



European Bank
for Reconstruction and Development

Working Group on Basel III Implementation in Emerging Europe

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- Emerging market context not central to design of Basel III requirements.
- CEE context sheds different light on Basel III implementation:
 - Prevalence of cross-border financial linkages (cross-border lending, parent-subsidiary relationships) and resulting problems of home-host coordination.
 - Short maturity of financial liabilities
 - Local capital markets underdeveloped, strong reliance on bank funding.
- Limited input from NMS during CRD-4 consultation process, and obviously none from non-member states
- Observation periods and calibration of liquidity measures, in particular NFSR
- Future regulatory agenda more sensitive to 'unintended consequences' in emerging markets, e.g. in G-20 communique.



- Three meetings in May, Sept., December, 2011,
- Between 25 and 40 participants
- Wide participation by the official sector (3 home, 5 host central banks)
- by up to 11 commercial banks (though work independent from February letter to EC/EP by 4 bank groups and 7 banking associations).
- by ‘observers’ (e.g. EBA/ESRB, AFME, EBF).
- Wide range of drafting inputs from participants (about 50 pages, and 40 recommendations).
- Slimmed down to 10 page summary with 13 key recommendations proposed for publication.

Key issues and recommendations

Capital requirements



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- New requirements on capital ratios and capital quality generally not a concern.
- EBA capital requirements temporary, though risk of asset disposals calls for effective coordination between home and host country supervisors.

Key recommendations:

- Recognition of minority interests in consolidated group capital to include all local requirements (e.g. from pillar 2).
- Foreign currency risk to be recognised explicitly, primarily under pillar 2 approach.
- Risks of all asset classes should be reflected appropriately under standardized and IRB approaches. Yet, risk of disrupting credit to SME sector very real. Study should be done as early as possible.

Key issues and recommendations

Liquidity requirements



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- Again broad support for the concept, though quibbles with definitional issues in the LCR, and concerns over NSFR given the general absence of long dated assets.
- Concerns that failure to agree on common arrangement for ELA and consolidated supervision creates 'idle liquidity pools'

Key recommendations:

- Definition of liquid assets should be consistent with national/ECB refinancing definitions.
- Corporate accounts ostensibly meet concept of 'stable operational relationship'. Home and host authorities should judge stability of parent funding
- LCR should also be monitored by currency, based on discretion of host.
- Consolidated liquidity supervision should remain the long-term objective. In the interim, requirements for a waiver of entity level requirements could be defined by EBA.

Key issues and recommendations

Macro-prudential instruments



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- Some tensions in the group between advocates of minimum harmonisation (Basel III) and maximum harmonisation (CRD-4).
- Recognition that generally more volatile credit cycles call for active use of macroprudential tools within CEE.
- Risks of regulatory arbitrage (branching/cross-border banking) where host measures are not fully recognised by home authority.

Three recommendations, though also some divisions:

- ESRB should be standard setter and arbiter on macroprudential tools, in particular the counter-cyclical capital buffer (CCB).
- Regime of 'constrained discretion'. Host country can take initiative and discretion, though needs to inform other institution, and justify reasoning ex ante.
- Once this regime of coordination is in place adopt 'positive comity' (friendly recognition) of host country measures.

Key issues and recommendations

Home-host and other issues



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- Recognition that many issues discussed during the work of the group stem from the fact that regulatory coordination is shallower than financial integration already achieved, and falls well short outside the EU.
- Completion of EU's financial regulation agenda hence critical, even for core part of present Basel III/CRD-4 implementation, specifically: SIFIs, resolution and recovery regimes.
- Strengthening colleges of supervisors, supported by an effective EBA involvement.
- Vienna Initiative, with its private sector participation, and pan-European coverage, could provide credible and impartial input to further technical work by EBA and ESRB.

- Publication on web of ‘Executive Summary and Recommendations’ following adoption of the report.
- Selective submission of full report to key agencies beyond EBCI forum, e.g. EP
- Presentation of results to BIS/FSB, in particular given recent G-20 mandate to FSB.
- EBRD/RBWC/G-20 conference on 17 May

‘The end of cross-border banking? Adapting business models in the era of regulatory reform’