European Commission

INCEPTION IMPACT ASSESSMENT			
TITLE OF THE INITIATIVE	Comprehensive revision of the EU macro-prudential policy framework		
LEAD DG – RESPONSIBLE UNIT – AP NUMBER	FISMA – E3	**DATE OF ROADMAP**	11.08.2016
LIKELY TYPE OF INITIATIVE	Legislative proposal(s) for modifying macro-prudential provisions contained in five legal acts: Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 **(CRR)** Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC **(CRDIV)** Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board **(EU Regulation on ESRB)** Council Regulation (EU) No 1096/2010 of 17 November 2010 conferring specific tasks upon the European Central Bank concerning the functioning of the European Systemic Risk Board **(Council Regulation on ESRB)** Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions **(SSMR)**		
INDICATIVE PLANNING	March 2017 http://ec.europa.eu/atwork/planning-and-preparing/work-programme/index_en.htm		
ADDITIONAL INFORMATION	Financial Supervision: http://ec.europa.eu/finance/general-policy/committees/index_en.htm Prudential requirements: http://ec.europa.eu/finance/bank/regcapital/index_en.htm Banking union: http://ec.europa.eu/finance/general-policy/banking-union/index_en.htm		

This Inception Impact Assessment is provided for information purposes only and can be subject to change. It does not prejudge the final decision of the Commission on whether this initiative will be pursued or on its final content and structure.

A. Context, Subsidiarity Check and Objectives

Context

Macro-prudential policy is a relatively new addition to the EU regulatory framework and allows authorities to address system-wide risks to financial stability, rather than focusing only on the risks posed by individual institutions. It was the main innovation in the regulatory landscape since the onset of the global financial crisis, emerging gradually as a distinct policy area following the De Larosière Report[1] on financial supervision in the EU and the agreements at the global level to foster financial and monetary integration in 2009. In safeguarding financial stability, macro-prudential policy can be a useful complement to monetary and fiscal policies, and can bridge the gap between monetary policy and micro-prudential supervision, especially in the Eurozone[2].

Currently, the EU macro-prudential policy framework consists of three **main interlinked building blocks**, which

[1] The High-Level group on Financial supervision: The De Larosière Report, 30 April 2009: http://ec.europa.eu/internal_market/finances/docs/de_larosiere_report_en.pdf

[2] Eurozone: http://europa.eu/about-eu/basic-information/money/euro/index_en.htm

are scattered across five different legal acts:

Building block 1: The **macro-prudential policy instruments**

Some of the macro-prudential instruments form part of internationally agreed standards developed by the Basel Committee on Banking Supervision, including the countercyclical capital buffer (CCB) and the global systemically important institutions (G-SII) buffer, whilst others are specific to the EU framework. EU law macro-prudential instruments are set out in the CRR/CRD IV, are at the core of the framework, and include both mandatory and optional instruments. The macro-prudential instruments in CRR/CRDIV are: the CCB, the capital conservation buffer in some extent, the G-SII buffer, the buffer for Other Systemically Important Institutions (O-SII), the Systemic Risk Buffer (SRB), macro-prudential measures based on Pillar 2 requirements, measures concerning adjustments to risk weights or loss-given default for banks' real estate exposures, and national macro-prudential measures to address risks not covered by other EU instruments, subject to appropriate control mechanisms to preserve the functioning of the internal market. The macro-prudential instruments are associated with specific distinct activation mechanisms, exhibiting varying levels of complexity and requiring the involvement of different institutions (the ESRB, the European Banking Authority (EBA), the Commission, the Council of the EU, and the European Parliament). These different activation mechanisms were designed to strike an appropriate balance between granting sufficient flexibility to Member States in implementing macro-prudential instruments in line with national structural and cyclical conditions, whilst maintaining a level of Union control to preserve the functioning of the internal market. Moreover, some instruments can be activated only by the competent authority (i.e. the micro-prudential supervisor) while the activation for other instruments can also be attributed to the designated authority (i.e. to the macro-prudential authority). Several Member States have complemented the EU law toolset with purely national law-based macro-prudential instruments.

