

Equities

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Maximum Harmonisation

Why Bank Investors Should Now Look At Brussels Not Basel

■ Industry Overview

- **From Basel to Brussels** – We think Basel III will likely be introduced into EU law as a Regulation based on "Maximum Harmonisation" principles. This would mean a Single Rule Book across the EU on bank capital and no scope for super-equivalence by EU member states (eg no UK Finish). The Commission will introduce the proposal to Parliament next month. A lot of lobbying lies ahead and details are still to be decided, but the broad principles are emerging. And it may be a shock to those who have just focused on Basel (a standards and best practice process) and not followed Brussels (the law).
- **What Is Maximum Harmonisation?** – EU legislation is implemented as either a Regulation or a Directive. Regulations have a direct effect across the EU and don't need to be written into national law. We understand the default position going forward will be to use Regulations. The Commission may implement the Basel III accord into EU legislation on a maximum harmonisation basis. Most EU countries would support this approach. The UK is leading a rear-guard action against the majority view, but its chances of success look low. Fundamentalists on bank capital could be unhappy as they realise that a Single Rule Book produced by Brussels would likely tailor Basel to reflect the interests of Core Europe. So, not so much a "UK Finish" as a "French Polish".
- **Whither the ICB?** – The UK's Independent Commission on Banking (ICB) recommended in its April 2011 interim report a 10% equity capital ratio for systemically important banks, and suggested a ring-fenced 10% UK retail minimum irrespective of global standards. Ring-fencing per se may not breach forthcoming EU legislation but any attempt at a national level to mandate super equivalence on bank capital, for retail banks or broad based groups, would likely fall foul of the principles of a Single Rule Book. The ICB's recommendations on competition and choice may therefore gain greater traction than its views on bank capital.
- **Equity Capital 7% not 10%** – We believe the EU will follow Basel's 7% core capital Tier 1 minimum threshold. Additional counter-cyclical and SIFI buffers will exist, but these may not only have to be in the form of common equity. If the above developments come to pass, the French banks would benefit via lower insurance deductions (Credit Agricole) and less stringent equity capital and liquidity requirements (both SocGen and BNP Paribas). In the UK, all of the banks would be helped by the lack of super equivalence, especially the internationally active Barclays, HSBC, Standard Chartered, and for its insurance arm, Lloyds. Also, the definition of core capital may yet be loosened to include silent participations (help for German Landesbanks), provided they satisfy enough conditions.

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From Basel to Brussels

The bottom line: Basel III appears likely to be introduced into EU legislation in a manner that will ensure more of a level-playing field across Europe than previous capital adequacy legislation (eg no scope for a “UK Finish” or super-equivalence) and will probably not reflect a direct copy of what has been agreed under the auspices of Basel over the past couple of years (eg definitions of capital may be altered to reflect financial structures prevalent in Continental Europe).

A lot of analytical, investor and management attention has been spent on Basel. It is time to shift focus to Brussels, in our view. For those still focused on Basel and not Brussels, there may be a shock ahead: a lot of the work done recently at the national level on capital and regulation may well be little more than academic exercises if they do not fit with the upcoming EU legislation. Large parts of the work of the UK's Independent Commission on Banking (ICB,) for instance, may well be such an example.

The Basel Committee on Banking Supervision at the Bank for International Settlements (hereafter “Basel”) was established by the G10 in 1974 and is the leading international banking regulatory standard setter. Basel issued in December 2010 the text of the so-called “Basel III” rules, which presents the details of global regulatory standards on bank capital adequacy and liquidity agreed by Basel's oversight body and endorsed by the G20 Leaders at their November Seoul summit.

Basel III, as it has been dubbed, updates and toughens previous efforts at international co-ordination on bank capital adequacy

Basel III, as it has been dubbed, updates and toughens previous efforts at international co-ordination on bank capital adequacy – the original Basel Capital Accord of 1988, that introduced an international common measurement system and a minimum capital standard of 8% by 1992, and the follow up to this known as the Basel II (2004) which sought to maintain overall capital levels while improving measurement and disclosure.

