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Subject: EBF RESPONSE TO THE EC REVIEW OF THE EU MACRO-PRUDENTIAL POLICY FRAMEWORK

General Comments

The European Banking Federation welcomes the opportunity to respond to the European Commission's consultation regarding the comprehensive revision of the EU Macro-Prudential policy framework. Firstly, European banks noted that the experience on macro-prudential instruments is very limited given the nature of risks that are being addressed by them. Economic cycles are by nature long and unpredictable, namely in Southern European countries, the economic recovery after the recession remains feeble hence not giving the opportunity to use and properly assess the level of adequacy of such instruments.

In addition, the SREP framework is constructed in a way that makes it difficult to identify and isolate significant overlaps that may exist as competent authorities (CAs) can always resort to Pillar 2 requirements to address systemic risks (especially for institutions of systemic relevance). Furthermore, the macro prudential use of Pillar 2 is not subject to the type of harmonization that is trying to be applied to Macro-prudential instruments, thus giving greater discretion to CAs for their use.

Until now the macro-prudential instruments acted mainly by means of an add-on to the regular capital/liquidity requirements, reflecting a perspective of tighter conditions to avoid future cyclical bursts, in parallel with the existing SIFI requirements that are addressing structural risks.

In our opinion, for such perspective to be right, the current capital requirements need to be seen as cyclically low, so that when the economic cycle is improving, tighter requirements are set and consequently in the event of a downturn period they will be eased accordingly.

EBF - EC REVIEW OF THE EU MACRO-PRUDENTIAL POLICY FRAMEWORK

Q1: Do you consider the degree of coordination between the different authorities in the current framework (i.e. ESRB, national macro-prudential authorities, Commission, Council, etc.) appropriate? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all), and explain your scoring.]

(Score 5)

We do not consider that the coordination between those different authorities is appropriate.
Firstly, the relationship between the ESRB and the ECB is not very clear today, and the implementation of the SSM will only increase this lack of clarity. For instance, the ECB communicates on risks in the Eurozone (eg, review of financial stability) whereas this could be solved by the ESRB at European level. Moreover, a clarification of each authority's responsibilities and how the different macro prudential tools are supposed to be used will be welcome.
Second, it is hard to understand the role and the responsibility of the different authorities. The implementation of the SSM has made this distribution of competences even more blurred. That is why the industry is questioning the sustainability of the ESRB in the context of the SSM framework as it is today and especially once the UK will have left the EU. Indeed, we see the ESRB having a coordinating role between Eurozone members and non eurozone members.
Eventually, the EBF stresses that national macro-prudential authorities (NMAs) are the most appropriate actor for determining possible additional requirements for ther own jurisdictions. NMAs have also an important role on the macro prudential framework because they have the ability to determine how to adjust capital, liquidity and margining requirement in order to strengthen the resilience of their local financial systems. In this regard, it is essential to further consider the transnational aspects of macro prudential policymaking.

Following the recommendations stated in the IMF/FSB/BIS report dated from the 31st august 2016 and Knight (2006), the EBF wanted to stress that an effective and sound institutional framework should have the below three main features:

1. **Wilingness to act:** having well defined objectives, sufficient autonomy vis a vis the other institutions and do not suffer from conflict of interest and national agendas.
2. **Ability to react to evolving systemic threats** : provide the institution with timely information, calibration and designation power.
3. **Effective cooperation in risk assessment and mitigation**.

We do suggest that the decision making body should dedicate a bigger part to the expertise of the operational actors such as banks to enhance the institutional framework's independence from national and political. Those actors could enrich regulator's expertise with more activity-based and sectoral instruments that are proved to be more efficient in mitigating systemic risk than capital-based tools. Furthermore, financial institutions are the most relevant to alert on evolving systemic risks and provide critical information on the fiancial system as a whole (we do specifically speak of the impact of desintermediation and risk bearing of “Shadow Banking”). Moreover, before any individual or global binding decision, a contradictory procedure shall be carried out. Finally the implication of all stakeholders is a step further into effective cooperation and risk assesment and mitigation.

