BANCA D'ITALIA
EUROSISTEMA

Comunicato Stampa

DIFFUSO A CURA DEL SERVIZIO SEGRETERIA PARTICOLARE

Rome, 8 December 2011

The Bank of Italy communicates that the European Banking Authority (EBA) today published a formal Recommendation, and the final figures, related to banks' recapitalisation needs. These measures form part of a broader European package, agreed by the European Council on 26 October and confirmed during the ECOFIN Council on 30 November, to address the current situation in the EU by restoring stability and confidence in the markets.

The formal Recommendation adopted by the EBA's Board of Supervisors states that national supervisory authorities should require the banks included in the sample (71 large European banks) to strengthen their capital positions by building up an exceptional and temporary capital buffer against sovereign debt exposures to reflect market prices as at the end of September. In addition, banks will be required to establish an exceptional and temporary buffer such that the Core Tier 1 capital ratio reaches a level of 9% by the end of June 2012. The amount of any capital shortfall identified is based on September 2011 figures and it is determined removing the prudential filters on sovereign assets in the Available-for-Sale (AFS) portfolio and effecting a prudent valuation of sovereign debt in the Held-to-Maturity (HTM) portfolio and Loans and receivables portfolio, reflecting market prices. The amount of the sovereign capital buffer will not be revised.

Sales of sovereign bonds will not alleviate the buffer requirement to be achieved by June 2012, but – given the current market conditions – would only cause the materialisation of losses in banks' balance sheets.

These buffers are explicitly not designed to cover losses in sovereigns but to provide a reassurance to markets about the banks' ability to withstand a range of shocks and still maintain adequate capital. The sovereign capital buffer is a one-off measure. With the alleviation of the sovereign debt crisis and the subsequent lifting of sovereign bond valuations from today's distressed prices – also reflecting the deployment of the new EFSF's capacity becoming effective – the EBA will reassess the continued need and size of capital buffers against banks' sovereign exposures.

Furthermore, sales of sovereign bonds will not alleviate in any way the buffer requirement banks are asked to achieve by June 2012. Only the narrowest of actions that impact risk weighted assets (RWAs) will be permitted, such as the validation and roll-out of appropriate internal models where these are already planned and under consideration by the competent authorities and the sale of an organised business or whole lines of business. These actions are not considered as deleveraging for the financial system as a whole; in particular for asset sales, assets are transferred to third parties rather than reduced.

The Bank of Italy, as the national supervisory authority, may, following consultation with the EBA, agree to the partial achievement of the target by the sales of selected assets. These latter actions are not considered as deleveraging for the financial system as a whole, as assets are transferred to third parties rather than reduced. Reductions in risk weighted assets due to the validation and roll-out of internal models to additional portfolios should not be allowed as a means of addressing a capital shortfall unless these changes are already planned and under consideration by the competent authority.
Banks should first use private sources of funding to strengthen their capital position to meet the required target, including retained earnings, reduced bonus payments, new issuances of common equity, issuance of contingent capital instruments to private investors that will be accepted if in line with the criteria defined by the EBA in the ad-hoc term-sheet (see Annex 3 of the EBA recommendation); restructuring of existing hybrid instruments will be eligible if they are converted into Core Tier 1 capital by end of October 2012 and other liability management measures.

Following completion of the capital exercise the total shortfall for the five Italian banking groups that participated to the exercise amounts to 15,366 millions euros, substantially confirming the preliminary figures published on the 26th of October. Specifically, for Unicredit the capital needs amount to 7,974 millions; Intesa Sanpaolo has no shortfall; Banca Monte dei Paschi di Siena shows capital needs equal to 3,267 millions euros; Banco Popolare 2,731 millions; Unione di Banche Italiane 1,393 millions.

Pursuant to the Reccomendation, the Bank of Italy will require banks to submit, by 20th January, their plans detailing the actions they intend to take to reach the set targets. These plans will have to be agreed with National authorities and reviewed, shared and consulted on with the EBA and with other relevant competent authorities within colleges of supervisors.

Some of these measures are already being taken by Italian banks and will contribute to meet the capital ratio target without negative repercussions on the real economy.

Italian banks have consistently applied the EBA methodology underlying the capital. The accuracy with which banks' capital ratios are calculated by the Bank of Italy – specifically as regards the determination of risk weighted assets – provides further assurance on the ability of the Italian banking system to withstand particularly acute shocks.