BRIEFING

Initial Appraisal of a European Commission Impact Assessment

Minimum loss coverage for non-performing exposures

Impact assessment (SWD(2018) 73, SWD(2018) 74 (summary) accompanying a Commission proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards minimum loss coverage for non-performing exposures COM(2018)134

This note provides an initial analysis of the strengths and weaknesses of the European Commission's impact assessment (IA) accompanying the above-mentioned proposal, adopted on 14 March 2018 and referred to Parliament's Committee on Economic and Monetary Affairs (ECON).

Non-performing exposures (NPEs)[1]are defined as loans, debt securities or off-balance-sheet items not held for trading purposes that are more than 90 days past-due or unlikely to be repaid in full without selling the collateral guaranteeing the exposure (IA, p. 3). Since the financial crisis, the EU has aimed to address the high numbers of NPEs, including in particular non-performing loans (NPLs), as they risk destabilising the financial sector and thereby the EU economy (IA, p. 5). In its 2017 communication on completing the Banking Union, the Commission stressed the relevance of these risks for the profitability and viability of banks and their capacity to provide credits to businesses.

Currently, there are no global or EU rules for common minimum coverage of incurred and expected losses on NPLs (IA, p. 14). Provisioning approaches are treated either by national accounting principles or by the international financial reporting standard 9 (IFRS 9).[2] In case of a 'provisioning shortfall', prudential rules (the Capital Requirements Directive and Regulation (CRR)) require a deduction from Common Equity Tier 1 (CET1) capital, based on banks' best estimate of expected losses (IA, p. 14). In addition, competent supervisory authorities can require adjustments to the own funds calculations of banks on a case-by-case basis, under the 'Pillar 2' procedures.[3] Some Member States have own provisioning rules, while others have only guidelines for their banks' NPLs (IA, p. 27). Against this varied background, the IA emphasises that both the NPL ratios[4] and their treatment differ widely across the EU (IA, p. 14).[5] Therefore, in parallel to initiatives regarding the supervision and resolution of banks in the EU in recent years, the Commission has assisted Member States in reducing their banks' NPL stocks. It has also underlined the importance of doing so in the European Semester's Country Specific Recommendations. As a result, the average rate of NPLs has decreased, but, according to the IA, only slowly compared to the United States or Japan (IA, p. 18).

In July 2017, the Council adopted an action plan on non-performing loans, calling on the different actors involved to reduce in particular the risk of building up new NPLs in the future. In the follow-up, the Commission included the issue in its 2018 work programme and, in March 2018, adopted the legislative proposal to amend the CRR with regard to newly originated exposures. It is part of a comprehensive package of measures addressing the challenges related to NPLs and goes hand in hand with the proposals on the recovery of collateral and on the development of secondary markets for NPLs (IA, pp. 8-9).

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Problem definition

Following a description of the political and legal context of NPLs and their loss provisioning in the EU, the IA defines two main problems of the current state of play (IA, pp. 5-14 and 15-26):

1. Build-up of under-provisioned NPLs;
2. 'Pockets of risks' in the EU banking sector and potential spill-over effects between Member States.

The IA illustrates these problems, their drivers and consequences in a problem tree (IA, p. 26). It explains in detail how the 'wait and see' and 'extend and pretend' approaches of banks often lead them to avoid or delay loss recognition of non-performing or non-recoverable assets, thereby forcing them to increase provisions later, when credit losses occur and capital requirements become binding (IA, p. 15). This weakens the capital base, the earnings and the lending capacity of banks. Especially if losses cumulate during economic downturns, it might cause insolvency or illiquidity, affecting stability and trust in the sector and consequently, the EU economy at large (IA, pp. 20-22).

