Ref. Ares(2010)813343 - 15/11/2010

EUROPEAN COMMISSION
IMPACT ASSESSMENT BOARD

Brussels,
D(2010)

15 NOV. 2010

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**

(draft version of October 2010)

(A) Context

The financial crisis revealed serious shortcomings in the international framework for banks capital requirements designed by the Basel Committee and applied to 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 Board acknowledges the breadth and depth of the work carried out to deal with a particularly complex proposal. However, it finds the current draft of the report insufficiently clear and too technical to support satisfactorily the decision-making process. The report should therefore be significantly simplified and shortened to increase its accessibility to the non-expert reader. In so doing, the report should also better justify the set of proposed options, make clearer the areas where, and the reasons why, EU proposals would differ from Basel III, develop a more focussed analysis of the impacts and clarify the scope of the initiative concerning the single rule book.

Given the importance of presenting clearly the significant amount of analysis which has been done to underpin this initiative, the Board asks DG Market to resubmit a new version of the report, on which it will issue a new opinion.

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(C) Main recommendations for improvements

(1) Better justify the options and clarify their content. The report should better justify the value added of presenting the February 2010 public consultation option as a realistic alternative, rather than simply showing how the preferred option differs from it and why. The report should also clearly indicate the areas where the preferred option would differ from, or complement, Basel III and clearly explain why this is the case. Finally, the report should more clearly justify the appropriateness of the proposed levels for the capital ratios (table 14 and 15) and integrate this into the presentation of the options. In this context, the report could usefully include a box explaining the reasons why some third countries have indicated the intention to adopt higher thresholds.

(2) Focus the analysis of impacts. When analysing impacts and comparing options, the report should more systematically assess the impact on bank profitability, costs for their clients, and, to the extent possible, the probability of a new financial crisis. The report should also make a further effort to differentiate more clearly impacts for banks with different business models and for different types of bank clients (large businesses, SMEs, households). In doing so, the report should focus more clearly on EU specificities (cooperative banks, greater relevance of bank lending for enterprise financing etc.). Finally, the views expressed in the public consultation by all stakeholders should be presented in the text whenever relevant.

(3) Clarify the scope of the initiative concerning the single rule book. The report should more clearly present the differences between the options being assessed for this issue. In particular, it should clarify how 'partial maximum harmonisation' will work in practice i.e. what will be the process for identifying the specific areas where national provisions going beyond the CRD are justified. In this context, the report should also better justify the need for harmonising towards the most prudent standard even when there is no evidence that less stringent provisions actually affected financial stability (p.73). It should also better explain why maximum harmonisation would be the least effective option for enhancing financial stability (table 12, p.76).

(4) The report should be significantly simplified and shortened to increase accessibility to the non-expert reader. To make the report accessible to non-expert readers and to facilitate its use in the decision-making process, the language used should be significantly simplified and the text shortened with more detailed and technical issues being moved to annexes. More specifically, the description of the problems and their drivers is too detailed and could be significantly reduced relying upon the clear structure of the problem tree (p.38). Options should be clearly linked to the identified problems. The key elements of such options and their justification should be outlined in the main text, with annexes fleshing out the details. In addition, a table summarising microeconomic impacts across options - see (2) above - would usefully complement the analysis of aggregate impacts developed in §5.7. Given that annex II is a full report, it could be replaced by an electronic link in the main text. Finally, the executive summary should also be redrafted in order to better summarise the contents of the main report.

Some more technical comments have been transmitted directly to the author DG and are expected to be incorporated in the final version of the impact assessment report.

(D) Procedure and presentation.
Procedural requirements have been fulfilled. If relevant, the results of the October 2010 public consultation on countercyclical capital buffers should be integrated into the main text.

(E) IAB scrutiny process	
Reference number	**2009/MARKT/073**
External expertise used	No
Date of Board Meeting	10 November 2010