

Criteria for Proportionality as Key Benchmark for EBA Technical Standards and Guidelines

EBA Proportionality Workshop
London, July 3, 2015

Erich Loeper, Banking and Financial Supervision Department

Contents

Criteria for Proportionality as Key Benchmark for EBA Technical Standards and Guidelines

Introduction

Balancing Harmonisation and Proportionality

Existing Proportionality: O-SII Guidelines

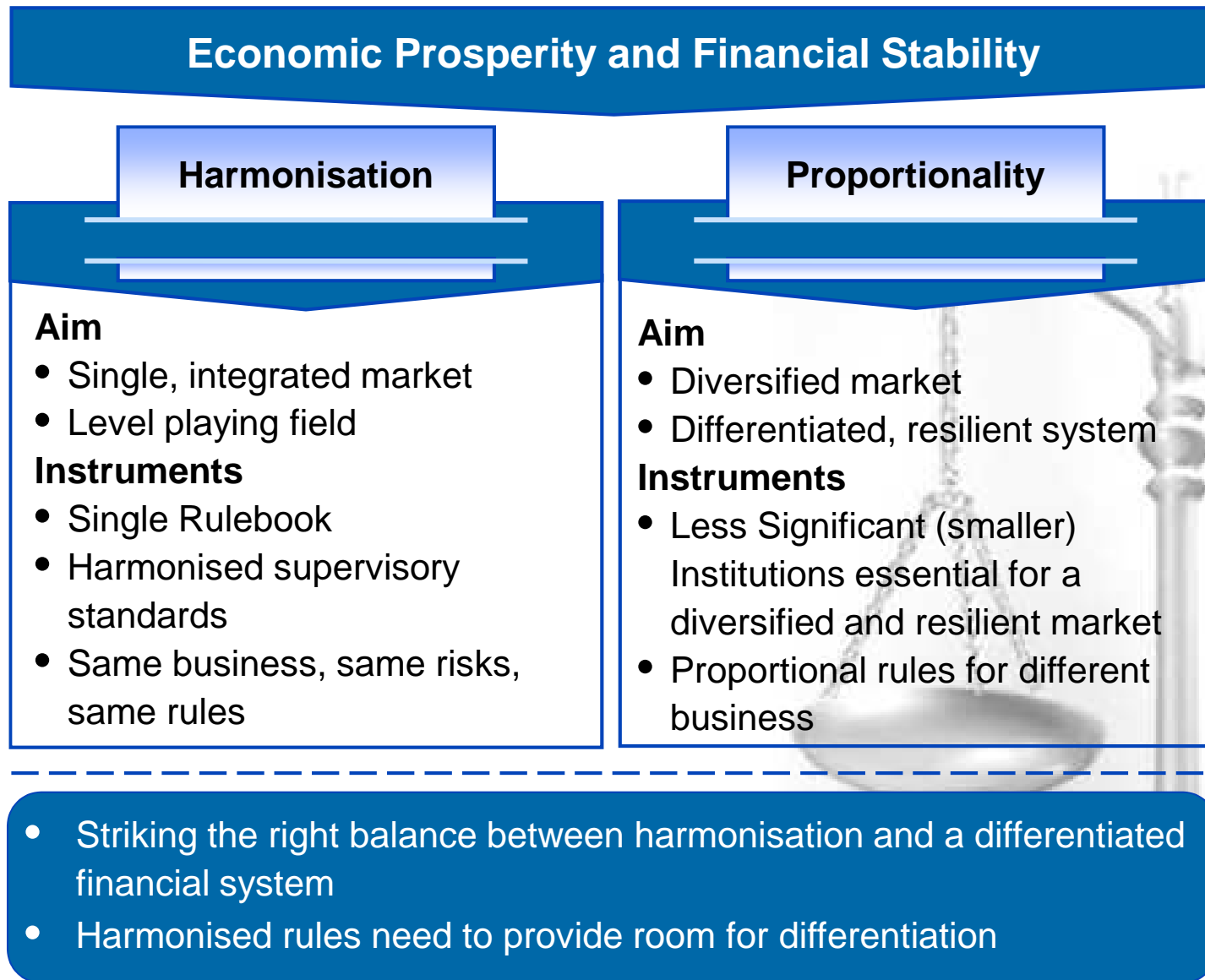
Extending Proportionality to LSIs: Challenges

Extending Proportionality to LSIs: Criteria and Instruments

Conclusion

The Right Balance Between Harmonisation and Proportionality

Balancing Harmonisation and Proportionality



EBA GL on O-SII Assessment Accommodate Proportionality

Existing Proportionality: Guidelines on O-SII assessment (EBA/GL/2014/10)

1

Scoring

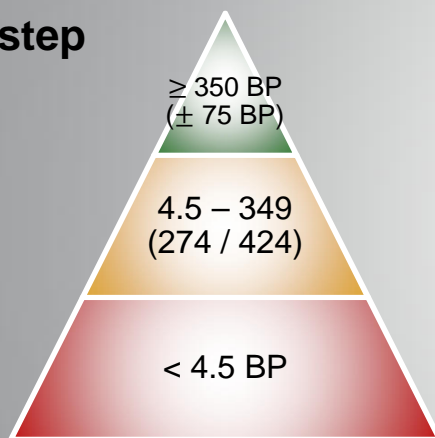
Category (weight)	Mandatory indicators (e.g.)	Optional indicators (e.g.)
Size (25%)	Total assets	Market capitalisation
Importance (25%)	Value of dom. payment transact.	Number of retail customers
Complexity (25%)	Cross-jurisdictional liabilities	Securitised debt
Interconnectedness (25%)	Intra-financial system liabilities	Connectivity to / from foreign NBs