Building block 2: The **institutional set-up of the European Systemic Risk Board (ESRB)** and its involvement in an EU-wide policy coordination

The ESRB plays an important role as the prime institution for system-wide risk monitoring across the EU and as a platform for cross-border coordination of national macro-prudential policies. The role of the ESRB has evolved over time following its establishment in 2010 before the activation procedures of the EU policy instruments were designed. These activation provisions stemming from the CRR/CRDIV give the ESRB a more prominent role in policy implementation, as it is required to provide formal opinions when certain measures are implemented. In addition, the ESRB has also actively used its recommendation powers (‘soft-law’ based on the ‘comply-or-explain’ mechanism). The ESRB has a complex organisational structure, involving national central banks and supervisors, and at Union level involving the European Central Bank (ECB), the Commission, the Economic and Financial Committee (EFC) in which Member States are represented, and the European Supervisory Authorities (ESAs). The ESRB was established as part of the European System of Financial Supervision (ESFS) comprising also the three EU-wide micro-prudential authorities, the ESAs, the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA).

Building block 3: **The macro-prudential competences in the Banking Union**

In the Banking Union, execution of macro-prudential policy is a shared competence. Specific supervisory tasks, including applying stricter macro-prudential measures, which are crucial to ensure a coherent and effective implementation of the Union’s policy relating to the prudential supervision of credit institutions are conferred on the ECB, while other tasks have remained with national authorities.

The three elements of the EU macro-prudential policy framework cannot be seen in isolation due to the strong links between the instruments, the instruments' activation procedures, and the institutions that co-ordinate these policies.

The EU framework in its current form needs some improvement and consequently has to be adjusted in order to function smoothly and optimally:

- **The need for a review of the functioning and the operation of the ESRB,** including its interaction with the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) has been emphasised in **President Juncker's Mission letter to Commissioner Hill** in 2014[3]. Particular attention should be paid to reviewing its governance.

[3] President Juncker' s Mission Letter to Jonathan Hill:
http://ec.europa.eu/commission/sites/cwt/files/commissioner_mission_letters/hill_en.pdf

- In August 2014, the **European Commission also published a report**[4] **to the European Parliament and the Council on the mission and organisation of the ESRB**.
- The **Five Presidents' Report 'Completing Europe's Economic and Monetary Union (EMU)'**[5] **recently called for strengthening the EU's macro-prudential institutions and the macro-prudential toolkit (instruments)**. As part of a genuine Economic and Monetary Union (EMU), achieving the Financial Union means completing the Banking Union and accelerating the Capital Markets Union (CMU). This requires a degree of risk sharing, as well as risk reduction. An effective EU macro prudential framework would contribute to the resilience of the EU financial system and to the prevention of emerging risks and vulnerabilities rising to systemic proportion, thus playing an important risk-reduction role. The Five Presidents Report calls for better system-wide risk monitoring and detection by possibly strengthening EU macro-prudential institutions, building on the role and powers of the ESRB, while maximising its synergies the ECB.
- **The Capital Markets Union (CMU) Action Plan of 30 September 2015**[6] **lists the review of the ESRB** among its actions to ensure that national and European macro-prudential authorities have the necessary instruments to react appropriately to developments in capital markets. It also announced that a review of the EU macro-prudential policy framework will be undertaken by 2017.
- In the context of the **European Commission's Call for Evidence**[7], stakeholders have expressed a desire for more clarity about the macro-prudential regulatory framework, less complexity and a level-playing field between banking and non-banking. In addition, stakeholders called for addressing potential adverse effects of some macro-prudential buffers on cross-border lending, reducing the overlaps and inconsistencies of the toolkit in terms of risk targeting and activation procedures, and enhancing the proportionality and transparency of the framework.

The five underlying legal texts of the EU macro-prudential policy framework establish several review obligations which will be integrated in the comprehensive review.

The comprehensive revision enables the addressing of all **review requirements in relation to the macro-prudential framework in the five underlying legal texts** as follows:

1. The review based on Article 513 of Regulation (EU) No 575/2013 should include an assessment of the macro-prudential rules stemming from CRR and CRD IV including:

   • whether the current macro-prudential instruments in CRR and CRD IV are effective, efficient and transparent;

   • whether the coverage and the possible degrees of overlap between different macro-prudential instruments for targeting similar risks are adequate and, if appropriate, propose new macro-prudential rules;

   • how internationally agreed standards for systemic institutions interact with the provisions in CRR and CRD IV and, if appropriate, propose new rules taking into account those internationally agreed standards.