Last we draw the attention of the Commission to the fragmentation of responsibilities as relate to the various layers of capital requirements and buffers that banks are subject to. We observe that the superposition of these buffers creates significant overlap and that the sum of the layers is not under a single responsibility. Capital requirements and buffers add up under the responsibility of different regulatory and supervisory authorities without any holistic view of the entity’s risk profile. Therefore the duty of the Competent Authority should be to assess the overall own funds level of the supervised entity, taking into account, holistically, all risks and all prevailing capital requirements and buffers (see Q19). In this context a Pillar 2 add-on, if any, must only be inferred from this assessment of the overall own funds level, reflecting firm-specific risks not covered elsewhere. This global assessment should notably be based on macroprudential inputs which should remain at national level, first of all because national economies are not synchronised, secondly because (as said before) NMAs are in the best position to monitor and manage impacts on their national markets.

Q2: (a) Would you consider appropriate to expand the macro-prudential framework beyond banking? [Please rank your answer from 1 (fully appropriate) to 5 (fully inappropriate), and explain your scoring.] (b) If deemed appropriate, what kind of systemic risks should be targeted and how?

(Score 1)

Yes, the EBF strongly believes that the current macro-prudential framework should be expanded beyond domestic banking to cover other sectors and activities. A level playing field must be assured given the new competitive landscape.

Indeed, as shown during the recent financial crisis, non-bank financial institutions can cause financial instability on their own account and through links to traditional banks. For instance, as several recent studies have shown, insurance groups and conglomerates that deviate from their traditional business and carry out non-traditional or noninsurance activities (NTNI) are more vulnerable to financial market developments and more likely to amplify, or contribute to systemic risk, and are more likely to be systemic. Additionally, aggregate behaviour of the insurance sector during a turmoil could potentially add to procyclicality by contributing to price bubbles or collapses.

Moreover, the greater role for non-banks in financing the real economy, fostered by initatives like the development of the EU´s Capital Markets Union, underscores the need to broaden the macroprudential framework and toolkit. A more market-based financial system adds to the risk that a sudden withdrawal of non-banks involved in credit provision in a particular sector may trigger a credit crunch while interactions between investors and intermediaries may create contagion, particularly if concentrated in an overexposed sector.

The greater role for non-banks in financing the real economy has another consequence: as the macroprudential framework aims at curbing the credit origination channel and avoiding the formation of asset bubbles and as the proposition of the economy financed by banks is set to decrease, the efficiency of these macro-prudential tools requires capturing all financial channels risks.

In short, the non-bank sector is not immune to market failures, externalities and systemic risks Hence, the expansion of the macroprudential toolkit to cover these sectors is more than warranted.

Q3: Do you see a need to strengthen the coordination between designated and competent authorities when using stricter Pillar 1 measures for real estate exposures to address systemic risks? [Please rank your answer from 1 (strong need) to 5 (no need), and explain your scoring.] If you see a need, how should their coordination be strengthened?

(Score: 1)

Designated authorities have to be coordinated with competent authorities in order to avoid double risk assessment noting that competent authorities hold decision-making authority regarding Pillar 1 measures when designated authorities have a global view of risks within the financial system. Notably, it is important to reinforce such a coordination when the latter implement higher risk weight on real estate exposure for financial stability purposes in relation to article 124 of CRR.

As of today, there is no aggregated vision that fully assesses the question of overlapping tools and double risk assessement. Those questions need to be looked at closely by a designated task force as it is the case for the shadow banking at the ESRB (where there is a dedicated group of mixed operational and scientific committee to analyse this issue). The dedicated group should furthermore make precious use of the contribution of financial institutions which have the willigness to act and the information power on that matter.

In addition, in order to strive for harmonisation and the Single Market, there should be no room for national macro-prudential rules outside the CRD framework (such as national LTV ratios).

Q4: Do activity-based instruments in the current framework allow to effectively tackle risks stemming from specific risk exposures? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]

(Score 2)

They do not always allow it, but on the other hand this tends to be addressed through Pillar 2 requirements by CAs, although indirectly. Once again, to effectively tackle risks stemming from specific risk exposures and mitigate any sources of duplication between Pillar 2 and macro instruments, there is a need for stronger coordination among relevant authorities to harmonise different interpretations and applications made on national/european (Pillar 2) level.

Q5: Do you consider a CCB for sectoral imbalances (e.g. in the real estate sector) a useful complementary instrument? [Please rank your answer from 1 (necessary complement) to 5 (useless complement), and explain your scoring.] If yes, how would you see the interaction of this sectoral CCB with the CCB already in place?

