POSITION PAPER

ESBG response to the EBA consultation on a proportionality assessment methodology

ESBG (European Savings and Retail Banking Group)

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ESBG

I. General comments:

We welcome the EBA's commitment to using, primarily and as far as possible, already existing data from its database of supervisory reporting without requesting additional input from the institutions. However, in case additional data from institutions is needed for a proportionality assessment, we urge the EBA to deliver on the promise that such data collections are proportionate to the complexity of the underlying requirements itself and to the burden of institutions and supervisors to deliver such data (as indicated in paragraph 84 of the Discussion paper).

Maximum transparency in the classification procedure by the EBA and a clear definition of the basis on which the decision regarding Classification II (business models) was made, is highly desirable. The EBA should take this into account particularly when developing specific indicators for further clustering institutions into business models (as referred to in paragraph 28 of the Discussion Paper).

II. Questions:

1. Do you agree with the two steps that proportionality assessment addresses?

We consider the step-by-step approach to be suitable in principle. However, the procedure in step 2 is not clear. In our view, the proposals for the metrics are not yet fully developed. It is not sufficiently clear how on this basis - without concrete benchmarks - the decisions of a political expert can be better supported.

2. Do you agree with Classification I to be used for proportionality assessment? Given that quantitative thresholds are also being used for the classification of credit institutions, the EBA would welcome suggestions for the regular recalibration of these thresholds, in view to maintain the sample size and composition relatively stable over time.

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It is to be welcomed that EBA is placing greater emphasis on the topic of "proportionality in regulation" with the discussion paper and that this will also provide guidance for more proportionality in future regulations.

However, the proposed classifications (I - IV) are very largely based on existing classifications (already used in parts). Although the establishment of the category ″other institutions″ as a simple residual set of CRR2 definitions is to be welcomed, it nevertheless consists of a range of €25 billion in total assets and thus has little discriminatory power.

Thus, a sufficiently fine granularity is still not created and the discussion paper lacks concrete proposals in this regard. Furthermore, it is not sufficiently clear how the interplay of the various (quantitative and qualitative) classifications can be implemented in practice.

3. **Do you agree with Classification II to be used for proportionality assessment? Do you consider the broad business model categories as adequately representative for proportionality assessment?**

In general we agree with the proposed classifications. Especially in regard to the classification of co-operative and savings banks. These banks are by nature local, rather small banks with a low risk profile and a focus on core banking business (savings and loans, see also Table 3).

The categorization of credit institutions should be done on different levels of consolidation depending on the reason or particular occasion (when feasible, their classification should be done based on the institution's solo level). Concretely, the EBA should ensure that the proportionality considerations are also applied to small and non-complex institutions that are part of a consolidated group, particularly credit institutions that are only locally / regionally active and therefore do not have a systemic impact. We urge the EBA to take such institutions into account when designing a proportionate approach for future requirements, wherever this is possible.

We sympathize with the method, which is based on the business model, but believe that it should be refined. We find it problematic that with Classification 2 there is a risk that "cross-border universal bank" and "Local universal bank" will be included in the same classification category regardless of the size of the Local universal bank. Classification 2 should be adjusted in the light of the fact that ″Local universal banks″ are equated with ″savings banks″, as they e.g. also have a very simple business model and also can never become a threat to financial stability. We, therefore, propose that ″Local universal banks″ will be moved into the main category ″Retail oriented banks″ in the case of a ″Local universal bank″ with a balance of less than 5 billion Euro. The proposed adjustment means that Classification 2 takes proportionality into account to a greater extent in relation to smaller local banks.

4. **Do you agree with Classification III that integrates CRR2 classification of credit institutions?**

We generally do agree to the extent that Classification III results may be used to compare quantitative assessments. It might enable the supervisors to develop an overview and a better understanding of how proportionality is currently implemented by CRR 2 and how much is actually needed when taking into account the results of Classification I and II.

In this context, however, we would like to point out that Classification III has clear disadvantages compared to Classifications I and II. Institutions that are to be subject to the strictest regulation are to be delimited by means of a size criterion (€ 30 billion balance sheet total; point 31 lit. d of the EBA discussion paper). A delimitation on the basis of the balance sheet total would contradict the basic idea of a sufficiently differentiated regulation on the basis of the proportionality principle. In its report on the CRR amendment, the EU Parliament also pointed out at the time that the size of an institution alone is not decisive for the risk profile of an institution.

The rigid limits used in the CRR prove to be problematic in practice, as only the volume of business is taken into account, while aspects that are particularly relevant for the risk situation, such as the complexity and internationality of the business model or the interconnectedness of the institution, are disregarded.
In contrast, the delimitation of systemically important institutions according to the principles of the Basel Committee is based at least on four main factors. In addition to size, these include the interconnectedness of the institution or group, substitutability and complexity. The EBA has adopted these main factors in its corresponding guidelines (EBA/GL/2014/10) and operationalised them using 10 differentiated indicators. The national supervisory authorities are free to use further indicators for the assessment of systemic relevance. For example, the German supervisory authority currently uses 17 different indicators to map the risk profile of the institutions. The balance sheet total is only one of the relevant indicators.

The delimitation of margins in relation to "other" institutions of €25 billion balance sheet total associated with the classification III category 2 has too little discriminatory power for the purposes of the proportionality principle. It would make sense to build on existing systems such as the procedure for determining otherwise systemically important institutions (A-SRIs), in which factors such as the size of the institution, economic significance, cross-border activities and interconnectedness with the financial system are already assessed within the framework of a score system.
In addition, we point out that the banks classified as "other" institutions according to the CRR categorisation are subject to a range in relation to

the balance sheet total criterion of € 25 billion. Here, too, the discriminatory power is too low for a proportional stratification of regulation. For example, with regard to the German banking industry, numerous savings banks, co-operative banks and private banks are in this category of "other" institutions, which only operate regionally and for this reason alone require different regulation than supra-regionally or even internationally active institutions. Smaller institutions-not internationally active – do not pose a threat to financial market stability.

5. **Do you agree with Classification IV for investment firms to be used for proportionality assessment, where relevant? Do you consider necessary the EBA to establish an additional classification according to the size of investment firms?**

6. **Do you agree with the predefined metrics above? Do you have any further suggestions for the presentation of results, the addition of new metrics or the modification of the proposed ones?**

About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 900 banks, which together employ more than 650,000 people driven to innovate at roughly 50,000 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion in corporate loans (including to SMEs), and serve 150 million Europeans seeking retail banking services. ESBG members are committed to further unleash the promise of sustainable, responsible 21st century banking. Our transparency ID is 8765978796-80.

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