CHECK AGAINST DELIVERY

EBI workshop on proportionality:

Are we really proportionate?

INTRODUCTORY REMARKS WIM MIJS, CHIEF EXECUTIVE OFFICER

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Ladies and gentlemen,

Europe's banking sector is amazingly diverse. Let's take a look at two specific aspects:

We all know that the banking landscape in Europe is home to more than 6.000 banks. Large and small, commercial, retail and cooperative, public and private. For cultural and historic reasons, this is how banking in Europe looks.

When we take a closer look at the European banking map we see significant differences. Some of the largest of banks hold total assets of more than 1 trillion Euro on their balance sheet. We also see many smaller banks with assets of less than 1 billion Euro. That still is significant, but it means some of the biggest banks are more than 1000 times bigger than the smallest ones.

Secondly: the banking map also shows that the one hundred biggest banks in the Eurozone – the ones that are directly supervised at the European level by the ECB in the SSM Supervisory Mechanism - account for approximately 80% of the total assets held by the European banking sector.

These dimensions cannot be ignored when considering a proportional application of regulation and supervision in the European banking sector as whole.

If all of the 6.000 banks in Europe are to be made subject to the same kind of stringent regulation and supervision - then financing for many businesses and households may be put at risk. The burden for smaller banks is significant already. The ultimate costs would be in financial instability and in lower economic growth. After all, Europe has a bank-financed economy.

A smart and coherent approach to proportionality is required to find a balance that makes all banks in Europe - large and small, cooperative, savings and commercial, private and public – part of the same regulatory and supervisory framework. A proportional approach maintains diversity and ensures a more resilient and future-proof banking system.

My question here is: do we currently have such a smart and coherent approach? Does the current approach foster the diversity we want to maintain?

Legislators and regulators had proportionality on their mind when designing laws and rules. But are these sufficiently transposed in practice?

That is the question of today and beyond.

Regulators and supervisors also acknowledge this challenge. Today's regulation takes account of proportionality to some degree. Tiered standards exist, demanding more frequent and comprehensive reporting standards of large institutions. The EBA guidelines on the SREP have embedded proportionality. My friend and Bundesbank Board Member Andreas Dombret regularly encounters situations where the gradations are inadequate. As he says, the principle of proportionality as such is nothing new. It is just that this still has not been anchored deeply enough.

I am delighted to see that the European Banking Institute as an academic body has been studying this question for some time already. Your important academic reflections are what the EU leaders and supervisors need to think about and consider.

Your work already has highlighted the challenges for the ECB, who has to cope with major inefficiencies because of a plethora of national rules as well as a wide range of options and discretions. I would like to recall one particular EBI paper calling for a new single text, 'The European Banking Act' … that could include a 'CRR Light' regime for small and medium-sized banks.

And already I look forward to June 2018, when Professor Bart Joosen will use his inaugural lecture in Amsterdam on this very topic of proportionality.

Academic observations are truly valuable in our discussion on proportionality. I sincerely hope the academic arguments will also support and improve the understanding at the EU level. Your academic input is essential for finding proper answers to the many questions that we have.

One key issue for instance is where to set the numerical thresholds. In the Peter Simon report the European Parliament is discussing the creation of three different categories of banks. The parliament is considering a threshold of somewhere between 1.5 billion and 5 billion Euro in assets to define for the smallest banks.

If we look at the SSM regulation, the borderline for direct supervision of an institution is set at 30 billion Euro in assets. This threshold approach thus leaves a grey area for banks that hold assets worth between 5 and 30 billion Euro. Some of these banks will already be subject to direct SSM supervision because of their national systemic risk, or simply because they are among the three largest financial institutions in their country.

Shouldn’t these *not-so-small-but-not-very-big* banks also benefit from proportionality? How do we properly define these levels? Which criteria do we apply?

And to continue to the questioning: might there be an alternative to these thresholds that lawmakers are currently considering? One option could be to link the implementation of the financial regulatory framework to the risk-profile of an institution, considering for example interconnectedness and leverage. What would be the pros and cons of both approaches?

And then there also is the level playing field to consider. Do we run the risk that a 'one size fits all' approach leads to a unlevel playing field? Can this distort competitiveness? Can it distort the needed diversification?

So as you see, I have many questions. Questions that need to be the subject of substantial academic research. We need your insights, your academic input. Your PHDs.

From our own conversations with managers of large banks, we hear that they struggle to comply with the current legislation due to the sheer complexity and sophistication of the regulation. If this is true for banks with significant resources, how does this scenario look like for smaller banks?

The point of view of the smaller banks, which are also represented by the European Banking Federation, it is clear: if there is no change the smaller banks will be pushed out of the market. For them, the current approach is clearly disproportionate. The reporting burden has become unbearable.

Let me conclude.

The road towards a broadly accepted proportionality regime is a delicate balancing act that may require several years to achieve. As you know I am an optimist. This time around, in the Risk Reduction package, we are putting in place the stepping stones towards a good and robust solution.

The current review of CRR2 and CRD5 presents an opportunity for introducing a more proportionate application of regulation for banks. Yes, proportionality should not lead to supervisory laxity or deviations from the single rule book. We do not want a *salon-de-massage* for smaller banks. But to make a real difference, the current proposal needs improvement.

Better definitions for proportionality in the current review for the CRR2 and CRD5 clearly are a welcome next step, one that should alleviate the regulatory pressure in particular for the smaller and less complex banks in Europe in the near future.

But the discussion will continue, also after the Banking reform package has been updated. The academic notion of a 'European Banking Act' is worthy of further reflection. The questions I raised here will need answers, from a European perspective.

And I know that I can count on you, with your academic powers and insights, to find answers to all these questions, from a European perspective. Thank you for your attention.