2. Article 20 of Regulation (EU) No 1092/2010 and Article 8 of Council Regulation (EU) 1096/2010 respectively envisage reviews on the institutional arrangements concerning the ESRB, such as the mission, organisation of the ESRB and the modalities for the designation or election of the Chair of the ESRB.
3. Article 32 of Council Regulation (EU) No 1024/2013 establishing the SSM requires, among others, a review of the appropriateness of the arrangements for macro-prudential tasks and tools conferred upon the ECB-SSM under Article 5 of the SSM Regulation.

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[4] Report from the Commission to the European Parliament and the Council on the mission and organisation of the ESRB, COM (2014) 508 final; http://ec.europa.eu/economy_finance/articles/governance/pdf/2014-08-08_esrb_review_en.pdf

[5] The Five Presidents' Report: Completing Europe's Economic and Monetary Union;: http://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report_en.pdf

[6] Communication from the Commission to the European Parliament, the Council the European economic and Social Committee and the Committee of the Regions: Action Plan on Building a Capital Market Union, COM(2015) 468 final; http://ec.europa.eu/finance/capital-markets-union/docs/building-cmu-action-plan_en.pdf

[7] Call for Evidence: https://ec.europa.eu/eusurvey/publication/financial-regulatory-framework-review-2015?surveylanguage=en. Summary of contributions to the "Call for Evidence": http://ec.europa.eu/finance/consultations/2015/financial-regulatory-framework-review/docs/summary-of-responses_en.pdf

Issue
The EU macro-prudential policy framework has been established in a step-by-step manner, whereby its main institution- the ESRB - and the macro-prudential instruments outlined in CRR and CRDIV were established before the creation of the Banking Union. Since coming into force in 2014, CRR/CRDIV based macro-prudential instruments have been increasingly used in the EU. By the end of 2015, the Commission had been notified by national authorities of more than 200 macro-prudential measures, of which 150 were measures based on EU law. Whilst macro-prudential activity has increased across the EU in general, **significant differences between Members States remain.** Some Member States have made active use of this policy, whereas others have been rather cautious. Several factors could explain this heterogeneous picture. These include the **gradual establishment of the macro-prudential policy framework in the EU, the different institutional frameworks in place at national level, and the different assessment of risk by national authorities.** Furthermore this reflects the fact that **Member States are at different stages of the financial, economic and credit cycles relative to each other.** Further concerns have been expressed about a **possible "inaction bias" by some Member States in the face of emerging risks, and a lack of transparency and accountability when action is taken.** In practice, there is **no common procedure for the application of the main macro-prudential instruments** (the capital buffers), thus the procedures may vary significantly for the same instrument depending on the intensity of the instrument applied. Subsequently, **there is evidence that authorities sometimes select the instrument with the least cumbersome activation mechanism, instead of selecting the instrument most closely aligned to the risk they have identified. The fact that national authorities are able to substitute one instrument for another is an indication of the considerable overlaps that exist in the macro-prudential instruments.** **Some shortcomings** have been identified by stakeholders **on the institutional side**. In particular, **the network of the ESRB and national macro-prudential authorities**, as well as **the procedures for using the relevant policy instruments** – at EU and national levels – are seen as too **complex**. Concerning the ESRB as the EU-wide central authority for cross-border coordination of macro-prudential policies and risk monitoring, the current **institutional arrangements may hamper the framework from fully meeting the objectives and expectations set out in the two Regulations on the ESRB.** In particular, the set-up of the decision-making bodies of the ESRB does not seem fully conducive to sensitive and open risk and policy discussions or swift decision-making required for financial stability matters. Moreover, given the significant developments in central banking and monetary policy, the growing importance of market-based financing outside the banking sector, and the need to carry out country-specific macro-prudential analysis, the **monitoring capacities of the ESRB and its Secretariat may need to be enhanced**. In the EU, **execution of macro-prudential policy is a shared competence** and it is performed by **central bodies such as the ESRB, the ECB, and the national competent and macro-prudential (designated) authorities who are the main institutional stakeholders affected by the macro-prudential policy framework.** Decisions to activate macro-prudential instruments may accordingly involve national authorities at the national level, the ECB at the Banking Union level, the ESRB, but also **the EBA and in some cases also the Commission, the Council and the Parliament.** The latter cases involving EU institutions, namely the Commission and the Council, are based on a procedure with tight timeframes established in Article 458 CRR. At national level, there are **significant differences across Member States in the design of national macro-prudential frameworks and designated authorities.** For instance, some countries have designated a single institution as a macro-prudential authority, while others have set up a macro-prudential committee or board, where several institutions are represented. In certain Member States central banks have a leading role, whereas some other Member States have taken a different approach. Regarding tasks and powers, in some cases, the authority entrusted with the macro-prudential mandate is not the authority responsible for the activation of the macro-prudential instruments enacted in CRR/CRDIV. In addition, in some Member States, there is more than one designated authority in place, which means the designated authorities differ across macro-prudential instruments, further complicating the framework. This institutional diversity may in turn have an impact on cross-border cooperation when using national discretion by applying macro-prudential instruments. Moreover, there is an **apparent lack of clarity in the framework regarding the delineation of micro- and macro-prudential supervisory competences** and responsibilities which in turn leads to particular deficiencies in the Banking Union. There are overlaps and tensions regarding the implementation of all capital/based macro-prudential instruments and Pillar 2 capital requirements. This lack of clarity is further aggravated by activation mechanisms, which establish an inconsistent and hard to implement hierarchy among the instruments, and entails coordination challenges between competent (micro-prudential) and designated (macro-prudential) authorities. Within the Banking Union, an additional layer of coordination with the involvement of the ECB/SSM in the form of consultation requirements in the activation of some instruments and asymmetric powers and procedures of the ECB/SSM to tighten national macro-prudential measures have been established. In summary, **the described deficiencies and practical experiences may lead to unjustified fragmentation of macro-prudential policies, their implementation, negative spill-over effects across borders arising**

