

Post-crisis. Financial reforms and impact on bank business' models in Americas

ASBA – BCBS – FSI High - level Meeting
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The new regulatory and supervisory global framework

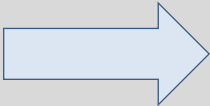
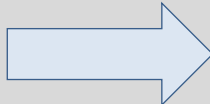
- New rules
- Institutional diversification; new supervisor; new powers
- Higher complexity
- Entities' soundness and stability of the system improved
- But, ... what about the Return of Equity?

New Rules

- New global standards:
 - Basel III (2011)
 - BCBS: Core Principles for Effective Banking Supervision (rev. 2012)
 - FSB: Key Attributes of Effective Resolution Regimes for Financial Institutions (2011)

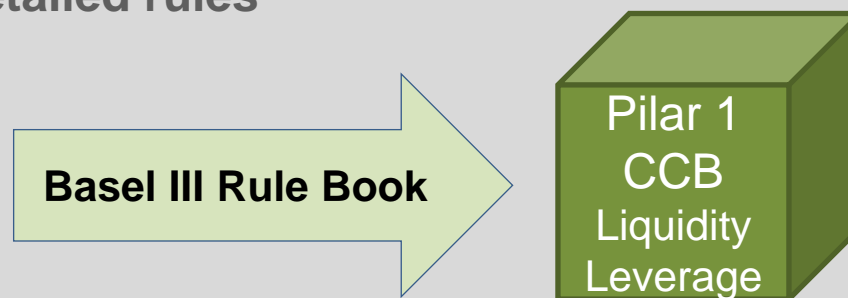
- New local rules:
 - USA. Dodd-Frank Wall Street Reform Act (2010)
 - EU. Capital Requirements Regulation/Directive (CRR-CRDIV, 2013)
Banking Recovery and Resolution Directive (BRRD, 2014)
Single Supervisory Mechanism (SSM) Regulation (2013)

Rules vs. Discretion

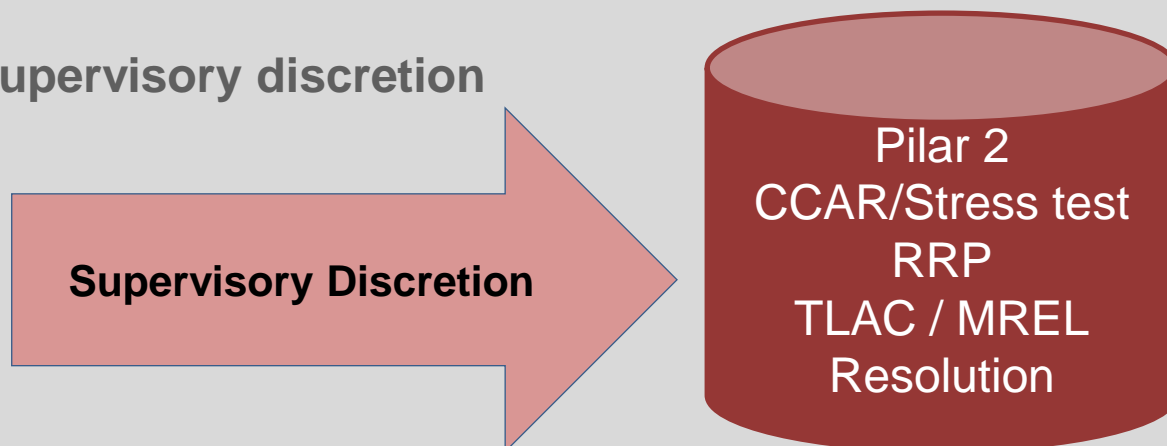
- Kydland, F.E. y Prescott, E.C. : «*Rules Rather than Discretion: The inconsistency of Optimal Plans*»
- Architecture:
 - Very detailed rules  supervisor: compliance check
 - Very simple rules  a lot of supervisory discretion

Rules and Discretion

- After the crisis:
 - Very detailed rules



- But, a lot of supervisory discretion



Institutional diversification

PRUDENTIAL – STOCK MARKET – RESOLUTION – MACROPRUDENTIAL

- **Hydra-headed Global Rule-makers**
 - G-20 / FSB
 - BCBS – IOSCO – IAIS – IASB
- **EU. Legislative bodies**
 - Parliament
 - Council
 - Commission
- **European System of Financial Supervision (ESFS) and Resolution**
 - European Supervisory Authorities
 - European Systemic Risk Board
 - European Central Bank
 - Single Resolution Board
 - Supervisory and Resolution National Authorities

The structure of banking regulation

EU

Eurozone - Banking Union

International rule makers

G20

Financial Stability Board (FSB)

Collaboration with IMF and OECD

International standard bodies and regulatory forums:

- IAIS
- IASB
- BCBS
- IOSCO

EU legislators:

- Council of the EU
- European Parliament
- European Commission

European Systemic Risk Board (ESRB)

European System of Financial Supervision (ESFS)

- European Supervisory Authorities (ESA):
 - European Banking Authority (EBA)
 - European Insurance and Occupational Pensions Authority (EIOPA)
 - European Securities and Markets Authority (ESMA)