Basel III requires banks to hold more capital, better quality capital and also introduces a consistent measurement and upgrading of liquidity and funding. The policy and regulatory work undertaken by Basel in response to the recent global financial crisis has gained a lot of attention, including from bank investors and analysts. But we believe that the focus on Basel may have led observers to overlook the importance of Brussels.

As Basel says on its own website: “the Committee does not possess any formal supranational supervisory authority”

As Basel says on its own website: “the Committee does not possess any formal supranational supervisory authority, and its conclusions do not, and were never intended to, have legal force. Rather, it formulates broad supervisory standards and guidelines and recommends statements of best practice in the expectation that individual authorities will take steps to implement them through detailed arrangements - statutory or otherwise - which are best suited to their own national systems.”

For European Union banks, the standards and guidelines of Basel are introduced into EU law via Brussels

For European Union banks, the standards and guidelines of Basel are introduced into EU law via Brussels. The original Basel Accord of 1988 or Basel I was implemented in the EU via The Banking Consolidation Directive and The Capital Adequacy Directive (CAD1, March 1993), Basel 2 via the Capital Requirements Directive (CRD), and updates to Basel 2 for large exposures, securitisation, liquidity risk management via CRD2 and trading book RWAs, securitisation and remuneration via CRD 3.

The Brussels legislation will reflect competing interests in the EU political process and will not be a 100% facsimile of the Basel III agreement

Basel III is now in the process of being introduced into EU legislation. And for investors and analysts, and of course banks themselves, there are two points to make. Firstly, the Brussels legislation will reflect competing interests in the EU political process and will not be a 100% facsimile of the Basel III agreement. Secondly, and less obviously, the way Brussels will implement the Basel III rules into EU legislation will likely be different to Basel II. And we expect that this could cause a lot of surprise.

Figure 1. EU Laws with related Basel Measures

EU Law	Basel Measure	Summary
CAD	Basel 1	Primarily focused on credit risk, with assets grouped into 5 credit risk categories.
CRD	Basel 2	Uses three pillars of minimum capital requirements (addressing risk), supervisory review and market discipline. Deals with credit, operational and market risk.
CRD 2	Basel 2 update	Updates Basel 2 around large exposures, securitisation and liquidity risk management.
CRD 3	Basel 2 update	Updates Basel 2 around trading book RWAs, securitisation and remuneration.
CRD 4/CRR	Basel 3	Creates a capital conservation buffer, countercyclical buffer, G-SIFI/SIFI buffer, leverage ratio, LCR and NSFR. Also raises minimum capital levels, and changes capital definitions.

Source: Citi Investment Research and Analysis

Maximum Harmonisation

The European Commission may decide to implement the Basel 3 Accord into EU legislation using a maximum harmonisation approach, as outlined in the FT (25th May). It would appear most EU countries, with the notable exception of a few dissenters such as the UK, agree with this approach. A maximum harmonisation approach would mean that the EU legislation is implemented across the EU with limited scope for national divergence such as UK super-equivalence or a so-called "UK Finish".

EU legislation can be implemented as either a Regulation (no need for transposition into national law) or a Directive (need for transposition)...

EU legislation can be implemented as either a Regulation or a Directive. Regulations have a direct effect across the EU and don't need to be written into national law. Directives have to be written into national law. Technically, it is possible to have a "minimum harmonisation" Regulation where the EU law is implemented directly into national law but has a very narrow scope. And the reverse is also possible. But as a generalisation, Regulations are usually "maximum harmonisation" and Directives are usually "minimum harmonisation".

...The EU may decided to implement Basel 3 as a Regulation, on a maximum harmonisation basis

At the European Commission, DG Internal Markets (Commissioner Michel Barnier), may decided to implement Basel 3 into EU legislation as a Regulation not a Directive. Historically, legislation has usually been on a "Minimum Harmonisation" basis, including the translation of the various Basel Accords into EU legislation over the years. But the EU policy on legislation has changed and we understand the default position going forward will be to use Regulations.