through insufficient coordination and inadequate risk mitigation in the Banking Union and in the EU as a whole.

Subsidiarity check

The objectives of macro-prudential policy described in the five legal acts referred to above - namely an **effective macro-prudential oversight of the Union financial system and the consistent application of the single rulebook to credit institutions - cannot be sufficiently achieved by the Member States due to the integration of the Union's financial markets**. Therefore, these can be better achieved at the Union level, and as such the Union **have adopted appropriate measures in accordance with the principle of subsidiarity**, as set out in Article 5 of the Treaty on European Union (TEU). CRR and the EU Regulation on the ESRB are based on Article 114 of Treaty on the Functioning of the European Union (TFEU), which enables the EU to adopt legislation contributing to the smooth functioning of the internal market. Article 127 (6) of the TFEU provides a legal basis for conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions and other institutions with the exception of insurance undertakings. The Council Regulation on ESRB and the SSMR are adopted and might be amended following the review based on the Article 127 (6) of the TFEU.

Recent financial crises have clearly demonstrated that a high level of financial stability and appropriate macro-prudential oversight cannot be ensured without central institutional arrangements at the European level because of the integrated nature of the banking sector. As a first step, the ESRB as a prime institution for system-wide risk monitoring across the EU and as a platform for cross-border coordination of national macro-prudential policies was established. The subject is even more relevant for the Eurozone, where in addition to the ESRB the SSM, as a first pillar of the Banking Union, was created. However, the macro-prudential policy has remained shared competence also in the Banking Union. Only the specific macro-prudential tasks, including applying stricter macro-prudential measures are conferred on the ECB, while other tasks have remained with the national authorities.

Hence, the ESRB, the ECB, and in some cases other EU institutions and authorities, are entrusted with macro-prudential competences, which need to be exercised at EU level to ensure uniform and effective application of prudential rules, risk control and crisis prevention. However, **national authorities have been continuing to execute certain tasks which can be better performed at national level**, for example the authorities in Member States can use macro-prudential instruments addressing national structural and cyclical conditions.

Since the negative consequences resulting from non-harmonised and **diversified practices (described in the Section Issue) may deepen the fragmentation of the banking sectors in the EU and lead to adverse effects from cross-border spill overs**, an action adjusting the EU macro-prudential policy framework by removing deficiencies detected at EU level is required.

Main policy objectives

The **general objectives of macro-prudential policy** are to prevent or temper the build-up of imbalances and to ensure that the financial system is able to withstand the consequences when they unwind (e.g. through better-capitalised institutions).