(Score 5)

The system in place is already composed of several buffers, requirements, etc. We do not see any material advantage in introducing another buffer. Moreover, there is always a risk of overlapping effects coming from different tools, which would result in more capital requirements, an undesirable outcome given the already high requirements that affect banks' profitability.

We also note that activity-based tools such as LTV and DSTI have an instantaneous effect as opposed to the inertia of capital buffers.

The recent change in the UK CCB (the 0.5% increase announced in May 2016 for March 2017 was cancelled in July) is a good example of the capital buffers inertia.

As such, it will be better to address specific risks with specific instruments (e.g. activity based / tools directly targeting identified problems) instead of a wide range tool such as the CCB that would not be proportional and would harm other sectors that could be in a different situation. Morover, with rspect to the CCB unclarities exist as regard to the ground and application. We believe this should be eliminated in order to create a level playing field.

However, this raises other problems:

Will authorities drive the structure of the economy by imposing specific requirements to bank’s lending to specific sectors?

Will such monitoring and decision making dynamics be desirable, by acting on market forces behind structural changes in the economy’s structure?

Is it feasible to have such recommendations at EU level, ‘ignoring’ member states specific conditions/economy structures? Over time, that could lead to the harmonization of economic structures among member states, being detrimental for maintaining the specificities and diversification gains across Europe. An excessive standardization of economical structures could indeed lead to systemic risk at EU level.

Such sectoral imbalances are already covered by the SRB and don’t need another complexifying tool that creates leakages and miss their initial objectives (mitigating systemic risks) when they operate in open financial systems like the EU especially without the UK (Cerutti et al. 2015). A CCB that doesn’t take into account the sectoral specificities and history of EU members create distortions of the level playing field and could lead to cross-border leakages to most advantaged countries whereas activity-based tools such as LTV and DSTI are more effective (see IMF-FSB_BIS report and Reinhardt and Sowerbutts, 2015 for economics). We note also that activity-based tools such as LTV and DSTI have an instantaneous effect as opposed to the inertia of capital buffers. The recent change in the UK CCB (the 0.5% increase announced in May 2016 for March 2017 was cancelled in July) is a good example of the capital buffers inertia.

Q6: Do you see a need for adjusting measures targeting risks associated with banks’ real estate exposures? If so, please explain your answer.

As described in the hearing document there is a significant difference in the extent of activation measures for the instruments in the CRR article 124 and 164 compared with the macro-prudential instrument in the CRR article 458, section. 2, d (vi). It is imperative, that such difference must not lead to the result that CRR's article 124 and 164 are used as a substitute for CRR's article 458, section 2, d (vi), if a more general tightening is needed to decrease the risk level in the financial sector.

Furthermore, the use of LGD floors should be made with utmost care and an upper limit should be applied. Such a blunt instrument should not be used as an alternative to adjusting potential inconveniences in the internal models.

Q7: Do you see a need for disentangling different responsibilities between competent and designated authorities? If so, please explain your answer.

A clarification of each authority’s responsibilities is positive.

Q8: Do you see merit in better distinguishing the activity-based from the institution-based instruments under Article 458 CRR, also in view of applicable activation procedure(s)? [Please rank your answer from 1 (a better distinction is necessary) to 5 (a better distinction is not necessary).]

(Score 4)

Concerning the different activation mechanisms for the macro prudential instruments in CRR and CRD 4 European banks see a risk that a more burdensome activation procedure for some of the instruments (art. 458 CRR) might push the responsible authority towards the instruments for which the authority has own powers, for instance pillar 2. Eventually, the EBF believes that better harmonised activity based rules would support the single rulebook and improve the level playing field.

Q9: Do you see the need to better frame either the focus (targeted risks) or the scope of the SRB (i.e. applicability to the entire stock only or also to subsets of exposures)? If so, please explain your answer.

Any definition/framing that clarifies the scope and avoids overlapping of regulatory requirements is seen as beneficial and should also contribute to a level playing field.

Q10: Should the SRB be explicitly defined as either an activity based or an institution specific tool? Please explain your answer.

From the EBF perspective, its important to clarify its scope in order to avoid discretionary use. It seems more accurate to define it as activity-based, as it should theoretically be applied on the basis of exposures. But there is always the need to avoid duplication with other capital requirements (such as Pillar 2 or G- and O-SII). The EBF also prefers defined methods to calculate any SRB to harmonise the use of the SRB in the union.