The names of the legislation tell us what we know: Capital Adequacy Directive (CAD) for the original Basel Accord and the various CRDs 1-3 for what are known colloquially as Basel 2 & 2.5. However, Basel 3 will translate into EU legislation as CRR (albeit still colloquially known as CRD4), eg Capital Requirements Regulation. We believe most European countries support the approach of the European Commission, as set out in a consultation document reportedly circulated on 13th May.

The UK, supported by Spain, Sweden and a small number of smaller CEE countries, objected to the “maximum harmonisation” basis

The UK, supported by Spain, Sweden and a small number of smaller CEE countries, objected to the “maximum harmonisation” basis of CRR1/CRD4 in a letter sent on 19th May as outlined in the FT (25th May). But multiple Brussels-related banking and policy affairs sources we have spoken to in the past week suggest that the EU is committed to implementing Basel 3 as a Regulation with “Maximum Harmonisation”. Despite the public brave face, the UK’s “blocking minority” as per the 19th May letter may prove to be fragile. One or two of the smaller CEE countries could well be peeled away in the coming months.

What would Maximum Harmonisation Mean?

The starting point for discussion is the Basel III Accord, an overview of which is set out in Figure 2 below. The big picture points of Basel III:

1. **Common equity Tier 1 (CET1) definition:** only the highest quality capital, common equity, will count as “core”. Further, two notable restrictions are imposed on the calculation of CET1 so as to ensure a realistic view of loss absorption:
 - a. ‘Standard’ Deductions – Deduct significant financial investments, deferred tax assets and mortgage servicing rights above 15% of a bank’s CET1 capital
 - b. Minority Deduction – Excess capital above 7% CET1 ratio of a subsidiary that is a bank will be deducted in proportion to the minority stake
2. **Common equity Tier 1 minimum level:** a minimum target of 7%, consisting of 4.5% minimum common equity capital and a 2.5% “capital conservation buffer”. Banks that do not maintain the capital conservation buffer will face restrictions on payouts of dividends, share buybacks and bonuses.
3. **Other capital buffers:** “global” and “local” systemically important banks will likely face an additional capital requirement to be met via common equity or hybrids. Further details will be announced in July and November 2011. Another buffer, the counter cyclical buffer, may be required in times of excess credit growth.
4. **New liquidity and funding measures to be included:** Liquidity Coverage Ratio (LCR) to ensure that sufficient liquid buffers are available for one month survival in case of a stress scenario (by 2015). Net Stable Funding Ratio (NSFR): to promote resilience over longer-term time horizons (1 year) via use of longer-term and more stable funding sources to finance less liquid assets (by 2018).
5. **Leverage Ratio:** a minimum 3% Tier 1 Capital / Total Assets will become compulsory from 2018 onwards, subject to calibration and review during the period 2013-17. The ratio will be calculated as an average over each quarter and will be net of derivatives to synchronise US and European derivative accounting.

Figure 2. Basel 3 – Minimum Requirements & Timetable

	2011	2012	2013	2014	2015	2016	2017	2018	As of 1 January 2019
Leverage Ratio	Supervisory monitoring		Parallel run 1 Jan 2013 – 1 Jan 2017 Disclosure starts 1 Jan 2015					Migration to Pillar 1	
Minimum Common Equity Capital Ratio			3.5%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital Conservation Buffer						0.625%	1.25%	1.875%	2.50%
Minimum common equity plus capital conservation buffer			3.5%	4.0%	4.5%	5.125%	5.75%	6.375%	7.0%
Phase-in of deductions from CET1 (including amounts exceeding the limit for DTAs, MSRs and financials)				20%	40%	60%	80%	100%	100%
Minimum Tier 1 Capital			4.5%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%
Minimum Total Capital			8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum Total Capital plus conservation buffer			8.0%	8.0%	8.0%	8.625%	9.125%	9.875%	10.5%
Capital instruments that no longer qualify as non-core Tier 1 capital or Tier 2 capital	Phased out over 10 year horizon beginning 2013								
Liquidity coverage ratio	Observation period begins				Introduce minimum standard				
Net stable funding ratio		Observation period begins						Introduce minimum standard	

