential toolkit (e.g.: capital, liquidity and leverage) defined by BIS III.

Methodology

The monitoring exercise takes a sample of 174 banks divided in two groups, Group 1 covering banks with a Tier 1 capital in excess of €3bn and internationally active (e.g.: 43 banks). All other banks are categorized as Group 2 banks (e.g.: 131 banks).

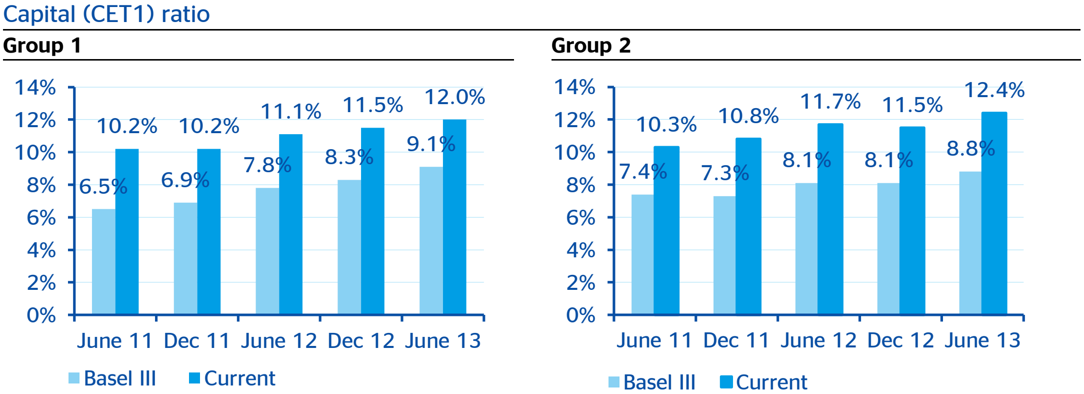
The monitoring exercise is carried out assuming full implementation of the Basel III framework (i.e.: transitional arrangements such as the phase in of deductions and grandfathering arrangements were not taken into account).

Finally, the monitoring exercise is based on a static balance sheet assumption (e.g.: capital elements were only included in the report if the eligibility criteria were fulfilled at the reporting date). As such, the report did not take into account any planned management actions to increase capital or decrease risk weighted assets

Main results

- **Capital:** i) For Group 1 banks the average CET1 ratio declines from 12.0% under current rules to 9.1% under Basel III. This reduction is driven by CET1 capital declining by 16.4% and RWA increasing by 9.9%. Using a consistent sample of banks over time, especially Group 1 banks have steadily increased their capital ratios since June 2011. Compared to the previous reporting period, the CET1 shortfall of Group 1 banks to meet the 7% CET1 target level (incl. G-SIB surcharges) decreased from €70.4 bn to €36.3 bn. Ii) For Group 2 banks the average CET1 ratio declines from 12.4% under current rules to 8.8% under Basel III[1]. This reduction is driven by CET1 capital declining by 21.8% and RWA increasing by 10.4%. The convergence of Group 2 banks is not as evident as Group 1 banks. For Group 2 banks, the CET1 capital shortfall slightly increased from €22.3 bn to €29.1 bn at the target ratio of 7.0%.

