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EUROPEAN COMMISSION
IMPACT ASSESSMENT BOARD

Brussels, 15 AVR. 2011
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Opinion

Title **DG MARKT - Impact Assessment on: a Directive amending the Capital Requirements Directive as regards enhanced capital requirements, liquidity requirements, and a leverage ratio**
(Resubmitted version of 30 March 2011)

(A) Context

The financial crisis revealed serious shortcomings in the international framework for banks' capital requirements designed by the Basel Committee and applied in the EU through the Capital Requirements Directive (CRD). As a response, a process seeking to identify internationally agreed solutions was launched by the G-20 and has led to a series of Commission proposals, the latest of which (CRD IV) is principally meant to reflect the agreement reached within the Basel Committee over the summer of 2010 for a new international capital framework (so called Basel III).

(B) Overall assessment

The report has been improved along the lines of the recommendations issued by the Board in the first opinion, making it more accessible to the non-expert reader. Nevertheless, various aspects should be further improved. Differences between the preferred option and the Basel III proposals need to be discussed and justified in much greater detail. The analysis of microeconomic impacts on different stakeholders, notably bank clients like SMEs, also needs to be further improved. The content and choice of the preferred option concerning the single rule book should be better explained. Finally, a further effort to simplify the report's language and to better present stakeholders' views should be made.

(C) Main recommendations for improvements

(1) Spell out and clearly justify differences with the Basel III proposals. The revised report has clarified the content of the options and brought forward the analysis of the proposed levels and transitional arrangements for the capital ratios. While somewhat more transparently presented, all differences and complementarities between the preferred option and Basel III should be highlighted and explained in much greater depth and clarity. This appears relevant for policy options 3.3 (eligibility criteria and regulatory adjustment for capital instruments), 4.3 (counterparty credit risk and exposure to central counterparties – see footnote 73), 5.3 (leverage ratio) and 6.4 (dual capital buffer). The

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report should also comment more extensively on the differences between the preferred option and the proposals for higher capital thresholds (or definitions) mooted in some key constituencies - including Member States. The value-added of considering the February 2010 public consultation option as a realistic policy alternative should also be better demonstrated. The reasons why the February 2010 option concerning the liquidity coverage ratio is discarded should also be better explained (§ 5.1.1) since it is assessed to be more efficient and only marginally less effective than the preferred Basel III option.

(2) Further strengthen the analysis of impacts. The revised report is more explicit about the impacts on banks with different business models and about the views expressed during the public consultation. However, it should further strengthen the discussion of microeconomic impacts (on bank profitability, cost for clients etc.) across all options taking into due account EU specificities and summarizing its aggregate conclusions in a clear comparative table. The report should also provide a more developed analysis of the possible effects on banks' clients, notably SMEs and private households. In this respect, the report should assess the risk that refinancing costs would increase for small and medium-sized banks and be passed on to their clients.

(3) Better justify the preferred option concerning the single rule book. The revised report more clearly presents the fundamental differences between the options concerning the single rule book. It does not, however, specifically identify the areas where national provisions going beyond the CRD are justified or where harmonising towards the most prudent standard would be warranted on the basis of existing evidence. The report should also explain why the option of maximum harmonisation would be the least effective for enhancing financial stability and should therefore be discarded (table 10, p.42).

(4) Further simplify and shorten the report to increase accessibility to the non-expert reader. While the revised (and shortened) report explains more clearly the problems and transparently links them to policy goals and tools, there still remains considerable scope for simplifying the text by using a less technical language throughout and notably in the sections on net stable funding ratio and counterparty credit risk.

(D) Procedure and presentation.

Other presentational recommendations have been largely taken on board. The title of Annex I should be changed into "Extended Impact (or Background) Analysis" to avoid confusion with the main Impact Assessment report. The views of different categories of stakeholders should be more comprehensively reflected throughout the report, and the summaries of all public consultations including the ones in late 2010 and early 2011 should be added as annexes (or made accessible via web links).

(E) IAB scrutiny process	
Reference number	2009/MARKT/073
External expertise used	No
Date of Board Meeting	Written procedure The present opinion concerns a resubmitted draft IA report. The first opinion was issued on 15 November 2010