



# The EU Banking package (CRR III & CRD VI)

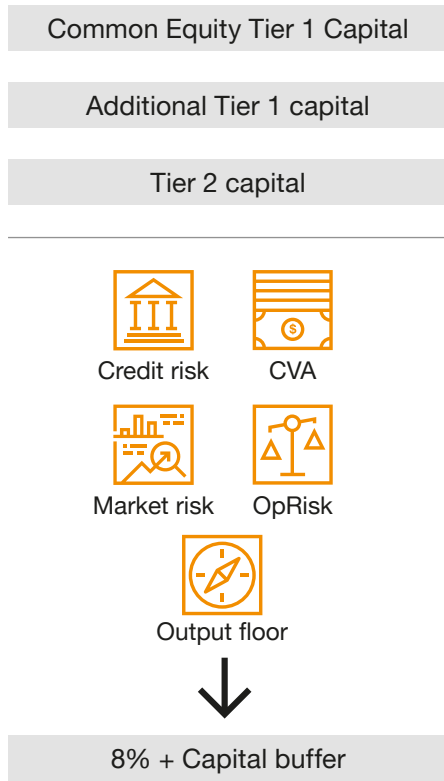
## What is CRR III?

The Capital Requirement Regulation (CRR III) and the Capital Requirements Directive (CRD VI) are a blueprint to the evolving landscape of banking regulations in the European Union (EU). CRR III, is not just another regulatory document; it is a **strategic roadmap** for the **future of banking** in the EU and marks the **finalization of the Basel III reforms**, which have been a direct reaction to the financial crisis in 2007-2008. With the majority of the CRR III provisions set to be **effective from January 1, 2025**, it provides a clear timeline for banks to align their operations with the new standards.

# A more capital sensitive capital framework in CRR III

## CRR III focal changes

Calculation of capital ratios according to CRR...



**OpRisk**    Capital

Effort    € € € € €

- Introduction of a new standardised approach for measuring the minimum capital requirements for operational risk which replaces the existing approaches
- Introduction of annual operational risk loss calculation

...and the areas affected by CRR III

**Credit Risk CR SA**    Capital

Effort    € € € € €

- End-to-end implementation of the CR SA for IRB banks
- Complete overhaul of real estate collateralised exposures with three subclasses (IPRE, ADC, other)
- Risk weighting of banks no longer based on country of residence
- Due diligence requirements for external ratings
- Significant increase in risk weights for equity and subordinated debt exposures

**CVA**    Capital

Effort    € € € € €

- Introduction of revised CVA approaches:
- Standardised approach based on FRTB sensitivities-based method
  - Basic approach with hedged and unhedged components
  - Simplified approach for small derivatives portfolios (< €100 m, similar to OEM approach for CCR)

**Output floor**    Capital

Effort    € € € € €

- Introduced on 1 January 2025 at 50%; reaching 72.5% on 1 January 2030
- Calculated at consolidation and solo level
- Acknowledgment of possible double-counting of risks (e.g. model risk) via P2R and SyRB

**IRB approach**    Capital

Effort    € € € € €

- Changes to the scope of application:
  - Relaxed partial-use as incentive to move to less sophisticated approaches and vice versa
  - Limitations to use A-IRB for institutions and large corporates
  - No IRB approach for equities
- Introduction of new PD, LGD and CCF input-floors
- Updated risk parameters for F-IRB

**Disclosure**    Capital

Effort    € € € € €

- Revised disclosure requirements, covering the changes to the pillar I approaches for credit, market, CVA and operational risk as well as the output floor
- EBA pillar 3 data hub (P3DH) will serve as single point of access to all banks' disclosure reports
- Roll-out of ESG disclosures to all banks

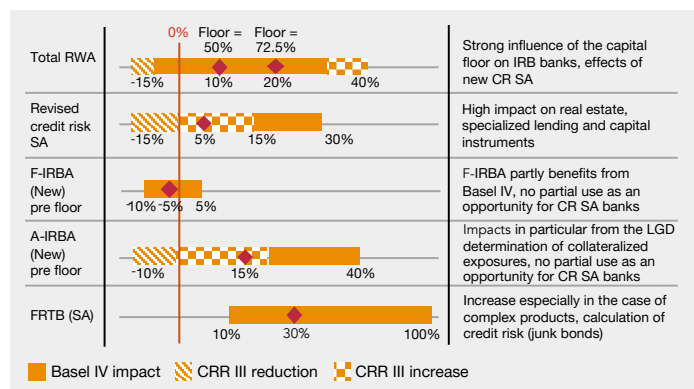
**Market risk**    Capital

Effort    € € € € €

- Introduction of revised (FRTB) trading book boundary
- Introduction of simplified SA for market risk
- Alternative-SA and -IMA are partly revised and become binding for calculating capital requirements

## Impact on banks

CRR III impact heavily depends on business model and portfolio...



