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The EBA details the EU measures to restore confidence in the banking sector

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EBA: 26 October 2011

The European Banking Authority (EBA) supports the agreement at EU level on measures to restore confidence in the banking sector. These measures form part of a broader package aimed at addressing the current situation in the EU by restoring stability and confidence in the markets. Their implementation is conditional on the other components of the package being fully clarified and endorsed.

The EBA?s contribution to the overall package focuses on the capital and term funding needs in the EU banking sector against the backdrop of the increasing concerns regarding sovereign debt.

Term funding guarantee scheme

Notwithstanding the European Central Bank?s (ECB) support for banks short term funding needs, additional steps are required to restart the term unsecured funding market. This would help banks to continue their lending activities in 2012 and to avoid a spiral of forced deleveraging and the ensuing credit crunches, which would affect the real economy.
To this end, public guarantee schemes should be set in place where appropriate to support banks? access to term funding at reasonable conditions. A coordinated approach at EU level is needed, especially in terms of entry criteria, pricing and conditions. The EBA has been asked to work with the EU Commission, the ECB and European Investment Bank (EIB) to urgently explore options for achieving this objective.

Measures to strengthen banks? capital positions

In light of the substantial increase in systemic risk triggered by the sovereign debt crisis in the euro area, the EBA has designed a capital package which, while recognising the significant steps already taken to strengthen capital positions in the EU, aims at providing a further capital buffer for the EU banking system.

Banks are required to strengthen their capital positions by building up a temporary capital buffer against sovereign debt exposures to reflect current market prices. In addition, banks are required to establish a buffer such that the Core Tier 1 capital ratio reaches 9%. Banks will be expected to build these buffers by the end of June 2012.

The building of these buffers will allow banks to withstand a range of shocks while still being able to maintain an adequate capital level.

A preliminary and indicative aggregated capital target at the EU level, based on June?s figures and end-September sovereign bond yields, amounts to 106 bn Euros (see breakdown by country below). The EBA expects to disclose the final capital shortfall in the course of November, based on banks? figures as at 30 September 2011 when individual banks will be asked to disclose their capital and sovereign debt position.

Banks will be required, by the end of 2011, to submit to their respective national authorities their plans detailing the actions they intend to take to reach the set target. These plans will have to be agreed with National Supervisory Authorities and discussed with the EBA. The targets will have to be achieved avoiding excessive deleveraging, so as to contain the potential impact on the real economy. To reach the targets, banks will be expected to withhold dividends and bonuses.

The capital needs will be met only with capital of the highest quality. For private instruments, only new issuances of very strong convertible capital will be accepted if in line with strict and standardised criteria to be defined by the EBA.

Breakdown by country of estimated capital target buffers

Country	Estimated target capital buffer	Sovereign capital buffer*
AT (1)	2,938	224
BE (2)	4,143	5,634
CY	3,587	3,085
DE	5,184	7,687
DK	47	35
ES	26,161	6,290

FI	0	3
FR	8,844	3,550
GB	0	0
GR (3)	30,000	/
HU	0	43
IE	0	25
IT	14,771	9,491
LU	0	0
MT	0	0
NL	0	99
NO (4)	1,312	0
PT	7,804	4,432
SE	1,359	4
SI	297	20
Total	106,447	

amounts are in million Euros

* The sovereign capital buffer is indicative and can already be covered by existing CT1 capital if the CT1 ratio exceeds 9%.

Notes to editors

(1) A substantial part of this amount is attributable to Volksbank Group and should be considered as pro-forma. This group is currently under deep restructuring and evaluation of its business model after which Volksbank Group shall end up in a regional active bank.

(2) This amount, which is attributable to Dexia Group, should be considered as pro-forma. After the cut-off date of 30 September, this Group has indeed been deeply restructured through the sale of Dexia Bank Belgium to the Belgian State for 4 bn euros while a state guarantee is hitherto provided on the funding issued by Dexia SA and its subsidiary Dexia Credit Local. Furthermore, other disposal of important operating entities will take place in the coming months.

(3) The capital package for Greece has been defined in such a way not to conflict with pre-agreed arrangements under EU/IMF programme. This assistance programme already defines a set of targets for the banks in question, including quantitative objectives for the Core Tier 1 ratio, which are being monitored on a regular basis. The existing backstop facility (30 bn Euros), exceeds the results of the EBA capital exercise for Greek banks.

(4) As an EFTA state of the EEA, any requirement and supervisory action pertaining to capital needs in Norwegian banks is within the competence of Norwegian authorities

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The European Banking Authority was established by Regulation (EC) No. 1093/2010 of the European Parliament and of the Council of 24 November 2010. The EBA has officially come into being as of 1 January 2011 and has taken over all existing and ongoing tasks and responsibilities from the Committee of European Banking Supervisors (CEBS). The EBA acts as a hub and spoke network of EU and national bodies safeguarding public values such as the stability of the financial system, the transparency of markets and financial products and the protection of depositors and investors.

Tags: CRDIV [4], EBA [5], EU [6], supervision [7]