2

Assessment and identification

1st step



O-SII



Potential O-SII



No O-SII

2nd step



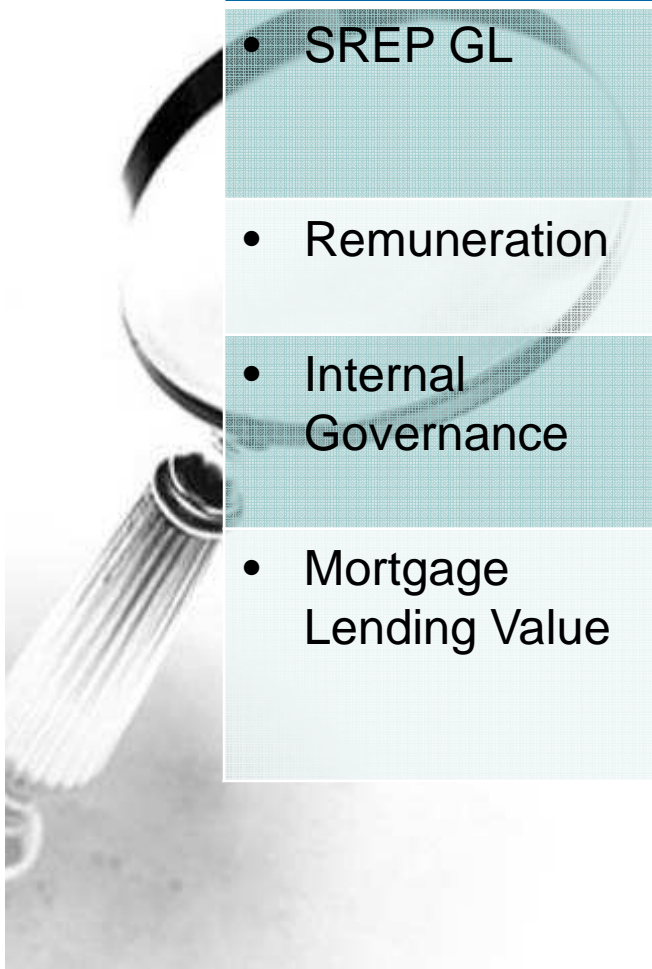
3 Supervisory judgement



4 Possible exemption (if <0.02% of total assets)

Proportionality Could Be Further Strengthened

Extending Proportionality to LSIs: Challenges



Issue area	Potential for Proportionality
<ul style="list-style-type: none">• SREP GL	Omit disproportionate elements from the supervisory review of LSIs (e.g. evaluation of intraday liquidity for very small banks)
<ul style="list-style-type: none">• Remuneration	Minimum level for variable remuneration which should be exempted from strict requirements
<ul style="list-style-type: none">• Internal Governance	Requirements for management bodies of smaller banks should be less strict (e.g. education/experience, time commitment, diversity)
<ul style="list-style-type: none">• Mortgage Lending Value	Threshold for mortgage lending exposures, i.e. exposures below a specified threshold could have lower requirements regarding employee qualifications, governance stipulations etc.

Criteria for Applying and Extending Proportionality

Extending Proportionality to LSIs: Criteria

General criteria (to be adapted and specified in context of specific TS/GL)*

- Scale of
 - institution (e. g. total assets, own funds, risk weighted assets)
 - specific exposure class (e. g. retail portfolio)
 - single exposure
- Nature, i.e. business model (e. g. trading book vs. non-trading book institutions; mutuals, cooperatives and savings banks; investment firms that cannot deal on their own accounts)
- Complexity and cross-border activity (e. g. ratio cross-jurisdictional assets to total assets, value of OTC derivatives, domestic-only institutes; number and complexity of business lines)
- Interconnectedness (e.g. intra-financial system liabilities/assets)
- Riskiness of an institution's business activities (e.g. internal capital adequacy; risk profile)

* An extensive list of available indicators is contained in the GL on O-SII Assessment (EBA/GL/2014/10)

Instruments to Make Requirements Proportional

Extending Proportionality to LSIs: Instruments

Instruments to achieve proportionality in TS/GL

- Exclusion of
 - institution (e. g. an entire TS/GL or elements thereof do not apply to a very small LSI or non-trading book institutions)
 - specific exposure class (e. g. retail portfolio is exempted)
 - single exposure (small exposures below a certain threshold have to comply with less stringent governance requirements)
- Reduced requirements for internal risk management, governance, supervisory reporting
- Reduced frequency and/or simpler requirements for reporting/disclosure and internal calculations (e.g. liquidity requirements)
- Level of compliance at consolidated level only
- Simpler approaches (e.g. for standardised approaches)
- Discretionary room for (N)CA decision making (e.g. granularity factor of retail exposure class)

General Criteria and Their Adaptation in Specific Areas

Extending Proportionality to LSIs: Criteria

Aim

- (1) Differentiate the application of RTS/ITS/GL such that requirements can be adapted or reduced for smaller institutions, where sensible (condition: no prudential concerns)
- (2) Clear procedural stipulations for the consideration of proportionality in the development of TS/GL

Approach

- (1) *General criteria* to be considered when developing TS/GL
- (2) *Process definition* of how to evaluate proportionality concerns when developing TS/GL
- (3) *Criteria adaption* in the context of specific TS/GL in working groups

Contact Details

Erich Loeper

E-mail: erich.loeper@bundesbank.de

Tel: +49 69 95662151

Deutsche Bundesbank

Wilhelm-Epstein-Strasse 14

60431 Frankfurt am Main

