



# 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

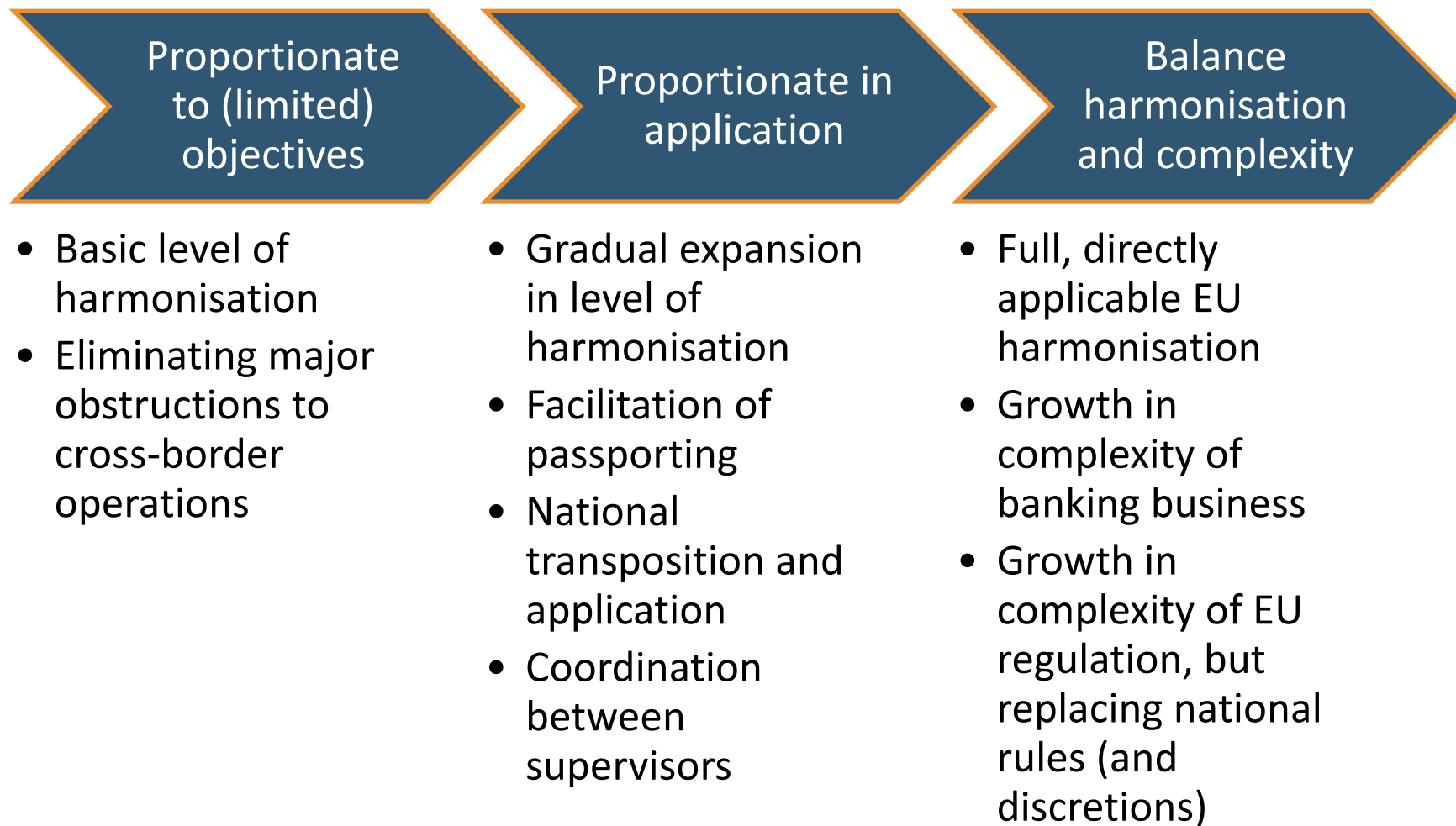
## Aims

- 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



# 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

### Volumes of data points reported

Figure 1: Number of reported data points and total assets

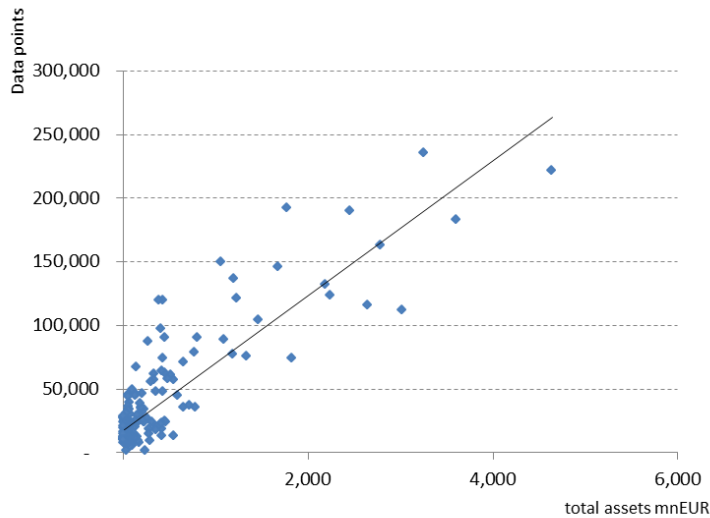
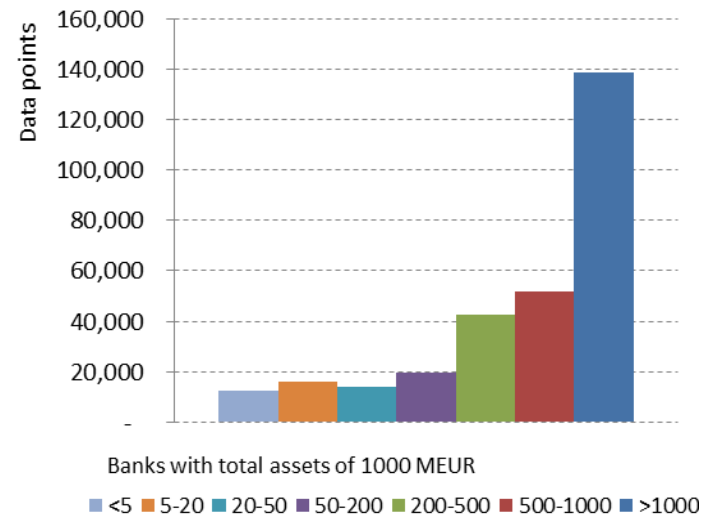


Figure 2: Average number of reported data points by size of institutions



## Disclosure

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

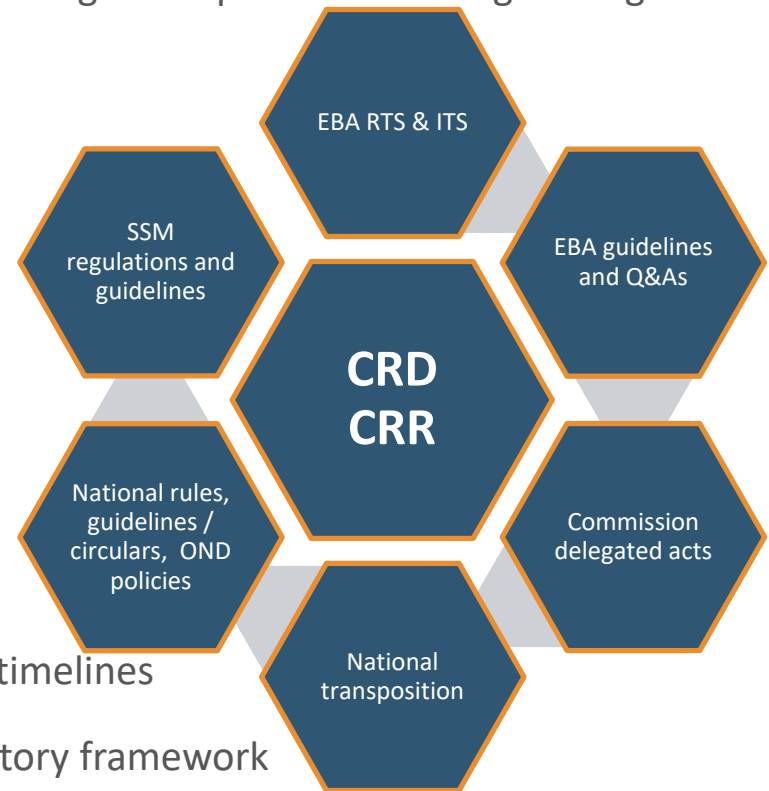
# Issues identified: complexity

## 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

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Decision tree?

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Lack of harmonised application criteria

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Legal effects?

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Useful? Achievable?

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What does 'follow the changes made' mean?

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Interaction with EUR-Lex



# Solutions: Streamlining reporting

Aim	Problems	Options
<ul style="list-style-type: none"> <li>• Single framework of requirement for prudential reporting by all EU institutions</li> <li>• Fully harmonised to avoid divergent national requirements, fulfil all supervisory needs, reducing medium to long-term costs</li> </ul>	<ul style="list-style-type: none"> <li>• Costs and benefits are not aligned, and difficult to estimate accurately</li> <li>• One-off implementation costs and changes can be high</li> <li>• Additional requests received from supervisors and the EBA</li> <li>• ITS endorsement process – delays, misalignment, increased ad hoc requests</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced frequency and detail – NB consequences for supervision</li> <li>• Waivers of reporting requirements – undermines harmonisation benefits</li> <li>• Report on cost of regulatory reporting – part of regulatory cycle of adoption then review</li> <li>• Process improvements – EBA direct adoption of reporting requirements</li> <li>• Greater EU coordination of reporting requirements</li> </ul>

## 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

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Cross-border universal bank

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Local universal bank

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Consumer credit banks

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Cooperative banks/savings and loans associations

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Mortgage banks taking retail deposits

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Savings banks

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Institutions not taking retail deposits (inc pass-through financing)

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Private banks

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Corporate-oriented

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Custodian institutions

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Other specialised banks (e.g. PDBs, Islamic finance, CCPs)

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Securities trading houses

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Investment firms



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