- The RWA & Capital impact per bank **vary significantly** due to different RWA drivers. RWA relief and additional RWA can be expected depending on the banks' **business model and portfolio** (e.g. Output floor, RW for equity exposures, unrated corporate exposures)
- **Banks need to decide** on the **methodology** for **allocation** of the **output floor** to portfolios/products
- Challenges in **data** availability, **quality**, and material effort required for data gathering and updating data infrastructure
- **Challenges** with updates of the **calculation engines** as well as **regulatory reporting**
- **Risk of insufficient time** in case banks have not yet started with the implementation

# Challenges and risk mitigation actions

## Regulatory requirements

Ongoing refinements to CRR III (e.g. via EBA roadmap)

## Resource and planning

General project risks such as scarce resources, little time and tight budget



## Complexity

High complexity, as a large number of business lines are affected by CRR III as well interdependencies with other strategic initiatives

## Governance and control

Overarching ownership and strategic implications are underestimated

## Risk mitigation actions



Use of PwC's regulatory topic radar to follow discussions on CRR III and close contact of PwC with legislators and supervisors



Early and regular exchange with business units and relevant projects



Close tracking of resources, time and budget and ongoing communication



Support to put the appropriate governance, increase management engagement for strategic decisions and implement quality control on a central level

## Top challenges from ongoing implementations per risk type

### CR SA

- SCRA for unrated institutions
- Additional granularity for CR SA (incl. data requirements)
- Due diligence requirements for external ratings

### IRB

- Timely kick-off, implementation and alignment with supervisors
- Significant impact from risk parameter floors and RWA increases especially in the retail exposure class

### Operational risk

- Significant increase in capital requirements for banks applying AMA and banks with specific business models
- Increasing requirements for loss data collection of banks currently not applying AMA

### Market risk

- The implementation of the trading book boundary
- IMA banks moving back to less sophisticated approaches

### Output Floor

- The attribution of increased RWA and the floor effect in bank management and pricing positions

### ESG

- Broad and unclear requirements from the regulator
- Missing appropriate guidance by the competent authorities
- Lack of expertise and available mature data to establish adequate models



## Implementation process



### Step 1: Impact assessment and Identification of Top Priorities

- An impact assessment to understand the **CRR III impact** as well as the **strategic decision items**
- Identification of **technical requirements** for the calculation of RWAs (incl. identification of relevant **data structures and reporting processes** for the CR SA for IRB banks)
- Determination of **bank-specific RWA distribution system resulting from the output floor**, taking into account the **strategic orientation**, the results of the RWA simulation, relevant control ratios and other considerations



### Step 2: Key considerations for Implementation

- CRR III affects banks' **data and systems, business and reporting processes, capital requirements and strategy**
- **Strategy:** Implement the updated strategic direction
- **Processes:** Update policies & procedures, implement processes (e.g. CR SA), enhance existing (control) frameworks
- **Modelling:** Recalibrate/redevelop existing models to align with CRR III requirements



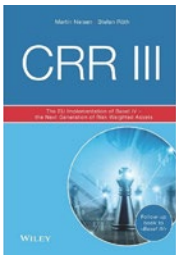
### Step 3: Post-Go Live

- CRR III journey will continue post in 2025
- **Further refinements** (e.g. EBA publications) and transitional arrangements
  - **Continued monitoring** and testing on CRR III compliance
  - **Regulatory change management** (incl. strategic, business process, controls)

# PwC's CRR III thought leadership

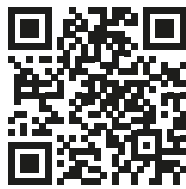
## CRR III Book

Read about all the details and new requirements of CRR III and CRD VI in this compendium.



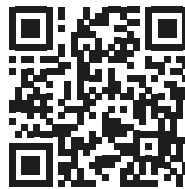
## Risk & Regulation

**YouTube Channel**  
Follow our risk and regulatory experts on YouTube: watch interviews and get updates on important CRR III topics and many other current regulatory issues.



## Regulatory Blogs

Tap into our thought leadership and stay informed about the latest innovations and developments in banking supervisory law in a concise and easily accessible format.



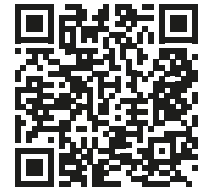
## CRR III Poster

Grasp the full scope of Basel IV with a comprehensive overview of CRR! Our CRR III poster is an indispensable source of information, simplifying complex regulatory topics by encompassing all key risk areas and essential formulas to facilitate comprehension and application.



## CRR III Benchmarking Study

The study reveals which topics banks perceive as particularly intricate and demanding during the implementation of CRR III. In addition to the implementation challenges, the findings give deep insights into the impact of CRR III.



In case of any questions, contact one of our regulatory experts



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