Q11: How do you assess the interactions of institution-specific instruments in the current framework?

Some instruments are overlapping which results in that the same risk identified might be covered more than one time if more than one instrument is activated. These overlaps occur both within the capital framework and in its interaction with the provisioning accounting standards. For instance, the effect of future potencial scenarios are factored into loss absorption capacities. On the one hand, the countercyclical buffer, by nature, is settled to face adverse macro scenarios. On the other hand, adverse scenarios are also part of stress testing, which result is an input for prudential requirements under the Pillar

2 guidance. Moreover, future provisions under IFRS9 will be considering the estimate of losses under a number of different scenarios (coherent with the ones used in stress testing, to reflect an unbiased and probability-weighted amount of losses). In this context, if not carefully considered, there is the risk of not only double, but triple counting of loss absorption capacity.

Again, clear and well defined provisions for the instruments would reduce the risk for such overlapping risk coverage.

Or more radiccaly, the clarification of the exact scope of each instrument, in particular Pillar 2, and the eventual elimination of some buffers (such as the systemic risk buffer) would be seen as beneficial and would simplify the framework whilst increasing transparency.

Q12: How do you assess the main weaknesses of institution-specific instruments in the current framework?

There is lack of visibility about what is exactly addressed in each case. Transparency could be improved.

It is our understanding that there are, at least, two main weaknesses that have to be corrected:

i) A more precise definition of the systemic risks mitigated by SRB and more specificity about its use as even if not originally conceived as an institution specific buffer, it has been used by some authorities to overcome the 2% cap of O-SIIs buffer.

ii) A reduction of the excessive national discretionarily in the O-SII buffer to achieve much more homogeneity. The transposition of the Guidelines of the EBA allows for excessive national discretion in the two most relevant issues, the identification of the O-SIIs and the establishment of the higher loss absorbency requirements.

Q13: Do you consider that the capital buffers for systemically important institutions are appropriately calibrated in the current framework? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]

(Score 3)

Globally Systemically Important Institutions (G-SIIs) are required to hold an additional capital buffer aiming to reflect the G-SIIs potential negative externalities for the stability of the financial system in case of difficulties. In order to identify these institutions and the adequate capital buffer, size is one of the indicators used. However, sometimes size is also associated with the presence of an entity in somehow macroeconomically uncorrelated geographies. There is strong evidence to suggest that this diversification has a positive effect on risk reduction, but diversification is not formally and homogeneously considered when evaluating regulatory capital requirements. Failing to account for the benefits of diversification can have a negative impact on the stability of the financial system and on the incentives to maintain sound capital positions.

The consequences of the creation of the Banking Union have not been fully incorporated into the EU legislation. Recognising the completion of the SSM, the SRM, the Eurozone, the Single rulebook and common rules for deposit guarantee, CRR should be adapted to enhance the cross-border banking integration within the Banking Union and the free movement of capital and liquidity within this single jurisdiction. In other words, banks' cross-border relations among participating Member States of the Banking Union should benefit from the Banking Union framework for the calculation of the G-SII score: Intra Banking Union banking activities are accounted for in the cross-border activity indicator, thereby artificially over increasing the measured systemic relevance of Eurozone banking institutions.

Q14: Do you assess the caps of the G-SII and the O-SII buffers as appropriate? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all), and explain your scoring.]

(Score 2)

Yes, appropriate, because the scale of risks is definitely higher in a G-SII than in an O-SII. We would like to emphasize that the O-SIIs buffer at consolidated level should never be higher than the G-SIB buffer at consolidated level. The total/whole systemic importance and systemic risk has to be adequately reflected.

Q15: Do you think that the 2 percent cap for the O-SII buffer should be revised? If so, please explain your answer.

The O-SII buffer should be by nature lower than the G-SII buffers given the scope of the risks, hence any increase in the cap for O-SIIs should be ruled out. In fact, in most countries the O-SII buffer has been set below the 2% cap.

Q16: Do you consider that the current cumulation rules applicable to institution-specific buffers need to be revised? If yes, what revisions would you consider necessary?

The exact role of the Systemic Risk buffer and its application in practice should be made more transparent (namely as regards to the accumulation effect referred to).

