

**EC - Banking Package 2021:  
Amendments to CRR and CRD IV**  
*Understanding the challenges and opportunities  
that bring the future prudential regulation*



# Abbreviations

Abbreviation	Meaning
ADC	Acquisition, Development and Construction
BCBS	Basel Committee on Banking Supervision
CA	Competent Authority
CCF	Credit Conversion Factors
CET1	Common Equity Tier 1
CIU	Collective Investment Undertakings
CRR	Capital Requirements Regulation
CRD	Capital Requirements Directive
CVA	Credit Valuation Adjustment
EBA	European Banking Authority
EC	European Commission
ECRA	External Credit Risk Assessment Approach

Abbreviation	Meaning
ESG	Environmental, Social and Governance
EU	European Union
FCP	Funded Credit Protection
G-SII	Global Systemically Important Institutions
IRB	Internal Rating Based
IMA	Internal Model Approach
LH	Liquidity Horizon
LSA	Loan Splitting Approach
SA	Standard Approach
SCRA	Standardised Credit Risk Assessment Approach
SME	Small and Medium Enterprise
TCB	Third Country Branches

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# 1 | Regulatory context and introduction

## The Basel III reforms and their transposition in the EU

**The Banking Package 2021 implies the final implementation of Basel III reforms in the EU.  
The new rules will ensure that EU banks become more resilient to potential future economic shocks**

- In response to the **Great Financial Crisis of 2008-2009**, the **EU implemented substantial reforms** of the prudential framework applicable to banks in order to enhance their resilience and thus help prevent the recurrence of a similar crisis. Those reforms were **largely based on the Basel III standards**.
- The reforms implemented so far focused on increasing the quality and quantity of regulatory capital that banks have to hold to cover potential losses. Furthermore, they aimed at reducing banks' excessive leverage, increasing banks' resilience to short-term liquidity shocks, reducing their reliance on short-term funding and their concentration risk, and addressing too-big-to-fail problems.
- As a result, the new rules strengthened the criteria for eligible regulatory capital, increased minimum capital requirements, and introduced new requirements for CVA risk and for exposures to central counterparties. Furthermore, several new prudential measures were introduced: a minimum leverage ratio requirement, a short-term liquidity ratio (the liquidity coverage ratio), a longer-term stable funding ratio (the net stable funding ratio), large exposure limits and macro-prudential capital buffers.
- On December 2017, the BCBS published the **Basel III: Finalising post-crisis reforms** and on January 2019 the **Revised minimum capital requirements for market risk**, which have not been transposed yet to European regulation.

In this context, the EC has published the **Banking Package 2021**. **With this set of rules ends the implementation of the Basel III framework in the EU**. This package is composed of three proposals:

- i) CRD VI which amends CRD IV;
- ii) CRR III, which amends CRR; and,
- iii) a separate legislative proposal in the area of resolution (the "daisy chain proposal"), which also amends CRR.