The second problem driver is the current 'excessive discretion' in NPL recognition and provisioning polices across the EU (IA, pp. 23 -24). According to the IA, neither the IFRS 9 (or the other accounting standards used in Member States) nor the CRR rules applicable to credit institutions and investment funds provide coherent and pertinent incentives to create sufficient provisions for credit loss for NPLs (IA, p. 24). Except for Spain, supervisors do not have binding accounting powers – they are governed by national jurisdictions in the context of the implementation of the EU Accounting Directive 2013/34 (IA, p. 39). As a result, the divergence of provisioning requirements in force in some Member States (while others do not have such rules), and their limited influence on prudential minimum requirements (decided on a case-by case basis under 'Pillar 2') hampers a harmonised approach to tackle under-provisioning of NPEs across the EU (IA, pp. 25-26). The IA briefly mentions additional important factors influencing banks' provisioning policies, namely diverging national (or regional) legal and judicial frameworks and procedures, as well as diverging tax regimes (IA, p. 24). These factors exceed, however, the scope of the IA and are therefore not analysed, even though the IA highlights that the influence of all these factors is 'difficult to disentangle' (IA, pp. 16-17).

The IA notes the wide variety of both the volume and the evolution of NPLs between banks and Member States (IA, pp. 6, 16-17). Based on ECB data, it estimates their total volume across the EU in 2017 at around €950 billion, of which approximately 90 % are located in 10 Member States (Italy, France, Spain, Greece, United Kingdom, Germany, Portugal, Netherlands, Ireland and Austria). More importantly, Greece, Cyprus, Portugal, Italy, Slovenia, Ireland, Bulgaria, Hungary, Romania and Croatia have the highest NPL ratios – with over 10 % – potentially threatening their banks' stability (IA, pp. 16, 18). In this context, the IA highlights the relevance of collateralisation of loans, since 'secured' loans are perceived as less risky and have lower ratios. According to the IA, 36 % of the total amount of NPLs are covered by collateral and 46 % by provisions (IA, p. 17). The value of the collateral depends on its actual accessibility and can be eroded by long and costly enforcement procedures; again, these differ considerably between Member States (IA, p. 18). According to the IA, the uncertainties and costs linked to recovering collateral are estimated at over 40 % of its value (IA, p. 18). At this stage, the IA does not mention who, or which groups, are specifically affected by the problems; an indication of the main stakeholders affected by the problems would have been useful in this respect. Instead, the IA generally emphasises the risks of spill-overs from weaker banks and countries in the integrated EU banking system, especially the interconnected economies of the euro area (IA, p. 20). Despite some recent reduction of NPL-stocks, the IA considers loss recognition of NPLs in the EU to be insufficient and too slow (IA, p. 19).

Objectives of the initiative

The IA presents two **general** objectives, which mutually reinforce each other. First, the reduction of risks to the stability of the EU's banking system and second, the protection of the profitability and lending capacity of banks to EU households and firms (IA, p. 29). According to the IA, these general objectives would be achieved by statutory prudential backstops ensuring sufficient loss coverage for NPLs, as they would avoid the build-up or increase of insufficiently covered NPLs, and also reduce the risks of spill-overs in stressed market conditions. It is notable that already at this stage of the IA, the choice of establishing statutory backstops is presented as a given, without providing information on the thought development from the problem definition to this decision.[6] The link between the problems as defined by the IA and the rest of the analysis could have been explained more thoroughly.

To achieve the above mentioned general objectives, the IA defines the following **specific** objectives (IA, pp. 29-30):

1. Reduce the banks' ability to implement 'wait and see' and 'extend and pretend' strategies;
2. Reduce incentives to implement 'wait and see' and 'extend and pretend' strategies.

The objectives derive directly from the identified problems and their drivers. Nevertheless, their presentation is very short and could have been more explicit, in particular regarding the distinction between general and specific objectives and the level of policy action to achieve the latter, as outlined in the better regulation guidelines.[7] Also according to these guidelines, specific objectives should be 'S.M.A.R.T.' (specific, measurable, achievable, relevant and time-bound) to allow for effective monitoring and evaluation of the achievement of the objectives. Not all of these criteria appear to be fulfilled in this case. This is particularly relevant as the IA does not present operational objectives, also required by the better regulation guidelines and toolbox (tool 16). Notwithstanding these weaknesses, the objectives are in line with the Commission's 2017 communication on completing the Banking Union and the EU's Capital Markets Union, as well as the Council's 2017 action plan to tackle non-performing loans in Europe. The IA stresses several times the expected mutual reinforcement of statuary backstops, the development of secondary markets for NPLs and accelerated extrajudicial collateral enforcement (IA, pp. 8-9, 29, 65).

