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EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Proposal amending: -Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms; - Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms; - Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms; - Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund

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Executive Summary Sheet

Impact assessment on proposals amending Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms, Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms, Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund

A. Need for action

Why? What is the problem being addressed? Maximum 11 lines

In the interests of financial stability and the Commissions jobs and growth agenda, there is a pressing need to; address a number of shortcomings in the existing regulatory framework; to implement a series of post crisis International measures; and to urgently complete the banking union initiatives. More specifically, at present there are significant risks to financial stability and a worrying lack of sustainable bank financing of the economy. In addition, more needs to be done to ensure that the taxpayer does not have to bear the burden of the failure of a 'too-big-to-fail' institution in the future. Moreover it is also essential to try and reduce, where possible, the disproportionate regulatory and compliance burdens.

These issues can be attributed, in part to the following factors:

- A risk of excessive reliance on short-term wholesale funding to finance long-term activities;
- A risk of excessive leverage of institutions;
- Suboptimal Capital charges for SME exposures ;
- A risk of disorderly failure of systemically important institutions;
- Possible failures resulting from inadequate capital requirements for institutions; and
- Insufficient harmonisation of certain resolution provisions (for example those concerning insolvency ranking and moratorium)

What is this initiative expected to achieve? Maximum 8 lines

The initiative aims to, in the first instance, address the issues already highlighted above. In so doing it will also; enhance 'risk-capture' and. risk-sensitivity within the prudential framework'; improve the capacity of loss-absorption and recapitalisation of G-SIBs; and increase proportionality. In addition we envisage that the initiative will reduce administrative burdens, compliance costs' and the possibilities of risk arbitrage while enhancing the level playing field and ensuing greater legal certainty and coherency,

What is the value added of action at the EU level? Maximum 7 lines

EU action is necessary since the prudential requirements for institutions are already dealt with at EU level. As such an amendment of the CRR, CRD and BRRD legal instruments is considered to be the best alternative (see Article 114 TFEU for the CRR and BRRD and Article 53(1) TFEU for the CRD for the legal basis). Further action at EU level would promote a uniform application of the regulatory standards and the convergence of supervisory practices. It would also ensure a level playing field throughout the EU, which is important as banks – even though differing in geographical scope – operate in markets with a broader geographic scope and are free to provide services and establish in other Member States. Nevertheless, Member States and national competent authorities would retain existing powers to address specific national economic and financial features (macro-prudential policies and systemic risk buffers).

B. Solutions

What legislative and non-legislative policy options have been considered? Is there a preferred choice or not? Why? Maximum 14 lines

Both legislative and non-legislative options were considered for all aspects of the proposals. However, in the interest of legal certainty and to be conducive for ensuring an EU and Global level playing field, it will be necessary, particularly for the implementation of the International standards adopted by the Basel Committee on Banking Supervision (BCBS) or the Financial Stability Board (FSB), to implement these as legislative policy options.

Similarly, the recalibration of the capital requirements for exposures to SMEs which supports the Commission's objective of growth and jobs, could be achieved only by making amendments to the CRR.

Moreover, with regards to the proportionality objective, changes to the legal text would be imperative.. These include either removing some obligations from the existing legislation (e.g. reducing some disclosure requirements for less significant institutions, waiving some remuneration requirements for smaller and less complex institutions), or not introducing legal requirements for some institutions (e.g. limiting TLAC requirement only to global systemically important institutions (G-SII), or excluding public development banks from the leverage ratio requirement).

In addition, there is a need to address the lack of harmonisation under the resolution provisions and this can only be achieved by introducing options that facilitate greater coherence in the application of moratorium tools and elaborating on the insolvency ranking of institutions' creditors .

Who supports which option? Maximum 7 lines

In a vast majority of proposals addressed in the Impact Assessment, institutions would typically argue for a reduction in prudential requirements, while supervisors would defend the more prudent approach reflected in the standards delivered by the BCBS. Businesses, particularly SMEs, would advocate for extensions on capital reductions for exposures to SMEs.

However, both the industry and supervisors almost unanimously support clarifying the application of the principle of proportionality in relation to remuneration.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise main ones)? Maximum 12 lines

Implementing the different preferred options would ensure that EU institutions would i) be better capitalised, ii) have more stable sources of funding, iii) not have excessively leveraged balance sheets and, iv) be resolved more effectively. They would thus be better positioned to withstand economic shocks. This would in turn reduce the risk of their failure and thus reduce the probability that they would need to be bailed-out by the public sector. In the event that an institution (in particular a G-SII) would fail, the introduction of the targeted measures for strengthening the resolution process should ensure that the institution would be resolved with minimal impact on taxpayers.

Furthermore, the additional measures to increase the proportionality of some of the requirements (related to reporting, disclosure and remuneration) should decrease the administrative and compliance burden for smaller/less complex institutions. In addition, the measures considered in the context of bank resolution should provide legal clarity and will thus provide more certainty for resolution authorities and institutions, as well as to increase the confidence of investors.

What are the costs of the preferred option (if any, otherwise main ones)? Maximum 12 lines

To the extent that an institution currently does not have sufficient own funds to meet the new (or revised) own funds requirements contained in the proposal, it would have to either raise additional own funds or reduce its exposures. Similarly, if an institution currently does not have sufficient amounts of stable funding to meet the stable funding requirement it would need to raise additional stable funding or change the maturity structure of its assets. Also, changes in the requirements would also lead to one-off costs due to changes to reporting systems. However, for smaller institutions, the lower recurring reporting costs due to the simplifications to the reporting and disclosure requirements should result in a net benefit to these firms.

The abovementioned costs would mostly materialise in the short term and are expected to be outweighed by the long term benefits of a more stable financial sector.

How will businesses, SMEs and micro-enterprises be affected? Maximum 8 lines

The proposed recalibration of the capital requirements for bank exposures to SMEs is expected to have a positive effect on bank financing of SMEs. This would primarily assist those SMEs, which currently have exposures beyond €1.5 million as these exposures do not currently benefit from the SME supporting factor.

Other proposed options in the Impact Assessment, particularly those aimed at improving the resilience of banks to future crises, are expected to increase sustainability for lending to SMEs.

Finally, measures aimed at reducing compliance costs for institutions, particular the smaller and less complex ones are expected to reduce borrowing costs for SMEs.

Will there be significant impacts on national budgets and administrations? Maximum 4 lines

No

Will there be other significant impacts? Max 6 lines

No other significant impacts are envisaged.

D. Follow up

When will the policy be reviewed? Maximum 4 lines

The evaluation of the impact of this package will be conducted five years after the legislation enters into force which is consisitant with the methodology agreed before launching the evaluation.