The **general objective of the revision of the EU macro-prudential policy framework** is to **strengthen its capacity to address systemic risk at national and EU level**, by:

- Enhancing the efficiency, effectiveness and transparency of the EU macro-prudential instruments and procedures;
- Enhancing the institutional and governance framework for macro-prudential policy in the EU;
- Maintaining the flexibility of national authorities to address national risks emerging from country-specific circumstances;
- Protecting the internal market by avoiding spill-over effects of national macro-prudential policies and regulatory arbitrage across Member States;

B. Option Mapping

For each of the objectives listed in Section Main policy objectives, there are three options in terms of intensity of EU intervention:

(1) **No action**, i.e. baseline scenario – no EU policy change;

(2) **Soft law action**, either exclusive or as a complement to a legislative initiative;

(3) **EU legislative initiative** to strengthen the effectiveness of the macro-prudential policy and instruments to address systemic risks at the national level and EU level.

Baseline scenario – no EU policy change
<u>**No EU policy change (option 1) would imply that all issues identified in section A will persist.**</u> In practice, there is no common procedure for the application of macro-prudential policy instruments; mainly capital buffers (please see for example opinions of the ESRB and the EBA referred to in the Section Data collection). Currently, the EU procedures for activation of instruments include, among others, notification requirements, conditions for the formulation of the notifications, caps on the instruments, deadlines for the notifications or necessary approvals by different institutions involved in the processes. Moreover, procedures may vary significantly within the same macro-prudential instrument depending on the intensity of the instrument applied (for example, depending on its level, the SRB may give rise to a notification-only or a more stringent procedure). As a result, instead of choosing an instrument according to its original purpose, macro-prudential instruments based on the most convenient procedure involving less consultation and coordination (i.e. least cumbersome) are rather used by the macro-prudential authorities in Member States.
Options of improving implementation and enforcement of existing legislation or doing less/simplifying existing legislation
<u>**Option 2: Soft law action as a complement to legislative initiative**</u> Soft action would be most efficient when sufficiently calibrated but only as a complement EU legislative initiatives. Certain deficiencies in the work of the ESRB, for example a more active communication strategy and earlier interaction with potential addressees, a rebalancing of the focus beyond banking risks and an increase in informal communications with stakeholders to highlight emerging risks, would not require change to the legislative framework and could be gradually implemented by the ESRB. However, **soft law action alone would not meet the objectives of the revision listed in the Section Main policy objectives and should be therefore complemented by the EU legislative initiative.** <u>**Option 3: EU legislative initiative strengthening the effectiveness of the macro-prudential policy and instruments to address systemic risks at national and EU level**</u> This option encompassing the EU legislative initiative would aim at strengthening the effectiveness of the macro-prudential framework to address systemic risks at the national and EU level (including sub goals referred to in the Section Main policy objectives) **in a comprehensive manner** by • **streamlining the instruments by eliminating existing overlaps and clarifying which instrument** should be the primary one to address a certain type of systemic risk; • **introducing more coherent and less onerous procedures**, allowing for increased flexibility at national level but at the same time fostering transparency and restraining the procedural arbitrage inherent in the current instruments (e.g. through a number of overlaps between instruments). Within the Banking Union, a legislative change is the only way to ensure consistency of activation procedures (notably intervention deadlines) in the context of the ECB/SSM). However, lighter activation procedures would have to be balanced by a strong institutional framework safeguarding sufficient coordination and appropriate control so as not to interfere with the functioning of the internal market and ensuring that the use of the instruments is transparent and consistent.; • **facilitating a proper policy coordination and peer review** process among Member States via the central role of the ESRB. Due to the strong interconnectedness between the instruments, their activation procedures, and the institutional arrangements, changes in one area of the framework will need to be complemented by appropriately targeted revisions in the other areas, so as to preserve a balanced framework. For example, the success and performance of the ESRB as a central macro-prudential authority depends on the activation and coordination principles of instruments created and calibrated in CRR/CRDIV, and institutional arrangements and changes as a result of the Banking Union. This is also particularly important in order to preserve a well-calibrated balance of national flexibility and cross-border coordination and control. Hence in the areas of macro-prudential policy, national flexibility does not necessarily undermine, but reinforces the internal market if the **building elements of the macro-prudential policy framework are well co-ordinated and well-calibrated.**
Alternative policy approaches
When taking EU legislative initiatives, a choice has to be made between a comprehensive revision of the EU macro-prudential policy framework and a separate revision of each single act (5 acts) which make up the EU macro-prudential policy framework. However, as the three building elements of the EU macro-prudential policy framework are inherently linked and cannot be seen in isolation due to their strong interconnectedness among the instruments, their activation procedures, and the institutional arrangements, it is unlikely that the separate revision would deliver the objectives listed in the Section Main policy objectives.
Alternative policy instruments

It would be possible to use **a soft law action (option 2)** in improving certain deficiencies in the work of the ESRB, for example a more active communication strategy and earlier interaction with potential addressees, a rebalancing of the focus beyond banking risks and a more informal communication strategy with stakeholders to highlight emerging risks, without changing the legislative framework. However, **this soft action would cover only one aspect and can improve partially only one building element** of the macro-prudential framework. In this case, **other deficiencies of the framework described in the Section Issue will remain unaddressed**.

