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The Bank of Italy's response to the European Commission's consultation on improving the EU macroprudential framework for the banking sector

The Bank of Italy welcomes this opportunity to respond to the European Commission's consultation document on the ongoing review of the EU macroprudential framework for the banking sector. This note sets out the Bank's view on the most relevant issues, while the answers to the individual questions of the consultation are included in a separate document.

The outbreak of the COVID-19 provided the first testing ground for evaluating the macroprudential framework during a period of stress, although the shock that hit the economy was different from what was envisaged in the original framework. Compared with the 2008 financial crisis, the banking system benefitted, on the one hand, from the exceptional support measures taken by Member States and the European Union and, on the other, from being in a position of greater strength following the implementation of the Basel III reforms. These factors allowed credit institutions to support the flow of credit to the real economy. Macroprudential authorities responded timely. However, in the event of exogenous shocks independent of the economic or financial cycle more buffers releasable by macroprudential authorities would be useful to withstand them: this would require creating (more) 'macroprudential space'. For this purpose, the Bank of Italy proposes to allow a (partial) release of the Capital Conservation Buffer (CCoB). Given its significant amount (2.5 per cent of risk-weighted assets) already available to the banking system, this would allow macroprudential authorities to expand the room for maneuver without the need to increase current capital requirements. In order to be able to achieve a rapid and coordinated release of the buffer for a large subset (possibly all) of euro-area countries, it would be appropriate to have a centralized governance. If it were deemed useful to increase the share of releasable buffers further, we suggest complementing the (partial) release of the CCoB with the introduction of an ad hoc Systemic Risk Buffer (SyRB) which, given the flexibility allowed in its utilization, makes it a suitable tool for dealing with the risk of severe exogenous shocks.

Concerning the proposals for increasing the flexibility of the CCyB framework, the Bank of Italy supports the idea of combining the credit-to-GDP gap with other cyclical risk indicators, where relevant, for the purpose of setting the CCyB rate. The cyclical nature of these indicators would be in line with the function of the CCyB. It is, however, important that such indicators are quantitative in nature, in order to maintain an adequate level of predictability of the framework and harmonization between EU countries in the use and calibration of the CCyB. The Bank of Italy also believes that it would be preferable not to use the CCyB to address non-cyclical risks, as the buffer would lose its typical countercyclical nature (together with its compliance with the Basel framework) and would also acquire a 'semi-structural' nature, ending up significantly increasing the complexity of the framework.

The regulation on borrower-based measures (BBMs) is not currently harmonized in the EU, creating possible obstacles to the smooth functioning of the single market. The Bank of Italy is in favour of a harmonization (albeit minimal) at the EU level of BBMs (such as limits on the loan-to-value, loan-to-income, and debt-to-income ratios), based on the definitions of the ESRB Recommendation on closing real estate data gaps. The design, activation, and calibration of these tools must, however, remain in the exclusive purview of the national authorities. To this end, but also to avoid regulatory arbitrage between the banking and non-banking sectors, the Bank of Italy suggests that these instruments be included in the Mortgage Credit Directive (MCD) and the Consumer Credit Directive (CCD) rather than in the CRD-CRR (as both the MCD and the CCD directives apply to loans regardless of who provides them).

Finally, the Bank of Italy deems that the current EBA guidelines for the identification of other systemically important institutions (O-SIIs) are both exhaustive and already fit-for-purposes: any revisions to the methodology should be made only in the event of changes to the framework for the global systemically important institutions (G-SIIs), to ensure consistency between the two methodologies. With regard to the calibration of the O-SII buffer, we believe that the floor levels currently set by the ECB for countries belonging to the SSM could be usefully extended to other EU countries by including them in the EBA guidelines. In this case, the Bank of Italy proposes that the EBA also identifies a ceiling on the buffer calibration in order to avoid any improper use at the domestic level (e.g. for ring-fencing purposes), while granting an adequate degree of flexibility to the national macroprudential authorities.