Source: BCBS, BIS

**The Commission proposals are open to
lobbying by member states**

We believe that the EU Commission authorities will aim to follow the supervisory standards and guidelines issued by Basel. But the Commission proposals are open to lobbying by member states, who can also participate directly in the legislative process via the EU Council (made of individual member states' government ministers). Interests important to member states also can influence the EU Parliament which is an important part of the EU legislative process (for more details on the EU legislative process, please see the section below on "How EU Law is Made").

**"Core Europe", i.e. France and Germany,
play a much more dominant role in
Brussels than in Basel**

So how does Brussels differ from Basel? One big picture point worth remembering is the group of countries represented in Brussels compared to Basel: "Core Europe", i.e. France and Germany, play a much more dominant role in Brussels than in Basel. Therefore, it should be no surprise that some of the key components of Basel III may get a Core Europe varnish as it makes its way through the Brussels process. We believe this would influence the details of EU legislation regarding composition of core capital, liquidity and funding rules and the elimination of deductions, amongst others.

**The EU will likely follow Basel's 7% core
equity Tier 1 minimum threshold – with
no national regulator being able to
impose a higher minimum locally**

1. **Capital level** – the EU will likely follow Basel's 7% core equity Tier 1 minimum threshold. But the use of "Maximum Harmonisation" principles in framing the EU Regulation could prevent countries from setting higher standard minimum thresholds. Counter-cyclical buffers can add an extra 0 to 2.5ppt of capital on top of a 7% threshold, but even Basel allows for this add-on to be in equity or other loss absorbing instruments (eg CoCo's, bail-in able debt). Similarly, the G-SIFI process, discussed in greater detail

below, looks like it will allow buffers in either equity capital or other loss absorbing instruments, as first reported by Reuters (25 March 2011).

Implications: Various EU countries have publicly targeted 10% core equity Basel III ratios, such as the UK (ICB interim report, retail banking) and Sweden (regulator talks about 10-12% core capital). EU legislation may require only 7% core equity Tier 1 supplemented by add-on for counter-cyclical buffers and SIFIs/G-SIFIs, but this may be constituted by non-common equity. In practice, we believe EU rules will allow banks to operate with 8-9% core equity Tier 1 plus non-equity add-on's, assuming the market for CoCos and related products develop.

Figure 3. Major European Bank Basel 3 Ratios (Full Implementation), End 2012 (CIRA Estimates)

Bank	2012E CT1	Bank	2012E CT1
SHB	13.5%	Lloyds BG	9.3%
Swedbank	12.5%	Santander	9.1%
Danske Bank	11.8%	Credit Suisse	9.0%
SEB	11.2%	BNP Paribas	8.7%
UBS	11.0%	Erste	8.6%
Barclays	10.8%	Natixis	8.6%
Nordea	10.2%	Unicredito	8.6%
Standard Chartered	10.2%	Deutsche Bank	8.0%
Intesa Sanpaolo	10.0%	KBC Holding	8.0%
HSBC	9.5%	SocGen	8.0%
RBS	9.5%	Credit Agricole	7.9%
BBVA	9.4%	Average	9.7%

Source: Citi Investment Research and Analysis

German banks are lobbying for silent participations to be included in the definition of common equity Tier 1 capital

2. **Capital composition** – Basel III has been focused on improving the quality of capital, hence the focus on a core equity capital minimum of 4.5% plus 2.5% capital conservation buffer. However, the definition of core capital continues to be debated between EU countries, according to recent media reports. German banking, in particular, includes an equity-like instrument called “silent participations”, and similar instruments exist in Austria and Switzerland. They rank above shareholders and generally any coupon has to be restored before equity dividends are paid out. They rank pari-passu with share capital and reserves but not retained earnings.

