
EU Regulatory Capital Wall Chart

Essential features of bank capital regulation across Europe in one handy wall chart.

Regulatory capital requirements for prudentially supervised financial services companies across Europe are complex and changing rapidly. To keep track of the regulatory framework in the region, we have brought together the essential features of bank regulation in our EU Regulatory Capital Wall Chart.

The Wall Chart provides a list of regulatory capital acronyms, the most important definitions and key ratios of the current regulatory framework, as well as an overview of the loss absorption waterfall deriving from rules on the hierarchies of creditors' entitlements in bank insolvency and resolution scenarios.

The Wall Chart also highlights the interplay between regulations on total loss-absorbing capacity (TLAC) and the Minimum Requirement for own funds and Eligible Liabilities (MREL), which is a requirement under the EU Bank Recovery and Resolution Directive.

On the Wall Chart there are columns setting out the basics of Bank Regulatory Capital in the European Economic Area (EEA). The key features are:

- The "Paradigm Business Model" contains the European Banking Authority (EBA)'s standardized description of bank business models, showing where exposures and liabilities can arise
- The "Asset Stack," which refers to the basic capital requirements of the Capital Requirements Regulation (CRR) which defines, within the framework created by the Capital Requirements Directive (CRD IV), the requirements imposed on

banks and certain investment firms to hold specific levels of regulatory capital, dependent on the institutions' specific exposures and liabilities. The CRR requires regulated institutions to issue identified categories of equity and debt instruments to build a regulatory capital base (referred to as "Own Funds") to a prescribed amount, such that when a bank looks at the ratio of its exposures to its liabilities, (with assets being determined on a risk-weighted basis), the ratio will not fall below certain specified percentages for the different categories of regulatory capital being issued. Broadly speaking, the risk-weighted asset total is calculated by adding together all of the institution's assets and some off-balance sheet items. Both assets and off-balance sheet items are determined in accordance with the specific valuation and risk-weighting multipliers set out in CRR

- The "Creditor Hierarchies," which indicate the current creditor hierarchies at the EU level and UK level. As the national insolvency regimes are not fully harmonized, creditor hierarchies differ from country to country, although, the recently implemented Directive 2017/2399 on the ranking of unsecured debt instruments in insolvency hierarchy aims to achieve a consistent approach across the EU, thereby leveling the playing field

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