6/ 2013 PROGRESS REVIEW (since june 2011)

Red character: No progress Green character: Progress

HIGHLITED IN PP: DISTORTION OF RISK PERCEPTION

RELATED REQUEST: A better balance of the new regulation with respect to traditional banking business models (which are loosing margins due to a series of biases in LPF, advantaging risky banks).

SIFIs and too big to fail argument: additional capital requirements for Global SIFIs were introduced and Domestic-SIFIs requirements are being discussed. This creates disincentives to M&A and pure growth for large banks. Moreover, orderly resolution regimes for G SIFIs and D SIFIs are being defined, materially weakening the too big to fail argument.

-State Aid: in Italy, exceptional State Guarantees were provided on securities issued by banks, allowing wider participation to LTRO, even for smaller companies. In Spain, a wide ranging banks bailout by EU Governments through EFSF and ESM was necessary due to Sovereign Crisis and Real Estate bursting.
2013: see also Liikanen report 2.4.2 on State Aid: highlights the relevance of "implicit subsidies", shows credit ratings uplifts for large banks in different countries and says "evidence indicates that 90% of all implicit subsidies are channeled to the largest institutions"

-Dimensional Downgrades: credit agencies never disregarded statements announcing the transposition of too big to fail arguments in applied ratings. After some declared "dimensional" downgrades, a general favour towards large banks still appears to persist in ratings. This is probably inconsistent with the recent interventions by State authorities contained in the previous points.
2013: see previous reference to the Liikanen HLEG work.

-Ring fencing of investment banking in UK represents an extreme attempt to insulate and protect traditional banking from investment banking and connected risk leveraging. It also states the regulatory distinction between the two, preserving the lower risk profile of traditional business.

HIGHLITED IN PP: INCREASING FUNDING COSTS

-ECB LTRO: since the first draft of the PP, many differences in funding costs emerged among member States with higher increases in peripheral EU areas; the ECB has contributed, through LTRO and other measures, to counterbalance in a non-selective way (on a dimensional basis) the unsustainable funding cost increases created by the Sovereign crisis.

HIGHLITED IN PP: LENDING-ADVERSE REGULATORY FRAMEWORK

<u>RELATED REQUEST</u> A better focus on leverage factors and less reliance on RWA (traditional banking adverse) measures, which would be of great utility to this purpose

<u>RWA market revision</u>: a wave of skepticism is quickly growing around RWA calculation methods: markets disregard RWA based measures in valuations, several analyst openly criticize IRB models to calculate RWA[1].

<u>RWA Basel Committee revision</u>: Basel Committee itself is monitoring the uneven implementation in different States and reviewing some aspects of the discipline. In particular, BIS is currently reviewing RWA framework for the trading book[2], proposing a revision of the standard approach and its mandatory application by all banks, to create a consistent benchmarking basis also for those using IRB models. This approach could pave the way to future similar revisions to credit risk framework.

<u>SME adjusting factor</u>: an adjusting factor to Basel 3 capital requirements for lending to Small and Medium Enterprises, counterbalancing the increasing capital required on lending by Basel 3 as far as smaller enterprises are concerned. This allows banks with higher share of SME loans to avoid deleveraging on this more vulnerable segment of the economy.

HIGHLITED IN PP: FUTURE THREATS

<u>Taxation</u>: the FTT creates an additional burden for finance oriented large banks, especially those leveraging on high frequency trading systems, less for traditional ones.

<u>DGS</u>: (2012: no material advance has been made on the topic since the PP draft. A greater reliance on non-RWA based risk measures, to avoid double counting traditional and deposit taking businesses would still be desirable).
2013: DGS will probably continue to exist at national level with no commonality. And it will only guarantee depositors. At EU level a resolution fund will operate covering cases in which the individual resolution plan didn't work properly.

HIGHLITED IN PP: DISPROPORTIONALLY HIGHER COMPLIANCE COSTS

<u>RELATED REQUEST</u> An higher proportionality in regulations with possibly a mandate to EBA to assess best practices in EU

-Even if many National Supervisors are reported to be more sensible to proportionality principles, regulators and EBA are a bit behind.

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[1] "bye bye basel? Making Basel more relevant", Barclays Equity Research, May 2012

[2] Consultative document "Fundamental review of the trading book", BIS, May 2012

RELATED REQUEST A better monitoring of the EU banking sector with respect to banks' dimensions.

-(2012 No material progress is reported. The banking industry is still mainly reported as a whole in public reports even if many business and wide dimensional differences are concerned.) 2013: regional BLS (biannual) reports some informations on trends by banks'dimension. The EC site contains useful statistical informations (Income statement summary by dimension and country) in:
http://www.ecb.int/stats/money/consolidated/html/index.en.html