Implications: Not an issue for most quoted European banks but any redefinition of Basel core capital would likely raise concerns amongst some EU member states, and outside (eg US policy makers), about the EU's commitment to improving the quality of bank capital. German Landesbanks have significant amounts of silent participation capital, albeit they have been considering conversion to common equity or strengthening their loss absorption ability. Austrian quoted banks have State silent participations which they will be repaying (Erste in 2011, RBI likely in 2012).

We believe that CRR1/CRD4 will include short-term liquidity rules (LCR) but not longer-term funding rules (NSFR)

3. **Liquidity & funding rules** – We believe that CRR1/CRD4 will include short-term liquidity rules (LCR) but not longer-term funding rules (NSFR). We believe the LCR components and the weightings will be reviewed. Specific components that are particularly penalising for wholesale banks include the definition of the liquidity buffer, the assumptions underlying deposit run-offs and the weighting of unfunded commitments (for details on LCR, please refer to section 1 of our note [French Big Picture – Winter](#)

2010, 7 February). According to Risk Magazine, CRD IV draft legislation would introduce the concept of "transferable assets that are of high liquidity and credit quality" (Risk.Net June 2011). This would be far looser than the prescriptive definitions of 'level 1' and 'level 2' assets under Basel III, that primarily include cash, central banks reserves and high quality bonds & debt. Furthermore, we believe that the NSFR will be transposed into EU law at a later date, after CRR1/CRD4 has been passed. This is mainly because Basel III itself is still to initiate a calibration and review period in 2012, with a view to introducing a minimum level by 2018.

Implications: While a wide industry cross-section supports moves to revisit the assumptions behind the LCR and NSFR proposals, we believe French banks have been at the forefront of attempts to water down LCR and NSFR definitions. Those most set to benefit from LCR watering-down are Lloyds, RBS, the French, Greek and Austrian banks, in our view – while most to benefit from a NSFR watering down would be the Wholesale, French and Nordic banks.

Banks with large insurance exposures benefit from a shift from the Basel III approach to the EU approach

4. **Financial Conglomerates** – The Financial Times reported on 26 May that EU draft amendments could allow banks to not have to deduct capital in insurance above the 10% threshold set for financial stakes. This is aligned with the view, broadly held by French banks' managements, that European authorities would need to choose between the strict application of Basel III, or the revision of the financial conglomerates directive, initiated in 2008 and at an advanced stage in the legislative process.

Implications: Banks with large insurance exposures benefit from a shift from the Basel III approach to the EU approach. We estimate that the positive impact for French banks of having a financial conglomerate approach would be c60bps core Tier 1 for CASA, c30bps for BNP Paribas and c10bps for SocGen. Other insurance geared banks in Europe include Lloyds and "la Caixa"/Criteria.

Large parts of the ICB's work (particularly as it pertains to capital adequacy) may be superseded by EU rules

Whither the ICB?

The Independent Commission on Banking (ICB) was established by the UK Government on 16 June 2010 to focus on the structure of the UK banking sector. The ICB was set up to formulate policy recommendations with the aim of reducing systemic risk, mitigating moral hazard, reducing the likelihood/impact of a bank failure, and promoting competition. It was also mandated to consider: the potential impact of recommendations on financial stability; lending to UK consumers and businesses; the pace of economic recovery; consumer choice; the competitiveness of the UK financial and professional services sectors; the wider UK economy; and risks to the fiscal position.

The ICB's interim report was released in April 2011 and the final report will be released in September 2011. The recommendations will be reviewed by a committee chaired by the Chancellor, and it will be they who decide what recommendations, if any, should be enacted. Based on our understanding of the form of the upcoming EU legislation implementing Basel III, we fear that large parts of the ICB's work (particularly as it pertains to capital adequacy) will be superseded by EU rules. The ICB's recommendation on competition and choice are likely to be relevant.