Although the O-SII cap calibration is not an issue (as Q15), a major concern is related with the lack of homogenous criteria and procedures across European authorities. The O-

SII setting framework needs more harmonization as the criteria for categorisation is already set but the criteria for setting the quantitative buffer (based on the score obtained) is not, which leads to different buffer levels across Europe for similar systemic banks in their countries (with similar scores). The same applies to the heterogeneous phase-in periods set by different authorities for the the O-SII buffer.

Q17: Do you see a need for developing additional harmonized macro-prudential instruments? If yes, what type of new instrument would you deem necessary and why?

No. There are already too many macro-prudential instruments. It would be better to analyse the impact of the existing ones and make an effort of recalibration if/when needed. Capital-related instruments already impact lending, as they represent an additional cost for banks. It's better to have a lower number of instruments that are well calibrated and very clear both to the regulators and the industry than to have too many instruments which in the end reduces transparency and the overall visibility of the impacts. As an example of these potential recalibrations or additional tools, the approach to Pillar II should include a homogeneous methodology of quantitatively assessing diversification. These techniques are used, for instance, by rating agencies in their assessment methodology.

It is of utmost importance that measures targeting risks do not overlap in terms of Pillar 1 and Pillar 2 approaches, and that systemic considerations like O-SII and G-SII buffers are applied in a equal and transversal manner.

Q18: How do you assess the possibility for the ESRB to develop technical guidance on the use of non-harmonised instruments, for example via issuing recommendations? Would you see a specific type of instrument for which such an approach could be warranted and suitable?

The issue of recommendations would be welcome, but should not inhibit discretion of national authorities which have an historical and deep knowledge of each institution and the whole domestic market and dynamics.

Q19: Do you consider the current hierarchy of instruments ('pecking order') as appropriate? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all), and explain your scoring.]

(Score 4)

We would recommend to go one step further and clarify that the duty of the competent authority is to assess the overall own fund requirement of the supervised entity, taking into account holistically all risks and all prevailing capital requirements and buffers.

Indeed, the original design of the Supervisory Review and Evaluation Process (SREP) is not to merely define a Pillar 2 add-on by itself, but rather to determine an overall own fund requirement, from which the Pillar 2 add-on must be inferred: "on the basis of the review and evaluation referred to in paragraph 1, the competent authorities shall determine whether the arrangements, strategies, processes and mechanisms implemented by institutions and the own funds […] held by them ensure a sound management and coverage of their risks."

It is therefore of the Competent Authorities' responsibility to establish an overall own funds requirement which aims at ensuring that the institution guarantees the sound management and coverage of all its risks.

Additionnaly, the European Union legislation should further emphasize that the Pillar 2 is determined as the difference between such overall own funds requirements and the sum of the Pillar 1 and combined buffers requirements (subtractive approach). The determination of the overall own fund requirement needs to be assessed based on common metodologies in order to achive a singe rulebook. Hence there should be a methodology to assess the need for capital to ensure a sound management and coverage of banks risks.

The EBF also stress that the revision of CRR-CRD should be the opportunity to clarify the notion of capital buffers. It should be noted that the initial BCBS framework (D189) introduces capital buffers, not capital buffer requirements. BCBS states explicitly that capital buffers are "usable": "The Committee is introducing a framework to promote the conservation of capital and the build-up of adequate buffers above the minimum that can be drawn down in periods of stress."

Therefore, we recommend avoiding the misleading qualification of "buffer requirements". There should be only capital requirements (Pillar 1 and Pillar 2R) and capital buffers (combined buffers and Pillar 2G).

Q20: Can overlaps in the tools' scope facilitate the circumvention of control elements embedded in the activation mechanism? If you answer yes, please explain how.

Yes it can as Pillar 2 are not framed and can be used for the same risks as the other macro-prudential tools. Pillar 2 can facilitate the circumvention of control elements embedded in the activation mechanism (also see answer to Q19).

Q21: What adjustments, if any, would you suggest for the notification and activation requirements for the SRB?

More transparency would be welcome by European banks We sugest the introduction of a common format that would require more specific justifications, effect of the regulation as well as facts related to next revaluation date, possible triggers for the next changes etc.

Q22: What adjustments, if any, would you suggest for the notification and activation requirements for the measures under Article 458 CRR?

The European Banking Federation believes that a better overview, e.g. throug a matrix would be valuable.

