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EU publishes CRR3 and CRD6 in Official Journal

After extensive negotiations and final approval by both the Parliament and the Council of the European Union, the CRR3 and CRD6 proposals have been published in the Official Journal on June 19th, 2024, and will enter into force 20 days later.

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Both legal acts serve to implement the finalised Basel III rules in the EU and will now need to be implemented by banks.

CRR3	CRD6
Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor	Directive (EU) 2024/1619 of the European Parliament and of the Council of 31 May 2024 amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks

Overview of CRR3 and CRD6

CRR3: Capital requirements regulation

CRR3 introduces several changes to the calculation of Pillar 1 capital requirements, along with updates to the corresponding reporting and disclosure requirements. These changes primarily implement the Basel Committee's finalized Basel III framework, initially published in December 2017. While the rules of CRR3 will in general become applicable on the first of January 2025, it is by now widely expected that at least the rules regarding market risk ("Fundamental Review of the Trading Book" – FRTB) will be postponed by one year to ensure consistency in application with other large jurisdictions.

Key aspects of CRR3 include:

- **Credit Risk**: Revisions to the standardised and internal ratings-based approaches for calculating credit risk.
- **Credit Valuation Adjustment (CVA) Risk**: Updates to the approaches for CVA risk to better capture CVA risk and align with major adjustments to the market risk framework.
- **Operational Risk**: Introduction of revised standardised approach for operational risk that will be applicable by all banks.
- **Market Risk**: Revised trading book boundary and adoption of the FRTB approaches for capital calculation purposes.
- **Output Floor**: Introduction of an output floor to limit the variability of risk-weighted assets calculated by internal models.

CRD6: Capital Requirements Directive

CRD6 contains a number of revised rules regarding supervisory tools, in particular access to the EU's market by third country banks and entrenches the requirements to include ESG-related risks in banks' governance and risk management in EU law.

EU member states will now need to transpose the requirements of CRD6 into national law, to be applied by January 11th, 2026.

Key components of CRD6 include:

- **Supervisory Powers and Sanctions**: Enhanced powers for supervisors to impose sanctions and corrective measures.
- **Third-Country Branches**: Stricter requirements for third-country banks wishing to operate within the EU, ensuring they meet EU standards.
- **ESG Risks**: Mandating that banks incorporate ESG risks into their governance structures and risk management processes, reflecting the growing importance of sustainable finance.

Implications for banks and conclusion

The implementation of CRR3 and CRD6 will have significant implications for banks operating within the EU. These institutions will need to adjust their risk management and reporting frameworks to comply with the new requirements. Key areas of focus will include:

- Ensuring a high-quality implementation of the revised credit, market, and operational risk frameworks.
- Enhancing data collection and reporting capabilities to meet new reporting and disclosure requirements.
- Extending pricing and capital planning capacity to cope with the increased complexity of the output floor
- Incorporating ESG factors into governance and risk management practices, requiring potentially substantial changes in strategy and operations.

In addition to these factors, the ongoing consultation processes of several EBA ITS and RTS, which clarify vital parts of the banking package, pose a challenge and require an iterative approach to implementation. Furthermore, recent news about the postponement of the FRTB represents a regulatory concession aimed at achieving a level playing field. At the same time, this delay has the potential to disrupt existing project plans, creating renewed uncertainty. And not only for the banks themselves, but also potential for the EBA which needs to adjust reporting and disclosure requirements to accommodate the postponement in the templates.

Want to know more?

If you are interested in a more detailed presentation of the content of both legal acts, please reach out to us. In the meantime, we recommend the following materials:

- CRR3 Homepage
- CRR3 Whitepaper
- CRR3 Benchmark-Study
- CRR3 Poster
- Risk & Regulatory YouTube Channel

Get ongoing updates on the topic via regulatory horizon scanning in our research application, PwC Plus. Read more about the opportunities and offerings here.

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Keywords

Capital Requirements Directive (CRD VI), Capital Requirements Regulation (CRR III), Credit Valuation Adjustment (CVA), ESG, Internal ratings-based approach (IRBA), Kreditrisiken, Operationelles Risiko

Contact

Martin Neisen

Frankfurt am Main

martin.neisen@pwc.com

Christoph Himmelmann

Frankfurt am Main

christoph.himmelmann@pwc.com