Even functional subsidiarisation, with retail activities (still to be defined), carrying a minimum 10% core capital, may not prove to be consistent with forthcoming EU legislation

In the April interim report, the ICB expressed its view that a “10% equity baseline should become the international standard for systemically important banks”. And even if the international Basel requirement for global SIFIs ultimately recommends a minimum requirement for SIFIs that is below a 10% equity Tier 1 level, the ICB recommended that 10% be the minimum level required for UK Retail Banking operations. Capital requirements for wholesale and investment banking businesses need not exceed international standards provided they have credible resolution plans.

The ICB also recommended functional subsidiarisation, albeit not operational. Each subsidiary should be individually capitalized; however, it should still be possible to move capital between subsidiaries. The move away from the option of requiring the formal, legal splitting of universal banks into separate investment and retail banking entities was viewed as a positive by the stock market at the time. But, even functional subsidiarisation, with retail activities (still to be defined), carrying a minimum 10% core capital, may not prove to be consistent with forthcoming EU legislation.

On competition and choice, a key recommendation was that Lloyds “enhance the divestiture substantially” from the planned 600 branch sale (as mandated by the European Competition Commissioner). Subsequently, Lloyds has continued work on current disposal plans, and it remains to be seen whether the UK Government will support the ICB recommendation. What may happen instead is we get another review by the UK Competition Authorities on market shares in UK banking.

Depending on how CRD4/CRR is drafted, ring-fencing may be permitted

Depending on how CRD4/CRR is drafted, ring-fencing may be permitted. And, arguably, if it helps “resolvability”, regulators will likely look favourably at greater subsidiarisation. However, a hard form of ring-fencing, with minimum core capital thresholds for retail banking (as yet undefined), may not be consistent with a “maximum harmonization” approach based EU Regulation which sets its own minimum core capital level. We believe the ICB’s views on capital could prove academic if they contradict EU legislation.