Range of options considered

Preceding the description of the options as such, the IA embeds several principles applicable to all of them, in order to aim at a prudent policy approach (IA, pp. 32-36). First, the minimum coverage requirements relate to a) the time period an exposure has been 'non-performing' (the longer this is, the lower the probability to recover its value) and b) the level of credit protection of secured NPLs, which influences the probability of recovering the exposure's value. Second, the time period after which full coverage of *secured* exposures would be required is proposed to be six to eight years, and for *unsecured* exposures, two years (IA, pp. 34-36).[8] Furthermore, the IA lists four items eligible to comply with the loan loss provision for credit risks: a) credit risk adjustments recognised under the applicable accounting framework, b) additional value adjustments, c) other reductions of the institutions' own funds and d) regulatory expected loss shortfall already deducted from own funds, (for banks that calculate risk-weighted assets based on the internal ratings (IRB) approach)) (IA, pp. 14, 33). Only if the sum of these four items is smaller than the applicable minimum coverage requirement, the prudential backstop would apply and require the deduction of the difference from CET1 capital. Finally, the IA stresses that the common backstop would apply mandatorily to all banks, i.e. before supervisors assess whether banks have to hold additional funds for 'Pillar 2' purposes. It should also not lead to 'double-counting' of provisioning or risks (IA, p. 34).

The IA provides a concise picture of the baseline scenario, where loss coverage of NPEs would continue to be mainly determined by the application of IFRS 9 (or national accounting systems), on the one side, and supervisory actions on a case-by-case basis on the other (IA, p. 25, 31). It reiterates that without systemic EU policy action, the ensuing problems and risks would persist (IA, pp. 27-28).

The IA screens three policy options to tackle the identified problems (the preferred options of the IA are shaded in grey) (IA, pp. 36-39):

Option 1: Statutory backstop with end-of-period full coverage requirement

Option 1 would require full coverage of unsecured and secured NPLs at the end of the defined time periods, without any coverage requirement beforehand. Unsecured NPLs would have to be fully covered two years after having been identified as non-performing, and secured NPLs within six to eight years.

Option 2: Statutory backstop with gradual full coverage requirement

Option 2 would look like option 1, but would require the gradual minimum coverage of unsecured and secured NPLs, as soon as the exposure is identified as non-performing. The coverage would apply either a) a linear or b) a progressive path. A linear path would imply an equal increase of coverage over the years, while a progressive coverage would start with lower amounts and end with increasing amounts to cover losses towards the end of the defined periods.

Option 3: Statutory backstop with prudential haircuts (only for *secured* NPLs)

Option 3 would take into account the value and effectiveness of a collateral or guarantee securing an exposure (unsecured NPEs would be treated under option 1 or 2). The IA stresses that this option would be more risk-sensitive than the two others, as secured exposures are generally considered less risky than unsecured ones (IA, p. 17). The option envisages two haircut steps, i.e. reductions in the value of the credit protection. First, depending on the form of the protection (financial collateral, immovable property or other guarantees), minimum levels of prudential haircuts on the collateral values would be applied, determined by the applicable accounting standards and prudential requirements. Second, additional haircuts, increasing over time, would be applied up to full loss coverage at the end of the defined time periods (IA, pp 38-39).

In addition to these options, the IA mentions one discarded option: EU legislation that would give regulatory and horizontal accounting powers to supervisors, allowing national supervisors also to require higher provisioning of NPLs in the financial statements and prudential reporting of all banks in their jurisdiction, not only case-by-case as currently (IA, p. 39). This option was discarded because it would exceed the scope of the problems linked to NPLs addressed in this IA. Moreover, according to the IA, it would imply a fundamental change to the current Single Supervisory Mechanism (SSM) Regulation, and entail a considerable increase in human and financial resources and legal complexity (IA, pp. 39-40).