Q23: What adjustments, if any, would you suggest for the notification and activation requirements for the CCB?

No opinion.

Q24: Do you see the risk that especially the O-SII buffer and the SRB could be used for ring-fencing purposes? If yes, what do you suggest to address this risk?

As per question 16, harmonized criteria for defining O-SII and setting buffers should mitigate this type of risk. Also, giving the supranational authority the power to relax a measure taken by a national authority if system wide considerations warrant it might help address these kind of risks (see question 25).

Q25: How do you assess the shared responsibilities of the ECB/SSM and national authorities for macro-prudential policy within the Banking Union? In particular, do you think that the current asymmetry of powers conferred upon the ECB/SSM is appropriate? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all), and explain your scoring.]

(Score 2)

It is appropriate in the sense that national authorities have an historical and deeper knowledge of the several institutions, domestic market and dynamics. The notification process and power of ECB to top-up the measures and address inactivity bias from national competent authorities gives a balance to the framework and contributes to a level playing field.

However, in some circumstances (as Q24) the ECB/SSM should be able to relax the measures taken by the national competent authorities having in mind the system wide perspective and prevent national protectionism bias.

Q26: How do you assess the coordination need between the different authorities involved? [Please rank your answer from 1 (strong need for more coordination) to 5 (no need for further coordination), and explain your scoring.] Do you see areas in which this coordination could be improved?

(Score 2)

More coordination would be welcome as regards to information or doubts posed by the banks. Whilst several processes occur at the same time, national authorities do not always have deep knowledge of them.

In addition, all the information used for the activiation of the measures (data and considerations) should be based on the same sources and common methods. If possible these should be also available to the general public.

Q27: Do you see need for amending the time periods of the notification process between national authorities and the ECB/SSM? [Please rank your answer from 1 (strong need for amending) to 5 (no need for amending).] What time limitations would you suggest?

(Score 2)

Extending the notification and particularly the objection periods would be positive as there should be more time for an adequate assessment of impacts. Also time limitations should take into acccount that the macroprudential framework and processes are at an incipient stage and that some flexibility should be given until a steady state is reached.

Q28: Do you see need to broaden the scope for mandatory reciprocity in the CRR/CRDIV? If yes, for which instrument(s) do you see such a need?

No.

Q29: Do you think that the ESRB's mandate and tasks are appropriately formulated to ensure efficient coordination of macro-prudential policies in the EU? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all).] If not deemed fully appropriate, what changes would you suggest to ensure such efficient coordination?

(Score 5)

The ESRB does not fit in a macro-prudential formalized supervision process at European level.

The objective of macro-prudential supervision is to maintain stability of the financial system as a whole, strengthening its resilience on one hand and reducing the emergence of new systemic risks on the other.

But the question that arises in the European context is the coordinated implementation of macro-prudential policies, to a large extent, that have to be decline nationally ("cyclic" component of the systemic risk).

In this context, the main concern for European financial institutions is the level playing field and its possible questioning by the uncoordinated implementation at European level of national macro-prudential policies that might even increase the fragmentation of the single market.

A formalized coordination system of macro-prudential policies will help to ensure this level playing field in Europe and reduce fragmentation of the single market. Such a device would naturally lead to the creation of a responsible entity in the euro area (extended to countries outside the euro zone but that have opted for participate to the SSM). It would also lead to grant the ESRB to an operational coordinating role at the 27 (actually, coordinator between the representative entity of the Eurozone and the UK FCP).

Such a device could be based on a continuous evaluation of a set of indicators for which it would be set a high and low limits, and could be organized in two parts:

- Prevention (supervision in order to minimize the occurrence of systemic risk accumulation);

- A corrective arm (recommendations to correct the accumulation of systemic risks appeared).

The EBF believes that a common dashboard (under the responsibility of the ESRB) would use different indicators as both a monitoring system of "performance" in terms of financial stability and as an alert system if certain criteria are beyond their high or lower limits (taking into account requirement levels in each country).

Q30: How do you assess the current capacities of the ESRB to deliver on its mandate for conducting system-wide risk analysis, including its access to relevant data? [Please rank your answer from 1 (fully adequate) to 5 (not adequate), and explain your scoring.]

(Score 3)

Adequate, but the ESRB should already look at what is already in place before considering setting up a new resource. There are already multiple reporting requirements across the board that are overlapping and have inconsistent formats that do not fit together. The vast amount of data being collected is largely under-utilised, and further reporting requirements will not be worthwhile until the reporting system is coordinated more effectively at global level.