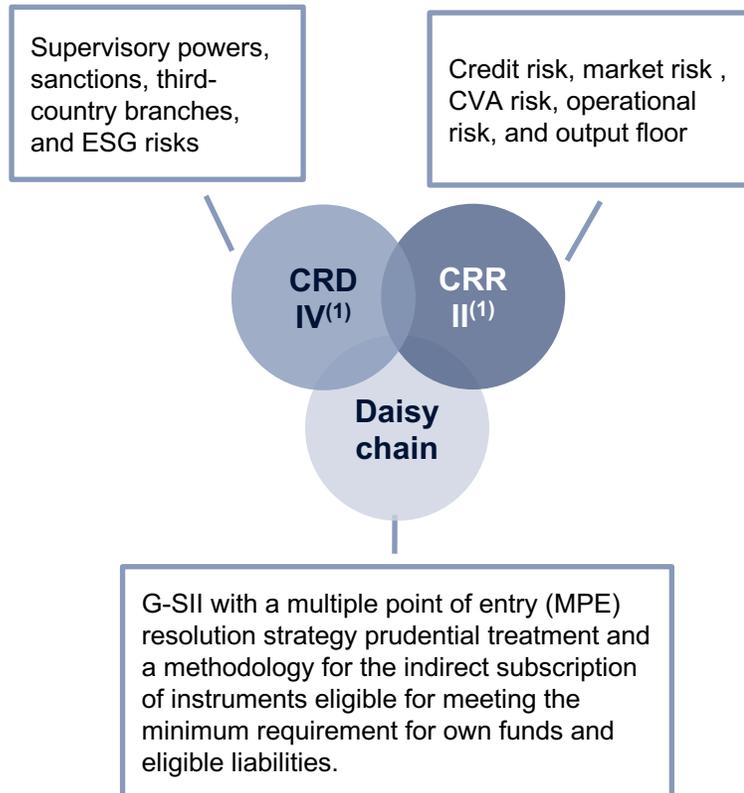


# 1 | Regulatory context and introduction

## Banking Package 2021 structure and objectives

The present legislative initiative has two general objectives: i) contributing to financial stability, and; ii) contributing to the steady financing of the economy in the context of the post-COVID-19 crisis recovery

### Focus of the amendments



The general objectives of the Banking Package 2021 can be broken down into four **specific objectives**:

### 1 Strengthening the risk-based capital framework

- Basel III reforms faithful implementation but **adapted to the specific features of the EU's banking sector** (e.g. low risk mortgages).
- Ensuring that **internal models do not underestimate** risks.
- Enhancing the **comparability** of risk based capital ratios across banks.
- **No significant increases** in overall **capital requirements** are expected.

### 2 Enhancing the focus on ESG risks in the prudential framework

- Key element of the Commission Sustainable Finance Strategy.
- Requirement to **systematically identify, disclose and manage ESG risks**. This includes: i) regular **climate stress testing** (internal and supervisory), assessment of ESG risks as part of **regular supervisory reviews**; disclosing until what extent the institution is exposed to ESG risks.

### 3 Further harmonizing supervisory powers and tools

- It establishes a clear, robust and balanced **“fit-and-proper” set of rules**, where supervisors assess whether senior staff have the requisite skills and knowledge for managing a bank.
- Better tools to oversee **fintech groups**, including bank subsidiaries.
- Harmonisation of EU rules regarding the establishment of **branches of third country banks in the EU**.

### 4 Reducing public disclosures related costs and improving access to prudential data

- Centralisation of prudential information disclosures to increase access to prudential data and comparability across industry.
- **Single access point** established by EBA, aiming at reducing the administrative burden for institutions, especially small and non-complex ones.

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# 2 Executive summary of changes

## Capital framework

EC adaptations to the Basel III framework help to lower the impact of the revised standardized approach. Equity portfolio is expected to have the highest increase in capital consumption compared to previous standard treatment