While the presentation of the retained options and of the common principles they share is logical and coherent, the range of options is rather limited. As indicated above, the introduction of statutory prudential backstops is a given from the start of the analysis and determines all options. They differ in the design and timing of the envisaged minimum requirement of full loan loss coverage. Other options suggested by stakeholders, for instance a re-opening of the discussions on accounting standards, the strengthening of credit risk models or higher credit risk haircuts, were not explored in the IA (IA, pp. 61, 64).

Scope of the impact assessment

The assessment of the retained policy options focuses on their potential economic impacts, in terms of costs and benefits. The analysis contains both qualitative and quantitative elements, the latter based on European Banking Authority(EBA) estimates provided in an extensive report carried out for this IA, as well as an EBA quantitative impact study on the new IFRS 9 standard (IA, pp. 41-42). Following the quantitative assessment of costs and benefits of the options on banks' capital, the IA looks briefly at the effects of each option on key stakeholders. These are identified here for the first time as corporate (including SMEs) and retail customers as borrowers; banks; Members States, and supervisors (IA, p. 44-45, 48, 50-51). Each chapter ends with short information about stakeholder feedback from a targeted consultation.

Contrary to the better regulation guidelines, the IA does not indicate whether there are any social or environmental impacts.[9] It does not explore potential macro-economic implications or the specific impact on SMEs.[10] Furthermore, territorial impacts are not mentioned either, despite the concentration of problematic NPL ratios in 10 Member States and the widely varying national policies dealing with them across the EU.

Under the baseline scenario, the IA takes into account that the new IFRS 9 framework is expected to bring about an increase in loss provision of about 5 % (IA, p. 42). Apart from the fact that some Member States use other accounting standards, the IA doubts that this increase would sufficiently prevent the build-up of new NPL stocks. As for the supervisory measures in place (by ECB/SSM and EBA), the IA is of the opinion that they will help address specific issues of individual banks, but not enable a harmonised treatment across all banks and Member States. The IA criticises the fact that because of different jurisdictions across the EU, banks with the same risk profile and currency could face different funding conditions, in the same way that two borrowers with identical risk profiles could face diverging lending conditions (especially inside and outside of the euro area) (IA, p. 28). The IA insists on the need for EU action against this fragmentation of the financial markets in the EU.

Option 1 of the IA envisages the full loss coverage requirement at the end of the defined period (two and six to eight years) which could lead to an abrupt rise of **costs,** due to capital deduction for banks that do not meet the minimum requirement in time (IA, pp. 43, 46-47, 49-50). Based on EBA estimates, the IA expects an average deduction in EU banks' CET1 capital ratio of 197 to 213 basis points (bps),[11] i.e. between 1.97 % and 2.13 % (all estimations refer to cumulative impacts over 20 years, from 2018 to 2037) (IA, p. 41). The same costs of option 2 are estimated to be around 2.31 % to 2.39 % under the *linear* path, and between 2.17 % and 2.27 % under a *progressive* path. For option 3 – implying haircuts – the costs related to CET1 capital ratio deduction are estimated to be 2.48 % to 2.62 %. The IA explains that these estimates present an upper limit, because the data used refers to the time period when NPEs were at their peak, and because the analysis does not take into account any other actions banks might undertake if a prudential backstop were in place (IA, p. 42).

Furthermore, according to the IA, all options entail some administrative costs to implement the common prudential backstop. These are not quantified, but are expected to be lowest for option 1 and rather high for option 3 where banks, the EBA and national competent authorities would have to use specific methodologies to apply adequate haircuts, depending on the type of collateral (IA, pp. 43, 49, 51). The IA deems the **benefits** of option 2 to be significantly higher than those of option 1. This is because it considers that option 2 would provide for an earlier beginning of the loss coverage – as soon as the exposure becomes non-performing – and thus more forward-looking action, and that it would avoid an abrupt increase in provisioning at the end of the respective periods (IA, p. 46). It also notes that the comparability of NPEs for supervisors would be improved by a more harmonised approach (IA, pp. 48, 65). The IA benchmarks all options against the baseline and compares them in view of the general and the specific objectives (IA, p. 41). Their comparison concludes that option 2b would be the most effective option, which, according to the IA, was supported by all public (and most private) stakeholders (IA, pp. 49, 56). Option 3 was considered too complex and burdensome by most banks and all public authorities (IA, p. 51).