CRD4 Timeline & How EU Law Is Made

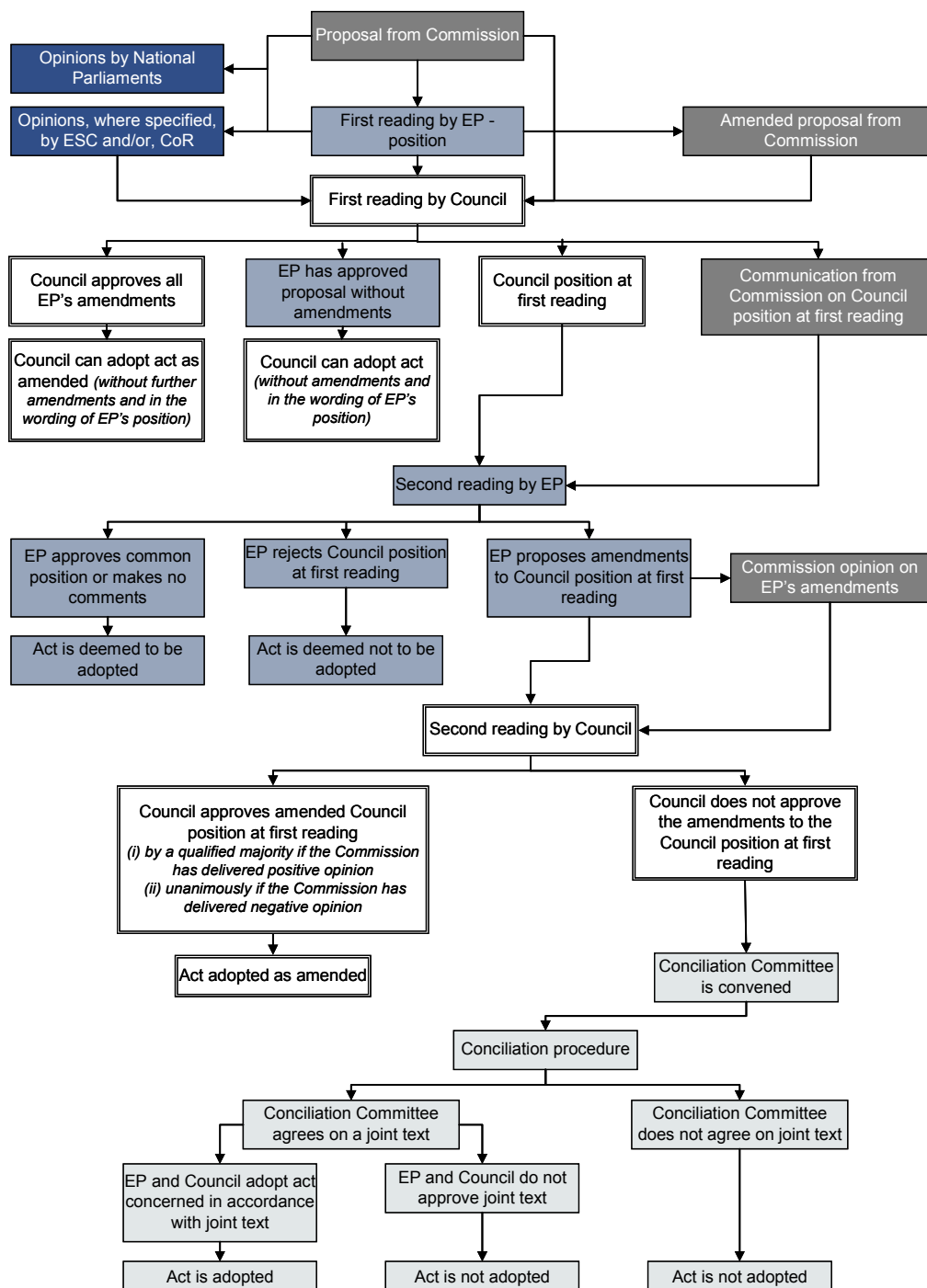
The EU Commission is expected to submit the draft CRD4/CRR by the end of July to the EU Council and EU Parliament. Public negotiations will then take place in the Council and Parliament

The EU Commission is expected to submit the draft CRD4/CRR proposals by the end of July to the EU Council and EU Parliament. Public negotiations will then take place in the Council and Parliament. The details of the European legislative process are set out in the flow chart in Figure 4 below. The timeline for the negotiations between the different EU legislative or “co-decision” bodies (Parliament, Council) is uncertain as the process is, by definition, political. We expect a conclusion of the political process in 2012.

In terms of process, the Commission’s proposal is delivered to the Parliament for the first reading. Next step is the Council (made up of individual member states’ government ministers). If the Council approves all of Parliament’s amendments or the latter approves the proposal without amendments then the Council can adopt the Act. However, if the Council disagrees with Parliament’s position, the Council can then put forward a “Common Position” which goes back to Parliament for a second reading. Parliament can either accept the new Common Position, reject it or propose amendments.

The process is long and potentially complicated. On average, a proposal agreed after first reading takes 15 months from the Commission proposal being presented until signature. If it goes to a second reading, the average time is 31 months. And if it goes to Conciliation, 44 months. Of acts adopted, 72% are agreed at first reading. Given that the Basel transition phase is supposed to start in 2013, we would expect the EU authorities to seek to conclude the Brussels process as quickly as possible.

Figure 4. European Ordinary Legislative Procedure ("Co-Decision") Flow Chart



Source: European Commission

The FSB is due to publish a draft proposal on systemically important financial institutions (SIFI) or "too big to fail" capital surcharge in July 2011

Latest speculation among market participants is that up to 80 institutions could be designated as G-SIFI

G-SIFI and Capital Buffer

The Financial Stability Board (FSB) is due to publish a draft proposal on systemically important financial institutions (SIFI) or "too big to fail" capital surcharge in July 2011. This would be followed by a relatively short comment period before the final proposal is presented to the G20 in November 2011. Given the 'arduous' process that is likely to have been undertaken in reaching global consensus, we do not expect significant changes between the initial and final proposals.