Topic		Summary of amendments <sup>(1)</sup>	References
Credit risk - Standard approach	<b>Institutions</b>	<ul style="list-style-type: none"> <li>For externally rated institutions (ECRA), recalibration of RW (RW 50% to 30%) o. <b>The use of ratings that incorporate public support, except for public entities is prohibited.</b></li> <li>New approach for unrated exposures (SCRA). <b>Maximum RW of 75%</b> for exposures <b>with short-term</b> original maturity (vs. 150% proposed in Basel III reform).</li> </ul>	<ul style="list-style-type: none"> <li>Art 120,121 CRR</li> </ul>
	<b>Corporates</b>	<ul style="list-style-type: none"> <li>RW <b>recalibration</b> for externally rated exposures (RW 100% to 75%).</li> <li><b>Preferential RW of 65% until December 2032 for high quality non-externally rated corporates (PD&lt;0.5%), in order to mitigate the impact of the output floor.</b></li> </ul>	<ul style="list-style-type: none"> <li>Art 122, 465 CRR</li> </ul>
	<b>Specialised financing</b>	<ul style="list-style-type: none"> <li><b>New category</b> under SA, seeking alignment with IRB.</li> <li><b>High quality object finance related exposures with no specific rating may receive a RW of 80% (vs 100%).</b></li> </ul>	<ul style="list-style-type: none"> <li>Art 122a CRR</li> </ul>
	<b>Retail</b>	<ul style="list-style-type: none"> <li>Greater <b>alignment</b> with the <b>IRB</b> retail portfolio.</li> <li>Preferential treatment for transactor exposures and <b>loans linked to pensions or employees' salaries.</b></li> </ul>	<ul style="list-style-type: none"> <li>Art 123 CRR</li> </ul>
	<b>Mortgages</b>	<ul style="list-style-type: none"> <li><b>Recalibration</b> of the loan splitting approach (LSA).</li> <li>Introduction of a <b>fall back</b> treatment to be applied when additional conditions for residential property collateralised exposures are not met.</li> <li>Distinction of <b>income producing real estate exposures (IPRE)</b>, <b>receiving the (residential or commercial) fall back treatment or 150% RW when general conditions are not met.</b></li> <li>Distinction of <b>land acquisition, development and construction (ADC)</b> exposures, receiving a 150% RW. Consequently, <b>speculative immovable property treatment is removed.</b></li> <li>Property value <b>measured at loan origination</b>, unless modifications “unequivocally” increase the value of the property (e.g improvements to the energy efficiency).</li> </ul>	<ul style="list-style-type: none"> <li>Art 125, 126 CRR</li> </ul>
	<b>Equity</b>	<ul style="list-style-type: none"> <li><b>General increase</b> in RW (range 150%- 400%), <b>with some exceptions: strategic long term investments, equity exposures to central banks</b> and equity holdings on national legislated programmes.</li> </ul>	<ul style="list-style-type: none"> <li>Art 133 CRR</li> </ul>
	<b>Currency mism.</b>	<ul style="list-style-type: none"> <li>1.5 factor over unhedged retail and residential real state exposures with uncovered currency mismatch.</li> </ul>	<ul style="list-style-type: none"> <li>Art 123a CRR</li> </ul>
	<b>Off-balance</b>	<ul style="list-style-type: none"> <li>10% CCFs for unconditionally cancellable commitments and 40% for other commitments regardless of their maturity.</li> <li><b>0% CCF still applicable to corporates, including SME, under closely monitoring or when an action from the institution is required.</b></li> </ul>	<ul style="list-style-type: none"> <li>Art 111, 495d CRR</li> </ul>

# 2 Executive summary of changes

## Capital framework

**A-IRB approach removed for certain exposure classes and introduction of floor values for bank-estimated IRB parameters. UFCP has been changed due to the removal of the double default method applicable to some guaranteed exposures**

