EMEA Bank Regulatory Capital

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 EMEA Regulatory Capital wall chart.

The 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 chart is being maintained online and will be the keystone feature of our Financial Regulatory Observer.

The wall chart 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.

Certain key issues, such as creditor hierarchy, some conditions around bank bail-in and detailed provisions around MREL eligibility and the interrelationship between buffers, as well as maximum distributable amount (MDA) triggers within MREL, are yet to be clarified by the regulators, so we will be updating the wall chart as material changes occur

On the chart there are five columns, which set 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 standardised 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 an amount, that when a bank looks at the ratio of its exposures to its liabilities, (with assets being determined on a risk-weighted basis) risk-weighted figure for assets (referred to as Total Risk Exposure Amount), 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. Figure 2 indicates the provisions setting out the relevant risk-weight figure for each CRR-identified category of exposure.
- The "EU Stack" sketches out the hierarchy of bank capital, showing which categories of bank capital will be available to meet creditor claims and the sequence in which losses incurred by the regulated institution will be allocated among the bank creditors. The investors in the financial instruments indicated at the very bottom will be the first among the creditors to bear losses.
- The "Creditor Hierarchy" and various national stacks, which indicate the current national creditor hierarchies of some of the member states of the European Union, derived from their jurisdictions' specific insolvency regimes. As the national insolvency regimes are not fully harmonised, creditor hierarchies differ from country to country, although, for the purposes of BRRD, there are proposals that hierarchies be harmonised in order that banks may structure their capital on a level playing field.

The wall chart will be updated as material changes are announced and as proposals are finalised.

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James Greig
Partner, London

T +44 20 7532 1759
E james.greig@whitecase.com

Stuart Willey
Partner, Frankfurt

T +44 20 7532 1508
E stuart.willey@whitecase.com

Dr. Andreas Wieland
Partner, Frankfurt

T +49 69 29994 1337
E andreas.wieland@whitecase.com

Richard Pogrel
Partner, London

T +44 20 7532 1455
E richard.pogrel@whitecase.com

Dr. Dennis Heuer
Partner, Frankfurt

T +49 69 29994 0
E dennis.heuer@whitecase.com

Cenzi Gargaro
Partner, Paris

T +33 1 55 04 15 90
E cenzi.gargaro@whitecase.com

whitecase.com

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