Single Supervisory Mechanism (SSM)

- European Central Bank (ECB)
- National Competent Authorities

Single Resolution Mechanism (SRM)

- Single Resolution Board
- National Resolution Authorities

National Governments; supervision and resolution authorities

Higher Complexity

- Multiple Regulatory Requirements for Capital:
 - Basel III
 - Pilar I + Pilar II
 - Leverage
 - TLAC
 - Stress Test

- Banking Structural Reforms:
 - Volcker Rule
 - Vickers Report
 - Liikannen Proposal → EU Banking Structural Reform

Digital Revolution

➤ Pros:

- Easier, faster and more cost efficient
- Multiple channel relationship banks/customers
- Simplicity, quickness, immediacy, ...
- Supply increase of banking products and services

➤ Cons:

- Disrupters vs. incumbents: the advantage of newcomers
- Timing of transition to digital: if too early, you are out
(if you are late, of course!)

The unfinished tale (Part I)

- Interest Rate Risk in the Banking Book (IRRBB)
- Fundamental Review of the Trading Book (FRTB)
- Standardised Approach
- Floors for IRB (based on new Standardised Approach)
- LGD, EAD fixed by supervisors?

The unfinished tale (Part II)

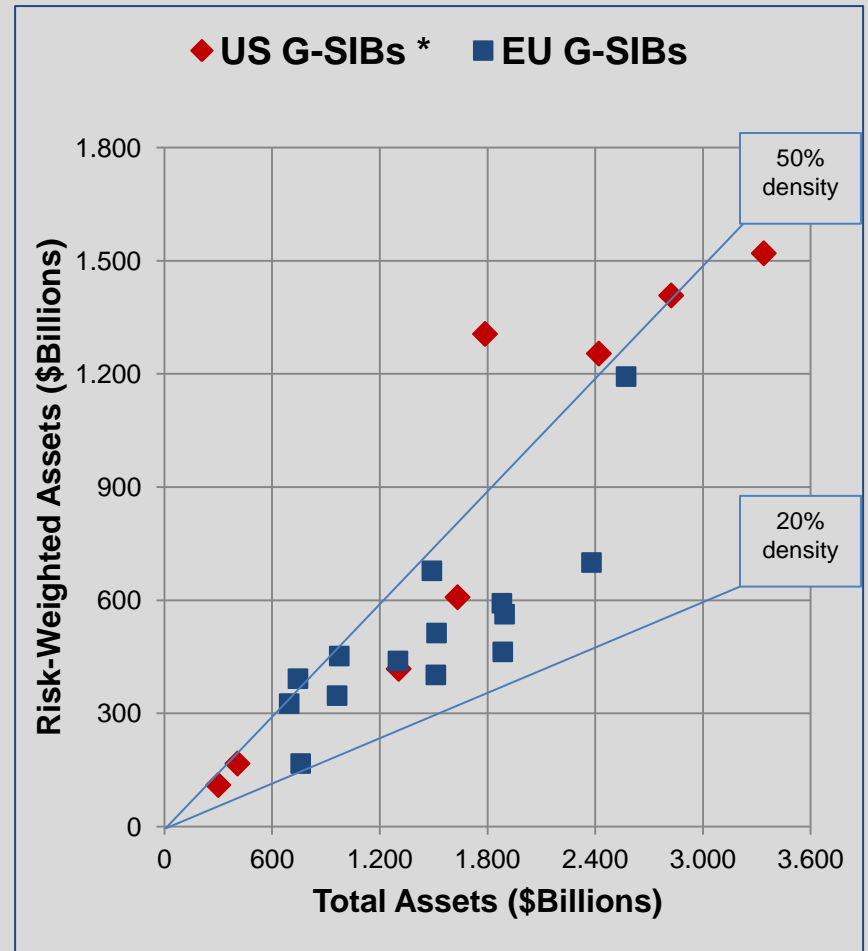
- Leverage ratio
- Expected Loss (EL) provisioning (models?)

Conclusion:

Given the current uncertainty, capital planning beyond one year is mission impossible!