Topic		Summary of amendments <sup>(1)</sup>	References
Credit Risk - IRB approach	<b>Methods and formula simplification</b>	<ul style="list-style-type: none"> <li>◆ <b>Removal of the A-IRB approach for certain exposure classes</b> (e.g., exposures to large corporates (i.e., EUR 500 million annual turnover), to banks and other financial sector entities).</li> <li>◆ For <b>equity exposures</b> the IRB approaches are replaced by SA approach.</li> </ul>	<ul style="list-style-type: none"> <li>• Art 150,151.8 CRR</li> </ul>
	<b>Granularity of exposure classes</b>	<ul style="list-style-type: none"> <li>◆ <b>New exposure classes</b> for regional governments, local authorities, public sector entities and CIUs.</li> <li>◆ <b>Brakedown for corporates and retail.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Art 147.2, 151.11 CRR</li> </ul>
	<b>Risk parameters</b>	<ul style="list-style-type: none"> <li>◆ <b>Introduction of minimum floor values</b> for bank-estimated IRB parameters: LGD and CCF floors for the A-IRB approach (e.g., 25% unsecured LGD for corporate and 30% for retail).</li> <li>◆ <b>Value change of PD floors</b> for both F-IRB and A-IRB (e.g., 5bp for corporate assets and retail, 10bp for QRRE revolvers).</li> <li>◆ <b>Recalibration of LGD value (F-IRB)</b> for senior unsecured exposures to corporates and for dilution risk of purchased corporate receivables.</li> <li>◆ <b>Revision of the scope and calculation methods for the computation of own estimates of CCFs.</b> The use of own CCFs is limited to undrawns revolving commitments.</li> </ul>	<ul style="list-style-type: none"> <li>• Art 161.1, 163,166.8(8a), (8b),(8d),182 CRR</li> </ul>
	<b>UFCP</b>	<ul style="list-style-type: none"> <li>◆ Removal of <b>double default</b> method, which will be directly calculated as RW x Exposure.</li> <li>◆ <b>A-IRB exposures secured by SA and F-IRB guarantors</b> should be treated as if the exposure was to SA and F-IRB: RW substitution or PD/LGD substitution.</li> </ul>	<ul style="list-style-type: none"> <li>• Art 153.3, 154.2, 202, 217 CRR</li> </ul>
	<b>Formula adjustments</b>	<ul style="list-style-type: none"> <li>◆ Removal of <b>1.06 factor</b> for corporates, institutions, sovereigns and retail.</li> </ul>	<ul style="list-style-type: none"> <li>• Art 153.1, 154.1 CRR</li> </ul>
Credit risk - mitigation techniques	<b>Haircuts</b>	<ul style="list-style-type: none"> <li>◆ <b>Removal of internal</b> calculation of haircuts.</li> <li>◆ <b>Recalibration</b> of regulatory haircuts under the comprehensive approach.</li> </ul>	<ul style="list-style-type: none"> <li>• Art 224-230 CRR</li> </ul>

# 2 Executive summary of changes

## Capital framework

In market and CVA risk, the deadline for the implementation of the new capital requirements is pushed back until 2025 with a brake clause at the discretion of the EC to delay it further (up to 2027). In operational risk, the CRRII introduces the new SMA method aligned with Basel standards. The exposure value of the leverage ratio is adjusted considering the updates to the exposure under the risk based framework

Topic		Summary of amendments <sup>(1)</sup>	References
Market risk	Capital Requirements	◆ Deadline pushed back until 2025 with a <b>brake clause</b> at the discretion of the EC to delay it further (up to 2027) and a level playing field discount factor.	• Annex I (entry into force), Art 461a
	IMA Reporting	◆ IMA reporting requirement remains but the exact date is still uncertain <sup>2</sup> (3y after Phase I EBA RTS endorsement)	• Art 430b
	Incomplete Regulation	◆ Pending pieces of regulation (EBA get the mandate of 9 new RTS). Nevertheless, IMA pre-application deadline remains (Dec-22).	• Art 104, 104a, 104c, 325j, ba, bc, be, bf, bg CRR
	CIUs	◆ Less cumbersome capitalisation of Funds (CIUs) under the Look-Through Approach (weekly for IMA/ monthly for SA and use of third-party data) and regulator-set methodology for those under the Mandate Based approach.	• Art 325bh CRR
	Carbon trading	◆ <b>Lower RW for carbon trading emissions (RW=40%)</b> ; now 60%.	• Art 325as CRR
	Audit reports	◆ New <b>requirement on independent review of SA monthly-reports by internal auditors</b> or a third party undertaking, at least once a year. Compliance with the policies and procedures must be fully documented and subject to periodic (at least yearly) internal audit.	• Art 325c CRR
CVA risk	Capital requirements	◆ Transposition of the new capital regime synchronized with FRTB (2025-27). ◆ The EBA is mandated to develop RTS (4 in total) developing technical aspects of the CVA internal regulatory model (EAD, PD, LGD).	• Art 383a CRR
	Reporting	◆ New reporting requirements for transactions exempted from the EU CVA risk capital charge (EU CVA exemptions).	• Art 382 CRR
Operational risk	Capital requirements	◆ Simplification of the framework. All existing approaches are replaced by a single, standardized approach. ◆ Jurisdictions may disregard historical losses or take historical loss data additionally into account for institutions below a certain business size. ◆ All institutions with a business indicator equal to or above EUR 750 million will be required to maintain a loss data set and to calculate their annual operational risk losses for disclosure purposes, unless CAs grant a waiver from that requirement (only allowed if below EUR 1 billion).	• New part III, Title III CRR • Art 312-315 CRR • Art 316 CRR

