

EBA 2nd Proportionality Workshop:

Session 2

Spotlight on current workstreams on
proportionality and simplification

EBA's Banking Stakeholder Group



Background

EBA Banking Stakeholder Group

- Working Group on Proportionality formed June 2014.
- Out of the 30 members of the BSG, 14 participate in the ad hoc working group on proportionality.

BSG contributes to EBA Consultation and Discussion papers on a wide range of regulatory issues, RTS and ITS.

- Using this experience and the variety of expertise that its diverse membership brings to its work, the BSG has considered the important issue of Proportionality.
- All aspects of economic activity are affected by the banking system, therefore the regulation of the sector, and the proportionality of banking regulation, is a central issue.

Background / Assessment:

No clear definition
of proportionality

BSG own-initiative
report would raise
awareness

Different business models affected
differently by newly-created
legislation (since the crisis)

Proportionality Project

Executive Summary

Preface

- Formal mandate by European Commission and other regulatory authorities that regulatory requirements should be “proportional”. Four dimensions have been identified by the BSG:
 - Whether a particular regulation that is meant to apply to all regulated institutions is disproportionate in relation to the objective sought,
 - Whether a particular regulation is disproportionate because it applies to regulated institutions to which it should not be applied: the materiality principle,
 - The extent to which the totality of regulation (as opposed to each regulation taken separately) is excessive for the key regulatory objectives,
 - Regulation is excessively and unnecessarily complex for the objectives that are sought.
- The BSG identifies some areas in the four dimensions where proportionality is lacking.

Proportionality Project

Introduction

Definition of the Principle of Proportionality

- Scope of the Principle of Proportionality
- Legal Definition of Proportionality
- Economic Concept of Proportionality

Proportionality Project

Application

- Supervisory Reporting
- Liquidity
- External Models
- Governance relating to Risk Models
- Leverage Ratio
- Corporate Governance
- Retail Banking

Costs and Impact on Stakeholders

- Cost of Regulation
- Cost/Benefit Equilibrium

Proportionality Project

Recommendations

- High-Level Recommendations at end of document
- Technical Recommendations throughout the paper

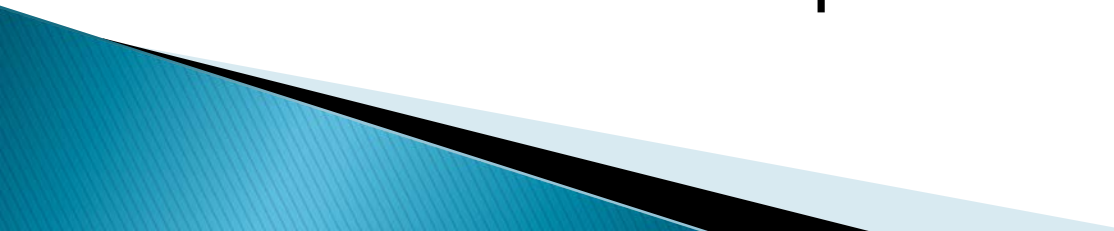
Recommendations (I)

- ▶ These are the high-level recommendations which can be found in the BSG position paper:
 - Regular, independent reviews of the issue of excess complexity, and of the application of the Principle of Proportionality and its balance with other objectives of financial regulation.
 - Regulatory agencies should establish within their organisations a semi-autonomous Proportionality Review Group accountable directly to the Chair and Chief Executive of the agency.

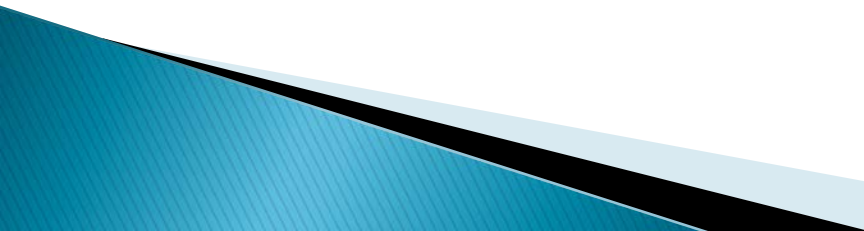
Recommendations (II)

- Enhanced focus on future Level 1 rules being introduced with a view to providing a reasonable degree of flexibility;
- The Principle of Materiality and the definition of the Principle of Proportionality should be published in a harmonised, horizontal ESAs guideline.

Recommendations (III)

- Consideration should be given to making adequate differentiations between different types of institutions, especially whether some regulations impose a disproportionate cost on different types of institutions.
 - Processes for and implementation of cost/benefit evaluations should be clarified and improved.
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Recommendations (IV)

- Supervisory reporting requirements should be reviewed, e.g. removing unnecessary duplication and introducing more differentiation between different types of institutions. Consideration should be given to adopting a differentiated leverage ratio for different business models.
 - Impact analyses should themselves be proportionate with respect to the significance and complexity of the issue being addressed.
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Recommendations (V)

- A high-level Task Force should be established by the European Commission in Level 1 to evaluate and describe how the Principle of Proportionality should be interpreted for the regulation of the financial industry. Sufficient resources (manpower and financial) must be allocated to secure a quick response to its defined mandate:
 - Describe how the Principle of Proportionality has been interpreted and implemented hitherto;
 - Propose future application of the Principle of Proportionality for regulation of the financial industry;
 - Decide what impact, and which adjustments, the proposed application of the Principle of Proportionality would imply for the existing regulatory framework;
 - Propose relevant further implementation actions, timeline and responsible bodies, as well as resources needed.

Next Steps

- ▶ Final paper to be presented/distributed in early Autumn 2015
- ▶ Final paper will be available from the EBA's website: <http://www.eba.europa.eu/about-us/organisation/banking-stakeholder-group/publications>
- ▶ Comments and queries can be directed to: proportionality@wsbi-esbg.org

Thank you for listening

QUESTIONS?