The BCBS together with the FSB is in charge of developing a principle-based solution to the problem of systemic importance. FSB defines SIFIs as "financial institutions whose disorderly failure, because of their size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity."

Global SIFIs (G-SIFIs) are systemically important to a number of different jurisdictions and need to be regulated at the global level. Current proposals envisage that national regulators would determine which banks are to be designated national SIFIs, based on principles and metrics developed at the BCBS level.

In October 2010, the Financial Times published a list of thirty purported G-SIFIs. Latest speculation among market participants is that up to 80 institutions could be designated as G-SIFI. However, we do not expect this list and the corresponding capital surcharge requirements to be published by the regulators.

As per the latest proposed framework, the SIFI/G-SIFI regulatory regime would be based on five initiatives:

1. A resolution framework which allows failing SIFIs to be resolved safely and quickly – and across borders in the case of G-SIFIs (i.e. a "dismantling manual").
2. Higher capital requirements in the form of more equity or contingent capital. Consensus is building around a 1-3% capital surcharge depending on a bank's size (eg total assets), interconnectedness (eg interbank in the overall financial exposure) and substitutability or importance to market infrastructure (eg payments system). This is the so-called "tiering" principle. The charge could potentially be met with common equity, CoCos or even Tier 2 capital - with an equivalence relationship between these three (e.g., €1 of CET1 = €1.5 of T1 CoCos = €2 of Tier 2).
3. More intensive supervisory oversight as well as greater peer review processes.
4. Robust core financial market infrastructures to reduce contagion risk.
5. Other supplementary requirements as determined by the national authorities, such as: capital incentives for banks to use CCPs for OTC derivatives; higher capital requirements for trading and derivative activities and complex securitisations; higher capital requirements for large exposures and for inter-financial sector exposures; and liquidity requirements that penalise excessive reliance on short term, interbank funding to support longer dated assets.

Figure 5. European Banks – Target Prices and Ratings

Bank	RIC	Rating	Currency	Last Price	Target Price	Country
Barclays	BARC.L	1M	p	259.95	324	UK
BBVA	BBVA.MC	1M	E	7.75	9.75	Spain
BNP Paribas	BNPP.PA	1M	E	52.35	69.00	France
Credit Agricole	CAGR.PA	2M	E	10.20	12.00	France
Credit Suisse	CSGN.VX	1M	SFr	34.53	53.00	Switzerland
Danske Bank	DANSKE.CO	2M	Dkr	101.50	125.00	Denmark
Deutsche Bank	DBKGn.DE	2H	E	39.75	45.00	Germany
Erste Bank	ERST.VI	2M	E	33.97	38.00	Austria
HSBC	HSBA.L	1M	p	621.70	850.0	UK
Intesa Sanpaolo	ISP.MI	2M	E	1.78	2.16	Italy
KBC	KBC.BR	1H	E	27.08	40.00	Belgium
Lloyds Banking Group	LLOY.L	1M	p	47.82	0.84	UK
Natixis	CNAT.PA	2M	E	3.51	4.00	France
Nordea	NDA1V.HE	2M	E	7.65	8.75	Sweden
RBS	RBS.L	1M	p	41.06	61.00	UK
SE Banken AB	SEBa.ST	2M	SKr	52.55	58.00	Sweden
SHB	SHBa.ST	2L	SKr	197.30	225.00	Sweden
Societe Generale	SOGN.PA	1M	E	39.84	60.00	France
Standard Chartered	STAN.L	1M	p	1567	2200	UK
Swedbank	SWEDa.ST	2M	SKr	105.90	125.00	Sweden
UBS	UBSN.VX	1M	SFr	15.43	20.00	Switzerland
UniCredit	CRDI.MI	2H	E	1.50	1.90	Italy

Banco Santander (SAN.MC; €7.70; 2M)

Source: dataCentral, CIRA

Appendix A-1

Analyst Certification

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