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Topic		Summary of amendments <sup>(1)</sup>	References
<b>Output floor</b>	<b>Transition period</b>	<ul style="list-style-type: none"> <li>5-year transition period for the implementation of Output Floor, starting at 50% in 2025, with an annual increase of 5% until 2029 (70%) and finally setting 72.5% in 2030.</li> </ul>	<ul style="list-style-type: none"> <li>Art 465 CRR</li> </ul>
<b>Own funds</b>	<b>Definitions</b>	<ul style="list-style-type: none"> <li>The definitions of indirect holding and synthetic holding are amended to also capture holdings of relevant liabilities.</li> </ul>	<ul style="list-style-type: none"> <li>Art 4.1(114 and 126) CRR</li> </ul>
	<b>Capital instruments of mutuals</b>	<ul style="list-style-type: none"> <li>The article on Capital instruments of mutuals, cooperative societies, savings institutions or similar institutions is deleted. Following the withdrawal of UK from the EU the provision has been deleted.</li> </ul>	<ul style="list-style-type: none"> <li>Art 27.1 point (a)(v) CRR</li> </ul>
	<b>Deductions for the thresholds</b>	<ul style="list-style-type: none"> <li>The new CET1-related deductions provided by Regulation (EU) 2019/630 and by Regulation (EU) 2019/876 should also be taken into account.</li> <li>Certain references to deductions of capital exposures under an internal models approach [Art. 36(1)(k)(v)] are deleted from these provisions.</li> </ul>	<ul style="list-style-type: none"> <li>Art 46.1, 48.1, 60.1, 70.1, 70i.1 CRR</li> <li>Art 36.1(k)(v) CRR</li> </ul>
	<b>Third-country subsidiaries</b>	<ul style="list-style-type: none"> <li>Subsidiaries that are located in a third country could nevertheless still be considered for the determination of minority interests and additional Tier 1 and Tier 2 instruments issued by subsidiaries.</li> <li>Some additional changes are applied to calculation (e.g. CET1 capital of subsidiaries (Art. 84.1)).</li> </ul>	<ul style="list-style-type: none"> <li>Art 88b CRR</li> <li>Art 84.1, 85.1, 87.1 CRR</li> </ul>
<b>Leverage ratio</b>	<b>Exposure value</b>	<ul style="list-style-type: none"> <li>Modifications in the calculation of the exposure value, off-balance-sheet items and provisions related to regular way purchases and sales awaiting settlement.</li> </ul>	<ul style="list-style-type: none"> <li>Arti. 429c, 429f.3, 429.6, 429g.1 CRR</li> </ul>

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## Other regulatory amendments

Other changes in regulation include ESG Risks, Supervisory Powers, Fit and Proper Framework and TCB treatment