The train of thought of the assessment of the options is logical, albeit rather short and largely oriented towards implications for banks' capital. A broader analysis of other effects of the options could have improved the quality and completeness of the IA. The overview of benefits and costs of the preferred option in Annex 3 features additional, though not substantiated, direct and indirect effects that are not mentioned in the main text, for instance on GDP growth and unemployment reduction (IA, p. 66).[12] Also, additional explanations as regards the methodology, assumptions and technical specificities could have increased the transparency and accessibility of the IA, especially for non-specialist readers. While the IA acknowledges difficulties regarding the distinction between old and newly originated NPEs, it does not elaborate on this important aspect (IA, p. 42). Finally, neither the considerable geographical differences of the NPL situation across the EU, nor potential effects on third countries on the global financial markets are taken into account.

Subsidiarity / proportionality

The IA notes that tackling the issues of NPLs is primarily a national competence (IA, p. 5). However, against the background of the identified problems, it points to the high level of economic and financial integration, particularly in the euro area, implying the risk of spill-overs from Member States or banks with high NPL ratios to other Member States or banks (IA, pp. 27-28). The IA argues that this risk, alongside the lack of coherent treatment of NPLs by banks, and common prudential rules on their loss coverage, makes EU-wide systemic regulation necessary for all institutions established in the EU. The IA does not explain how the principle of proportionality has been addressed in the analysis. However, the preferred option takes into account how long an exposure has been identified as non-performing, and distinguishes between secured and unsecured NPEs. No reasoned opinions have been received from national parliaments (the subsidiarity deadline was 5 June 2018).

Budgetary or public finance implications

The IA does not provide any information about budgetary implications at EU level. According to the explanatory memorandum of the proposal, there are no implications for the Union budget (p. 9). The IA mentions a 'minimal' increase in administrative and compliance costs for businesses and administrations to implement new provisioning rules under the different options, though without quantifying them (IA, pp. 43, 45, 51, 66).

SME test / Competitiveness

The IA states that SMEs, being highly dependent on bank lending, are particularly concerned by a reduced capacity to provide new credit to businesses following insufficient loan loss coverage (IA, pp. 5, 21-22). However, it does not explore the potential effects of the policy options (including the preferred option) on SMEs, and does not provide any quantification in this regard. Nevertheless, it anticipates a 'direct positive impact on SMEs funding' via credit supply' (IA, pp. 44, 50).

Simplification and other regulatory implications

The IA acknowledges that the creation of prudential backstops by this new legislation does not simplify existing legislation (IA, p. 56). It does indicate, without further substantiation, expected gains in efficiency due to the standard minimum requirements for loan loss coverage across the EU replacing the current diversified and somewhat fragmented system by a harmonised one (IA, p. 65).

Quality of data, research and analysis

The IA is mainly based on the EBA advisory report requested by DG FISMA, complemented by a targeted consultation (see below), a quantitative EBA impact study on the new IFRS 9 and a number of other external sources indicated in a list of references at the end of Annex 4 (IA, pp. 75-76). The IA provides information about the assumptions underlying the analysis, as well as the limitations regarding the methodology and the availability of relevant data, in particular the distinction between new and historical loan originations (IA, pp. 41-42). Given that one important assumption is that the only change considered in the IA is precisely the future inflow of newly originated NPEs, both this assumption and the treatment of the incomplete evidence base could have been explained in more detail, at least in an annex, rather than simply referring to the EBA advice for further information (IA, p. 42).[13] It is notable that the EBA report refers to the assessment of the effects of the statutory prudential backstop as a 'highly challenging exercise' that can only provide 'a very tentative estimate of the effects of measures that would apply only to future credit flows'.[14] The additional information provided in the annexes of the IA is thin – a total of 18 pages, which include procedural information, a summary of the targeted stakeholder consultation and an overview of 'provisioning rules for problem loans across the globe'. More specific information about the methodological challenges would have also increased the transparency and accessibility of the IA. Notwithstanding this lack of information, the analysis provided is generally clear, consistent and illustrated by useful figures.

