BALANCING COMPLEXITY AND SIMPLICITY IN BANKING REGULATION

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Proportionality in European Banking Regulation | Bank of Greece
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Outline

EBA role in proportionality
• Development, implementation and enforcement of the Single Rulebook

Current status
• Evolution of the perception of proportionality in banking regulation
• Embedded proportionality in banking regulation

Issues identified
• Focus on compliance costs, in particular reporting and disclosure
• An analysis of the roots of the issue: size or requirements; multiplicity; heterogeneity

Possible solutions
• ‘Signposting’ the CRR
• Streamlining reporting
• Improving the way the EBA approaches proportionality
EBA role: Development and maintenance of the European Single Rulebook in banking

Aims

• High, effective and consistent level of regulation and supervision taking account of the varying interests of all Member States and the different nature of financial institutions
• Preventing regulatory arbitrage and promoting equal conditions of competition
• Ensuring the taking of credit and other risks are appropriately regulated and supervised
• Ensure safety and soundness of credit institutions taking account of the different types, business models and sizes of credit institutions (Art 8(1a))

Tools

• Developing technical standards and guidelines
• Advising on Level 1 changes and Commission delegated acts
• Ensuring application of Union law (e.g. breach of Union law investigations)
Evolution of the perception of proportionality

Proportionate to (limited) objectives
- Basic level of harmonisation
- Eliminating major obstructions to cross-border operations

Proportionate in application
- Gradual expansion in level of harmonisation
- Facilitation of passporting
- National transposition and application
- Coordination between supervisors

Balance harmonisation and complexity
- Full, directly applicable EU harmonisation
- Growth in complexity of banking business
- Growth in complexity of EU regulation, but replacing national rules (and discretions)
Examples of proportionality in L1

**Own Funds**
- Capital ratios: *specific derogation for small trading book* business
- Own funds RTS *differentiate on the basis of business models and apply specific requirements to cooperative banks*
- Availability of *standardised or more risk sensitive internal ratings based approach*

**Recovery & resolution planning**
- BRRD *simplified obligations regime*
- Can apply a *differentiated set of requirements having regard to the anticipated impact of failure of the institution concerned and other criteria*
- A similar approach applies for the calculation of minimum requirements for own funds and eligible liabilities (MREL)

**Treatment of G-SIIs and O-SIIs**
- Article 131(4) CRD: G-SIIs subject, on a consolidated basis, to *higher loss absorbency requirements (G-SII buffers) calibrated depending on the category of G-SII* to which the institution is assigned
- Recovery and resolution planning: EBA guidelines on simplified obligations say G-SIIs and O-SIIs should not be subject to simplified obligations

**Remuneration**
- Remuneration principles apply *in a manner and to the extent that is appropriate* to their size, internal organisation and the nature, scope and complexity of their activities
- *Remuneration Committee for significant institutions*
- EBA opinion on introducing exemptions included in CRR2 proposal
Examples of proportionality in L2/3

Reporting

- Application of templates, frequency, granularity

<table>
<thead>
<tr>
<th>Volumes of data points reported</th>
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<td>Figure 1: Number of reported data points and total assets</td>
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Disclosure

- EBA Guidelines on disclosure requirements (EBA/GL/2016/11) – G-SIIs & O-SIIs only
Issues identified: complexity

Commission call for evidence

- Suggestions of burden of particular rules vs support for general prudential strengthening
- Lack of empirical evidence

Wider range of comments on complexity

- Simpler rules for smaller/less complex institutions
- Tailor rules to business models
- Difficulty of identifying the latest applicable rules
- National implementations, national options
- ‘Gold-plating’
- Scale and pace of regulatory change – non-aligned timelines
- Overall complexity, and inconsistency, of the regulatory framework
- ESA guidelines adding layers of regulation, but calls for clarity on P1/P2/buffers/P2G
Potential solutions: Signposting

CRR2

- EBA to develop an electronic tool aimed at facilitating institutions’ compliance with the regulatory framework
- Enable rapid identification of the relevant provisions to comply with in relation to an institution’s size and business model
- Enable institutions to follow the changes made in the regulatory framework

Decision tree?

Lack of harmonised application criteria

Legal effects?

Useful? Achievable?

What does ‘follow the changes made’ mean?

Interaction with EUR-Lex
Solutions: Streamlining reporting

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<td>• Single framework of requirement for prudential reporting by all EU institutions</td>
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<td>• Fully harmonised to avoid divergent national requirements, fulfil all supervisory needs, reducing medium to long-term costs</td>
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<th>Problems</th>
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<td>• Costs and benefits are not aligned, and difficult to estimate accurately</td>
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<td>• One-off implementation costs and changes can be high</td>
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<td>• Additional requests received from supervisors and the EBA</td>
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<td>• ITS endorsement process – delays, misalignment, increased ad hoc requests</td>
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<td>• Reduced frequency and detail – NB consequences for supervision</td>
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<td>• Waivers of reporting requirements – undermines harmonisation benefits</td>
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<td>• Report on cost of regulatory reporting – part of regulatory cycle of adoption then review</td>
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<td>• Process improvements – EBA direct adoption of reporting requirements</td>
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<td>• Greater EU coordination of reporting requirements</td>
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Potential solutions: Improved impact analysis

Improve the EBA’s approach to proportionality in its regulatory work

- Expand data collection from a more diverse sample of institutions
- Consider range of dimensions of proportionality – including business models and the size and systemic nature of the institution.

Dimensions of proportionality

- CRD/CRR/BRRD: Size, shareholder structure, legal status, systemic nature, cross-border activity, interconnectedness, scope and complexity of activities, nature of business, risk profile
- How to standardise?
  - Categorised 6918 CRR institutions based on total assets, share of exposures secured by residential immovable property, trading book, derivative trading, cross-border activity, share of retail deposits, share of securities liabilities, share of interbank borrowing, leverage ratio, fee income relative to interest income)
  - Enables the EBA to assess impact on different, standardised, institution business models, together with size and cross-border activity
### Business model categories

- Cross-border universal bank
- Local universal bank
- Consumer credit banks
- Cooperative banks/savings and loans associations
- Mortgage banks taking retail deposits
- Savings banks
- Institutions not taking retail deposits (inc pass-through financing)
- Private banks
- Corporate-oriented
- Custodian institutions
- Other specialised banks (e.g. PDBs, Islamic finance, CCPs)
- Securities trading houses
- Investment firms