Q31: In particular, do you consider that the resources of the ESRB Secretariat are adequate in this context? [Please rank your answer from 1 (fully adequate) to 5 (not adequate), and explain your scoring.]

Please refer to our answer on question 30.

Q32: What do you consider to be the best ways to ensure that the macro-prudential perspective is sufficiently reflected in EU policy making where systemic risk considerations are involved?

A full coordination between the ECB, the ESRB and NSAs is essential. The risk assessment data should be exchanged and complemented among those entities.
The ESRB should be independent and have an advisory function. Transparrency about recommendations is of added value. NSA's should be transparent about the reasons of deviation of the ESRB recommendation. Should the ESRB also be involved in Pillar II macro-prudential measures? Or would that be ensured by a better coordination between ESRB, ECB and NSA's?

Q33: ***How do you assess the instruments and powers of the ESRB? In particular, do you see the need for the ESRB's powers to explicitly include 'soft power' tools with a view to fulfil its mandate?***

The inclusion of soft powers into ESRB's mandate is seen as positive, as long as coordination between the several supervision bodies is ensured.

Q34: ***Do you consider the transparency related to the act or explain mechanism (e.g. in following up recommendations, etc.) as satisfactory? [Please rank your answer from 1 (fully adequate) to 5 (not adequate at all).] If not deemed fully satisfactory, what improvement would be necessary?***

(Score 1)

Yes, it is considered fully adequate.

Q35: Would you consider the two-tier managerial structure along the lines proposed above an appropriate way to improve the governance structure of the ESRB? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]

(Score 3)

We think that the creation of the positions of a Managing Director and a Research Director/ Chief Economist would reinforce the role and visibility of the ESRB as the body responsible for macro-prudential oversight across the EU financial system. The ESRB could have a more active role in different fora and operationality of the ESRB would certainly enhance. Coordination among the Managing Dircetor and the ESRB Secretariat Head would be of utmost imortance.

Q36: How does the current size of the General Board affect the exchange of confidential and sensitive information and smooth decision making? Do you see merit in reducing its size and/or shifting some of its tasks to the Steering Committee? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]

(Score 3)

The size of the General Board (GB) is too big and may hinder the exchange of information and smooth decision taking, given the amount of information and decisions that need to be taken in its quarterly meeting. Some of the GB tasks could be transferred to the Steering Committee that would have a more operational focus (even more if chaired by an ESRB Managing Director, see Q35).

Q37: (a) How do you suggest accommodating the establishment of macro-prudential authorities at the national level, and the SSM and SRB, in the General Board's membership? (b) Do you consider it warranted to require Member States to designate a single national representative, with representation possibly varying in accordance with the concrete issues for discussion and decision? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]

(Score 1)

Please find some suggestion that could be easily implement to make the ESRB more efficient:

1. **Restrict the board** to facilitate the decision making. The current board is too wide and national loyalties prevail.

2. **Appoint a CEO** to sustain the Authority and give it its own identity (especially vis-à-vis the ECB). Appoint a CEO would ensure continuity between the pace of quarterly meetings of the Board of the ESRB and the management of the daily organization. In addition, the CEO would personalize the ESRB, which we believe is a very important point in the context created by the SSM (proximity ECB / ESRB is a good thing and should be retained, but the ESRB should not, as far, appear as an appendage of the ECB).

3. **Giving the decision-making power to a small number of individuals publicly identified**, which does not represent their country and would be accountable to the European Parliament and the Council. This could help strengthen the neutrality (compared to the national representatives in the Board) of the entity and also facilitate communication on its activities and its relations with European institutions.

4. **Create a Stakeholder Group** to broaden the consultation process with other actors (less institutional than the ECB, the European Supervisory and National Competent Authorities that currently seems to be limited the ESRB). An upstream position in the European legislative process (existing legislation or draft) would also be desirable, associated with better interaction with these institutions.

Q38: How do you assess the work of the two ESRB advisory committees (ATC and ASC)? In particular, would you suggest any changes in their role and/or composition?

If the position of an ESRB Research Director/Chief Economist is created (see Q35) then the ASC role and composition should be revised as well as the analytical/research support function provided by the ESRB Secretariat.

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