Alternative/differentiated scope

There are already provisions in CRD IV which allow the Member State to **exempt small and medium-sized investment firms from certain capital requirements** (capital conservation buffer, countercyclical capital buffer) if such an exemption does not threaten the stability of the financial system of that Member State. The comprehensive macro-prudential review is **not envisaging revision of the existing exemptions**.

Options that take account of new technological developments

NA

Preliminary proportionality check

In the absence of any alternative effective measures that could be taken at national level (see section subsidiarity check), **the revision of the EU macro-prudential policy framework meets the principle of proportionality as it does not foresee to exceed what is necessary to achieve the objectives of the framework.** Member States separately cannot achieve the objectives for the following reasons: (i) due to cross-border dimension of the integrated banking and other financial sectors in the EU; and (ii) because the policy and instruments when adopted at national level are insufficient to address the risks to financial stability at the EU level. At the same time, the framework includes and will preserve the discretion of the Member States to set national macro-prudential measures targeting country-specific cyclical and structural risks to the financial stability in the Member States. Most importantly, simplifying burdensome procedures and complex coordination structures without changing the initial philosophy and objectives of the regulation under modification will improve proportionality and optimise the way stakeholders benefit from the use of the relevant policy tools. Further clarifying the mandate, coordination role, governance and structure of the ESRB does not add any further burden or complexity, on the contrary, facilitates the optimum implementation of macro-prudential tools and swift reaction and avoidance of spill-over effects.

C. Data Collection and Better Regulation Instruments

Data collection

Based on the **opinions of the ESRB[8] and the EBA[9], from 2014, in response to the Commission call for advice concerning the review of macro-prudential instruments according to the Article 513 of CRR**, the provisions regarding macro-prudential instruments should be streamlined and clarified, and already a small number of revisions will increase the effectiveness of the instruments as a whole. To comply with the review clauses of the two Regulations on the ESRB (EU Regulation on ESRB and Council Regulation on ESRB), **the Commission already issued a report on the mission and organisation of the ESRB** in 2014[10]. The Commission's Report was based on the experience of the Commission through its participation as a member of the ESRB General Board and substructures, evidence from the Public Hearing on the ESFS review on 24 May 2013 and the feedback from the consultation, which was held between 26 April and 31 July 2013 and comprised a public and a targeted consultations. The Report confirmed the need for further improvement and identified some of the weaknesses in the organisational structure of the ESRB that need to be addressed in the mission and organisation of the ESRB. In summary, some improvements, such as a more active communication strategy and earlier interaction with potential addressees, a rebalancing of the focus beyond banking risks and less formalism in the drafting of ESRB recommendations would not require change to the legislative framework. **In addition to the Commission's Report and the opinions of the ESRB and the EBA, the results from the Commission's Call for Evidence will be taken into consideration when designing the revision of macro-prudential policy framework.**

However, given that the scope of the Report of the Commission on the mission and organisation of the ESRB and the opinions of the ESRB and EBA in response to the Commission call for advice were not addressing the need for a comprehensive approach, it appears warranted to **include also aspects related to the institutional settings of the ESRB and macro-prudential policy instruments in the scope of the additional consultation with the relevant stakeholders.**

Consultation approach

An open public consultation on a comprehensive revision of the EU macro-prudential policy framework

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8 http://www.esrb.europa.eu/pub/pdf/other/140430_ESRB_response.pdf?bfdcb08a63dbebe81d8b76c2ec44c951
9 https://www.eba.europa.eu/documents/10180/657547/EBA-Op-2014-06+-+EBA+opinion+on+macroprudential+rules+in+CRR-CRD.pdf
10 See footnote 4

available to all stakeholders will be opened in July 2016. Views and information gathered through an open public consultation will assist the Commission in identifying weaknesses, gaps and overlaps that different stakeholders are facing in the current framework. Moreover, the open public consultation will be available to both directly (national and EU authorities) and indirectly affected stakeholders, i.e. credit institutions and other players in the financial markets. **In order to close a possible information gap, notably on technical details, after or in parallel to the open public consultation, targeted consultations, interviews and group discussions with the selected stakeholders** (depending on the issue under discussion) are envisaged.