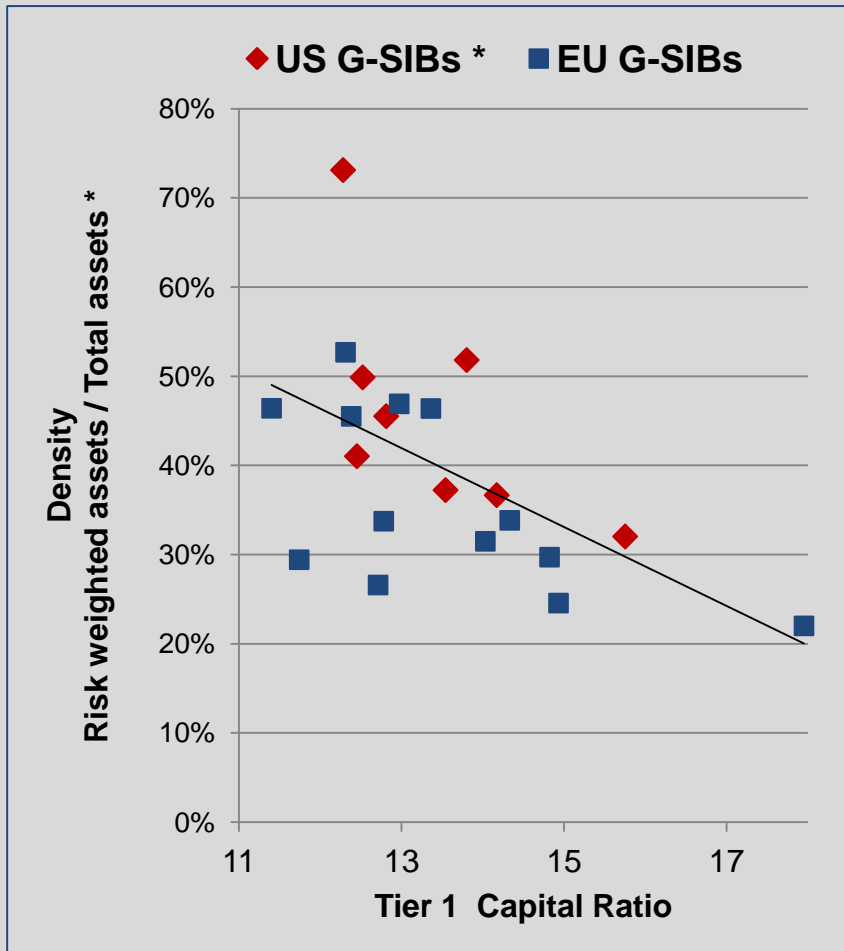
The internal model conundrum (I)

- Internal models are not only less RWA and too much variability
- Internal models are = risk assesment, risk management, risk mitigation, ...



* US G-SIBs: Total Assets IFRS estimate. Source: FDIC

The internal model conundrum (II)

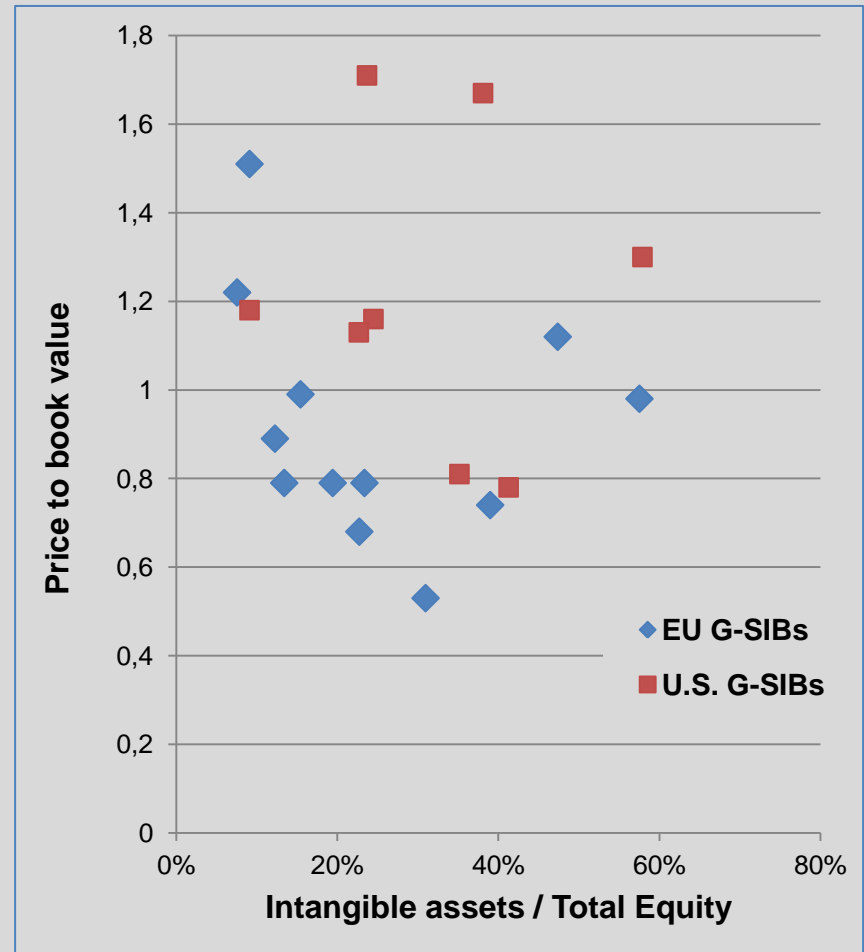


- ... and capital optimization
- One size fits all \neq business model diversification
- OK leverage ... but TLAC based in RWA !!

* US G-SIBs: Total Assets IFRS estimate. Source: FDIC

The intangible assets conundrum

- Deduction for regulatory capital does not mean the intangible assets are worthless assets
- Intangible assets contribute also to income generation (software, royalties, ...)
- The market already discriminates between entities considering its total assets (tangibles and intangibles)



* US G-SIBs: Total Assets IFRS estimate. Source: FDIC

THANK YOU