Topic		Summary of amendments	References
ESG risks	<i>Integration into management</i>	<ul style="list-style-type: none"> <li>Institutions shall have effective and comprehensive <b>strategies and processes</b> to assess and maintain to cover the nature and level of the risks to which they are or might be exposed in the short, medium and long term time horizon, including environmental, social and governance risks.</li> </ul>	<ul style="list-style-type: none"> <li>Art 73 CRD</li> </ul>
	<i>Supervisory reporting</i>	<ul style="list-style-type: none"> <li>Institutions shall <b>report</b> to their CAs on their exposures to ESG risks.</li> </ul>	<ul style="list-style-type: none"> <li>Art 430.1h CRR</li> </ul>
	<i>Prudential treatment</i>	<ul style="list-style-type: none"> <li>The date for EBA to deliver its report on the prudential treatment of exposures to environmental and social factors is advanced from 28 June 2025 to 2023.</li> </ul>	<ul style="list-style-type: none"> <li>Art 501c CRR</li> </ul>
Other updates	<i>Disclosure</i>	<ul style="list-style-type: none"> <li>EBA is empowered to <b>centralize de publication</b> of prudential disclosures and mandated to <b>publish disclosures</b> of <b>small and non complex institutions</b> based on their supervisory reporting. ESG risks disclosure is expanded to <b>all institutions</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Art 433, 434, 449a</li> </ul>
	<i>New supervisory powers</i>	<ul style="list-style-type: none"> <li><b>Expansion</b> of the list of supervisory powers available to cover operations such as <b>acquisitions</b> by a credit institution of a material holding in a financial or non-financial entity, the material <b>transfer of assets or liabilities</b> and <b>merger</b> or <b>divisions</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Art 27 (a-n) CRD</li> </ul>
	<i>Fit and Proper Framework</i>	<ul style="list-style-type: none"> <li>Clarification of the role of banks and CAs for checking the compliance of <b>board members</b>, including the timing of such assessment.</li> <li>Settlement of minimum requirements for <b>key function holders</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Art 91 (a-d) CRD</li> </ul>
	<i>Third country branches (TCB)</i>	<ul style="list-style-type: none"> <li>Authorization subject to minimum requirements that must include <b>cooperation and reporting</b> arrangements so that the CAs have access to enough information about the TCB's parent company and can cooperate with the supervisor.</li> <li>TCB must meet <b>capital</b> and <b>liquidity</b> requirements, internal <b>governance</b> and <b>risk control</b> requirements.</li> <li>Obligation of <b>reporting</b> regularly information on their compliance with the requirements laid out in the CRD and in national law and financial information in relation to assets/ liabilities on their books.</li> <li>Supervisors must conduct <b>regular reviews</b> of TCBs' compliance with their regulatory requirements.</li> </ul>	<ul style="list-style-type: none"> <li>New Title VI CRD</li> </ul>

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## Entering into force

The Regulation amending CRR shall apply in general from 1 January 2025.  
Member States shall apply the Directive amending CRD IV one day after its transposition (approximately 2025)



- The Regulation amending CRR shall enter into force on **2023 at the earliest, the twentieth day following that of its publication** in the OJEU. However, the Regulation shall apply from **1 January 2025** with the following exceptions:

The date of entry into force of this Regulation

- Provisions concerning amendments in accordance with **Regulation (EU) 2019/2033 on the prudential requirements of investment firms**: The definition of 'investment holding company' and consideration to be parent financial holding companies in a Member State or Union parent financial holding companies where such investment firms or investment holding companies are parent undertakings of an institution or of an investment firm. (Art. 4 paragraph 1).
- Provisions concerning to the **treatment of exposures in default**: The new article of Land acquisition, development and construction (ADC) exposures (126.a): An ADC exposure shall be assigned a risk weight of 150 %. However, ADC exposures to residential property may be risk weighted at 100 %, provided that certain conditions are met (...).

6 months after the date of entry into force

- Certain changes on **definitions of entities to be included in the scope of prudential consolidation**: parent undertaking, subsidiary, ancillary services undertaking, financial holding company, investment holding company, financial institution, pure industrial holding company, parent institution in a Member State, 'stand-alone institution in the EU, indirect holding, synthetic holding, revolving exposure, 'transactor exposure. Furthermore, the new paragraph on point 145 of this article (Art. 4 paragraph 1).
- Certain provisions concerning **own funds and eligible liabilities** [amendments on: i) CET items (certain qualifications for credit institutions, Art.27.1 (a) and (v) are deleted); ii) deductions from CET1 (Art.36), (Art.46), (Art.60); iv) Tier 2 items (Art.62.d); v) deductions of Tier 2 (Art.70); vi) Own Funds (Art. 72); vii) Minority interests in CET1 (Art.84) and a new article on Undertakings in third countries (Art. 88b)]



- The Directive amending CRD IV shall enter into force approximately on **2023 at the earliest, on the date of its notification to the third country branches**. However, the Directive shall apply **approximately on 2025**, 1 day after the transposition date with the following exception:

12 months after the date of application

- Provisions necessary to comply with the amendments set out in Article 1, point (8) on the **prudential supervision of third country branches**.