Will an Implementation plan be established?

☒ Yes ☐ No

D. Information on the Impact Assessment Process

Impact assessment (IA) will be carried out for any legislative revision and alternatives, if any, against the objectives defined in section A, following the public and targeted consultations with the main stakeholders. The **IA Steering Group** will be set up in June 2016 before launching the public consultation. **The following services will be invited to participate:** Secretariat-General, Legal Service, Directorates-General for Economic and Financial Affairs, Internal Market, Industry, Entrepreneurship and SMEs, Competition, Justice and Consumers, Joint Research Centre, and Taxation and Customs Union.

E. Preliminary Assessment of Expected Impacts

Likely economic impacts

Given the objectives of the revision (please see in Section Main policy objectives) and possible changes in the EU macro-prudential policy framework, it can be expected that the **likely economic impact as a whole will be positive.** The revision would contribute to the strengthening of the capacity to address systemic risk in the EU, the Banking Union, and at the national level and to the smooth functioning of the internal market. Moreover, streamlined macro-prudential policy instruments applied by the authorities of Member States and effectively coordinated at the EU level would ensure more effective and efficient responses to structural and cyclical risks and conditions in the Member States. Thereby, the revision would consequently ensure that the financial sector plays a role in fostering sustainable economic growth and recovery in the Union.

Likely social impacts

A stable financial system is a precondition for a stable and sustainable economic growth and is in the public interest. While the direct effects of the review of the macro-prudential policy framework on society in general are not expected to be material, it can nonetheless be expected to contribute to positive social impacts in terms of economy-wide employment in the medium to long-term**.**

Likely environmental impacts

A direct environmental impact is not expected from the legislative initiative.

Likely impacts on simplification and/or administrative burden

Some benefits can be expected for stakeholders, including national authorities and financial institutions, from greater transparency and predictability of the framework, a potential simplification of the provisions regarding the macro-prudential instruments and the associated reduction in the regulatory burden. A clarification of the procedures and the respective roles of competent and designated/macro-prudential authorities, on both national and EU/Banking Union levels, could also help to reduce the administrative burden associated with activation of the instruments described in the Section A, Issue. This would also be relevant for the administrative burden on the Commission and the Council, as regards their roles in the activation of the measures under Article 458 of the CRR.

Likely impacts on SMEs

Direct positive or negative effects on SMEs are not expected, given that the macro-prudential framework does not provide for instruments targeting such exposures directly. The revision of the macro-prudential framework does not foresee legislative changes that could affect bank lending to SMEs directly. But **indirect positive effects can be expected**, given that the supply of credit to SMEs may become more stable and robust over the financial cycle.

Likely impacts on competitiveness and innovation

A positive impact on competitiveness and innovation can be expected, to the extent that capital may not be misallocated to the same extent any longer, if certain distortionary implicit subsidies from too-big-to-fail institutions are being reduced. Moreover, a stable supply of funding over the financial cycle is important for innovative enterprises to develop and foster.

Likely impacts on public administrations

The burden on public administrations would consist largely of the **implementation costs of the legislative initiative.** These costs would vary depending on the extent to scope of the revisions. Should revisions to the

CRR and the two Regulations on the ESRB result from the comprehensive review, this is not expected to have material impacts on public administrations. Should revisions be introduced to the CRD where provisions governing the majority of macro-prudential instruments are contained, this would reflect associated transposition requirements for Member States' public administrations. To the extent that activation procedures are simplified, **positive effects (implementation benefits) can be expected** from the revision for the relevant national and Union authorities.
Likely impacts on third countries, international trade or investment
A stable financial system has a positive impact on investment and trade, but a direct impact on trade and investment is not expected from this legislative initiative, given that it envisages revisions of the EU macro-prudential framework that is already in place and has, apart from helping to ensure financial stability, not resulted in measurable impacts on investment and trade to date. Some impacts on third countries could result from any potential revisions to the provisions governing macro-prudential measures for banks with cross-border exposures in third countries, though it should be noted that those concerning the recognition of instruments, such as the counter-cyclical capital buffer and the buffer for Globally Systemically-Important Banks, are part of international standards developed at the Basel Committee on Banking Supervision.