

*Proportionality as a  
function of banking  
diversity from  
a European Perspective*



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*1997 European Commission meeting in the Berlaymont building in Brussels*

# 1. The tone was set 40 years ago



## 1977: First European Banking Directive

- ◆ European Community with nine Member States



## Adoption of the one-tier regulatory system

- ◆ Strong political will in the EU *not* to follow the US 2-tier model

## 2. Diversity in the banking sector



◆ Diversity does not merely focus on size

◆ It rather encapsulates differences in **nature, scale and complexity** of the banks' activities



**This means that diversity is about business models**



# 3. The Principle of Proportionality (PoP)



## Proportionality in EU banking legislation

- ◆ The PoP is omnipresent in the regulatory framework applicable to financial services (e.g. CRR/CRD, MiFID)



## Proportionality and diversity: the relationship

- ◆ Just like diversity, the PoP should be rather viewed by reference to:
  - nature
  - scale
  - and complexity of a credit institution

## 4. One-tier regulatory system: Obstacle to diversity?



### Regulatory compliance as a fixed cost

- ◆ Burdensome, one-size-fits-all regulatory requirements may be disproportionate to the business model of certain banks
- ◆ Reduction of the *operational cost* could be a possible solution. This calls for a much more flexible application of the Principle of Proportionality

## 5. The relationship: Operational cost, Proportionality & Diversity



- ◆ The application of the proportionality principle in the context of the reduction of the reporting and disclosure requirements helps preserve the diversity in the banking sector landscape

# 6. Methodology of the CRR Review on the PoP & Assessment of its provisions



## Piece-meal approach

- ◆ The CRR Review deals with the **Proportionality Principle** by adopting a **piece-meal approach**



## Consequences

- ◆ The immediate relief which the CRR intends to bring to smaller/less complex banks is **actually non-existent**



# 7. Most salient CRR Review provisions in the area of the Principle of Proportionality



## CRR Review

### ◆ Reporting Requirements

- The CRR Review leaves most of the supervisory reporting requirements untouched. The main change which it seeks to introduce is to reduce the reporting frequency of “small institutions”
- **This brings only meagre relief to smaller banks**

### ◆ Public Disclosure Requirements – six categories:

1. G-SII's and O-SII's
2. Large listed institutions
3. Large non-listed institutions
4. Small listed institutions
5. Small non-listed institutions
6. Significant subsidiaries

## 8. Proportionality & 'Clever de-regulation': Is it a *stepping stone* for diversity?



### What the CRR Review may achieve

- ◆ CRR uses Proportionality Principle a initial *stepping stone* for a clever de-regulation (reporting requirements)
- ◆ CRR amendments open up prospect of more far-reaching reforms in the PoP area via the expected EBA technical standards



### Clever de-regulation and banking sector diversity

- ◆ **De-regulation** eliminates **red tape** for less complex companies,  
→ helping preserve **diversity** in banking

# 9. Issues for further research



## Industry supports idea that diversity is needed in banking

- ◆ Diversity underpins the economy (competition, stability etc.)



## Some aspects require further research

- ◆ How can PoP be specifically applied across different business models?
- ◆ Do we need to move to a two-tier (or even multi-tier) regulatory system in view of the experience in the US?