ABI comments on the
BCBS Consultative Document
Core principles for effective banking supervision

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ABI COMMENTS

The Italian Banking Association (ABI) welcomes the opportunity to provide views about the proposed update of the "Core principles for effective banking supervision" of the Basel Committee on Banking Supervision (BCBS). This is a very important standard, since it sets the benchmark to assess the effectiveness of banking regulatory and supervisory frameworks.

Indeed, the update of the document was warranted, in order to factor in the new features of the many Basel frameworks which have been modified during these years, as well as to draw attention to emerging risks and other factors whose importance is growing.

In the same vein, ABI would highlight that the multifaceted experience of the last 15 years (great financial crisis, pandemic crisis, 2023 banking crises, …), along with the changing landscape of players and risks (including the way and speed of their manifestation) would fully justify a more thorough **assessment of the prudential framework**. This should aim not only to **take stock of the lessons learnt** – amending rules which did not work as expected and addressing new risks and challenges - but also to streamline the framework, **ensuring its overall consistency, and reducing its complexity**.

The reforms of the past decades, and the huge number of new frameworks added by the Basel Committee, together with the implementing measures adopted at local level, have piled up to form an enormous and very complex collection of rules. A comprehensive review is now deemed appropriate, in order to clarify and simplify the banking regulatory framework.
Noteworthy, most of these measures at the time of the adoption have been assessed in isolation, not considering their interlinkages. An assessment of the effects of the overall prudential framework would therefore be appropriate as well.

Importantly, such assessment should not only take into account banking stability, but also the effects on growth. In ABI's opinion, **it is essential that prudential regulation and supervision strike the right balance between the pursue of stability and growth**. Indeed, banking stability is a precondition for long term growth, but it should be kept in mind that, on the other hand, subdued levels of growth, or a too weak macroeconomic environment, jeopardise financial stability. The prudential framework should grant a sufficient level of **flexibility** to adapt to different situations, thus avoiding the risk of procyclical effect.

Consistently, while acknowledging that the macroeconomic context and government policies should not hamper banking supervision and/or unduly constraint banking activity, in ABI's opinion certain kinds of measures - as is the case for public forbearance measures

- should not be identified as detrimental in principle (reference is made to Footnote 1 in paragraph 30.3). Their ability to support growth (and by this means banks' stability), should also be taken into account.

In addition to considering assessment of the existing stock, ABI recommends explicitly mentioning in the core principles, e.g. in Principle 1(3), that **the impact of new regulations should be normally assessed before adoption (ex-ante assessment) and after an appropriate period of application (ex-post assessment).** In this context, among other things, the importance of having a reasonably **stable regulatory and supervisory framework** should be considered, after the regulatory overhaul of the past decade (also to properly assess ex-post the effects of new measures, which cannot be identified if the regulatory landscape is continuously changing).

Ex ante and ex post assessment should not only be required with regard to laws and regulations, but also to supervisory policies. ABI suggests specifying this in Principle 2 (1), where the proposed BCBS text affirms that supervisory authorities should have full discretion to set prudential policy. It would also be appropriate clarifying in the same principle that supervisory discretion should in any case be framed within the boundaries set by laws and regulation.

In the overall impact of supervisory policies, the cost of supervision for supervised entities in terms of operational effort should be taken in due account. In other words, it is essential that **effectiveness of supervision be coupled with its efficiency**, not only on supervisors' side, but also on banks' side. Without prejudice to the effectiveness of supervision, the solutions which minimise the operating cost for banks should be applied. For example, duplication of information requirements should be avoided, and in any case sufficient time should be granted to banks to accomplish request or implement changes. In ABI's opinion, the objective of efficiency of supervision should be clearly pointed out in the core principles (for example in the context of Principle 9 concerning supervisory techniques and tools), together with the fact that dialogue with the banking industry is key to identify the most efficient solutions.

The issue of efficiency of regulation and supervision is strictly linked to the concept of **proportionality**. ABI very much welcomes that the document explicitly addresses the issue of proportionality, which in ABI's view is key to ensure a proper application of the regulation. It is even more relevant in the context of this paper, since, as specified in the text, all banks are addressees of the effective supervision principles (being all banks subject to supervision) and not only the usual target of BCBS standards (i.e. large, internationally active banks).

ABI fully agrees that, as said in the document (paragraph 02.9), the objective of proportionality is not to dilute the robustness of standards. On the contrary, proportionality has to be intended as a way to ensure that the prudential framework is properly applied to all banks, taking into account their risk profile and complexity.

In this regard, in addition to emphasising the role of proportionality, ABI would highlight two specific points that would be worth mentioning in the text of the principles.

The first one is that proportionality measures should be clearly specified in regulatory texts and supervisory expectations. Indeed, the mere statement that a rule "has to be applied in a proportionate way" is of little use, if banks don't have clarity about how the regulations/expectations can be adapted to each situation (for example, which tasks are not required to small and less complex banks). Where appropriate, simplified methodologies should be made available, to make implementation easier for less sophisticated entities.

Moreover, in the text, the issue of supervision at consolidated level versus solo level is dealt with. In this respect, it might be worth clarifying that proportionality measures should also be applied to banks which are subsidiaries of (even large) banking groups.

More generally, in the text of the principles, proportionality seems to be considered as a tool for efficient resource allocation on the part of the supervisors, rather than aimed to ensure that supervised banks can benefit from efficient application of the prudential framework, allowing them to focus more on those elements which are more relevant to their risk profile. The latter perspective could be better specified.

Last but not least, one of the main areas of the proposed changes is represented by the non-bank financial intermediation (NBFI). ABI welcomes that the Basel Committee considers this issue, and takes the occasion to remark that the prudential regulation is supposed to ensure a **level playing field** between banks and other players offering banking services, especially where these players don't belong to regulated sectors.
It is paramount that, in this regard, the well-known principle of "same activity, same risk, same rules, same supervision" should be applied, in order to ensure that unregulated players do not pose threats to financial stability and consumer protection (and offer sufficient guarantees in terms of contrast to money laundering).
Special attention should be paid to the role of new technologies in terms of ability to offer banking and financial services at global level. This makes international standards essential to tackle the issue of ensuring the level playing field and the overall financial stability, i.e. that sound prudential standards are applied to all entities offering banking and financial services (although not banks).