Chart 1
Capital (CET1) ratio

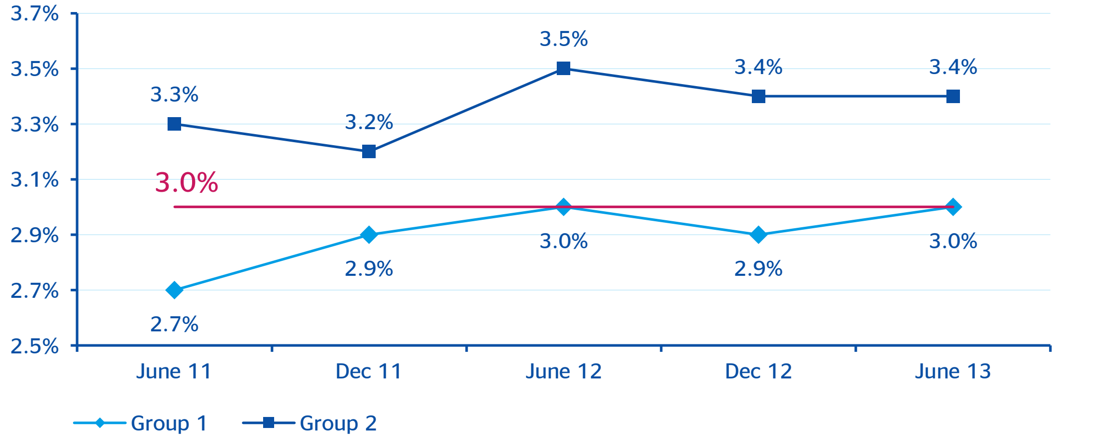


Source: BBVA Research based on EBA report

1: Chart 1 shows a consistent simple of banks to the previous exercises. This explains the difference in the ratios as of June 2013 between the chart and the note.

- **Leverage:** Based on the old definition LR, Group 1 banks need to raise Tier 1 capital of €100.5 bn (Group 2 banks: €27.3 bn) to fulfil the 3% calibration target. The new definition of LR, just released by the BCBS would reduce the shortfall and increase the LR. Assuming that banks already raised enough capital to meet the Tier 1 target ratio of 8.5%, the additional Tier 1 shortfall to fulfil a 3.0% leverage ratio would amount to €50.3 bn for Group 1 banks (Group 2 banks: €13.9 bn).

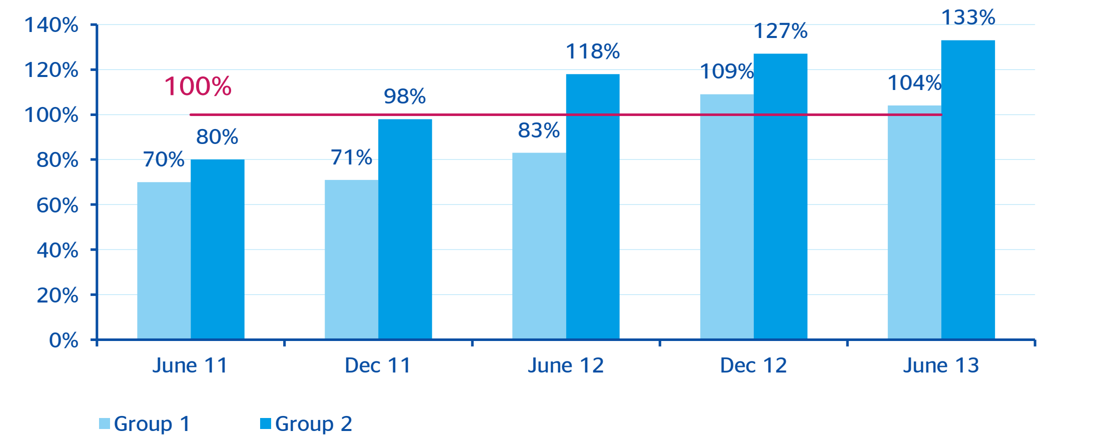
Chart 2
Leverage ratio[2]



Source: BBVA Research based on EBA report

- **Liquidity:** 58.5% of Group 1 banks (Group 2 banks: 69.3%) are at or above the 100% LCR minimum requirement. The aggregate LCR shortfall amounts to €217 bn for Group 1 banks (Group 2 banks: €45 bn). In January 2014, the Basel Committee on Banking Supervision (BCBS) published a new consultative paper proposing revisions to the definition of the NSFR. The NSFR calculation based on the old definition would deviate from the new NSFR definition. However, since the new NSFR framework has not been finalized, the EBA decided not to present any results on NSFR in the June 2013 monitoring exercise.

Chart 3
Leverage ratio



Source: BBVA Research based on EBA report

2: Leverage ratio for Group 2 banks as of June 2013 stands at 3.6%. Chart 2 shows a consistent simple of banks to the previous exercises that explains the divergences.

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