Have we reached a new normal in prudential policies?

Colloquium “Ten years after the start of the crisis: contours of a new normal”, 14 September 2018

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The new financial regulatory framework

more robust

- Improved quantity and quality of capital (increased equity)
- Revisions to credit risk, market risk, CVA, Op risk
- Revised output floor

broader in scope

- New areas of coverage
  - Leverage
  - Liquidity

more flexible and forward-looking

- Governance (fit and proper, conduct risk, remuneration)
- Resolution regime
- Counter cyclical buffer and other macro prudential aspects
The new financial regulatory framework

Too complex for all

To build safeguards, we need to reject complexity

→ Complexity however is often the result of risk sensitivity and proportionality

Striking the right balance: simplicity versus complexity

More complex rules

Simpler rules

e.g. Materiality thresholds per risk category

e.g.

Tiered banking sector

Business models

One-size fits all
Business models vs a tiered approach

Regulatory impact

- Assess how different groups of banks might be affected by forthcoming regulation and how they might adapt to incorporate these new rules into their business strategies
- Proportionality, as some business models are also often correlated with size and complexity
- E.g. LCR, NSFR and Leverage ratio reports

Macro level

- Understand at a macro level the various business models, as they determine the types of risks the institutions are exposed to and possible threats to financial stability
- Respond to proportionality issue
- Preserve the Single Market deepening

Micro view

- Specify rules in accordance to business models’ risks
- Assess performance and riskiness in relation to its peers
- E.g. SREP guidelines
Business models take into account the differences between countries
Credit institutions’ categorisation in the EU

Used for:
- Reasoning impacts of new regulation.
- Specify some priorities.
- Scrutinizing the solvency, the resolvability.

- 57.5% are co-operative banks. The next biggest categories are savings banks (13.8% of credit institutions) and local universal banks (10.2%).

- Total assets are concentrated in cross-border universal banks (39.3%) and local universal banks (20.2%), which also reflect more generally their larger average size.