Stakeholder consultation

The IA provides limited information about the key groups of stakeholders affected by the identified problems. As regards their consultation, it refers to a targeted consultation, carried out by the Commission from 10 to 30 November 2017, but does not mention an open stakeholder consultation specifically for this IA. Thus, the IA does not comply with the better regulation guidelines and toolbox (tools 53, 54 and 55), which require a minimum of 12 weeks of open and broad public consultation for each IA.[15] Furthermore, the targeted consultation cited in the IA received only a limited number of responses. Of the 38 responses, 29 came from private stakeholders, including one individual, and 9 from public stakeholders (IA, p. 60). The IA points out that while some banks questioned the need or feasibility of a prudential backstop, all public stakeholders supported its introduction, as did all Member States (IA, pp. 45, 64-65). In addition, the IA acknowledges the geographical imbalance of the stakeholder replies, which corresponds to the areas with a concentration of high NPL ratios (in the 10 Member States mentioned above). Throughout the analysis, the IA mentions stakeholder positions consistently, though briefly, including in the final comparison of options and the selection the preferred option. It further refers to two meetings of the expert group on banking, payments and insurance (EGBPI) in September and December 2017, as well as to a meeting with non-specified representatives of ministries of finance and bilateral meetings with stakeholders (IA, pp. 60, 63-64).

Monitoring and evaluation

The IA suggests an evaluation of the achievement of the objectives after six to eight years of application of the regulation (depending on the final definition of the time limit for full coverage of unsecured NPLs) (IA, p. 57). To this end, it presents five non-exhaustive indicators, to be monitored by the Commission. These include NPL/NPE ratios relative to total banking sector assets and to GDP, the coverage of NPEs and the correlation between GDP growth and interest rates paid by non-financial corporations and households on credit. While the proposed indicators appear to be pertinent, the provisions for monitoring and evaluation could have been more specific, for instance regarding the timing, origin and collection of data to be monitored in view of later evaluation.

Commission Regulatory Scrutiny Board

The Regulatory Scrutiny Board (RSB) issued a positive opinion on a draft version of the IA report on 17 January 2018. However, it requested clarifications on the legal context and the integration of the initiative with other measures, both new and ongoing. It also asked DG FISMA to substantiate some quantifications. The final IA does not contain the mandatory annex on the follow-up to the RSB opinion, required by the better regulation guidelines (tool 12). While some recommendations appear to have been addressed, all quantifications (except the estimates regarding the banks' capital) have been removed in the final IA, instead of being clarified and completed. As indicated, some uncertainties concerning the methodology and the evidence base remain, for instance regarding old and newly originated loans, the direct and indirect benefits or the administrative costs.

Coherence between the Commission's legislative proposal and IA

The legislative proposal appears to follow the preferred option of a gradual minimum loss coverage, as outlined in the IA. It provides for the application to exposures originated (or amended to increase their exposure value) after 14 March 2018. The proposal also introduces into the CRR (Articles 36(1)(m) and 47(c)) the definition of NPE as used for supervisory reporting.

Conclusions

The IA provides a useful analysis of the current problems related to under-provisioned NPEs in the EU. The general and specific objectives are consistent with one another, but could have been more precise and better connected to the problem definition, especially in the absence of operational objectives. The analysis contains qualitative and quantitative elements, with a clear focus on the potential impacts on banks' capital, but neglecting other implications, such as social, territorial or macro-economic effects. The analysis relies heavily on EBA advice and could have been more complete, transparent and accessible. In fact, the decision to introduce statutory prudential backstops is a pre-requisite and not part of the assessment, which is why the range of the assessed options is limited. The IA stresses that the impacts of the preferred option depend largely on the flanking initiatives of the legislative package related to NPLs.

ENDNOTES

[1] Non-performing exposures (NPEs) include, besides non-performing loans (NPLs), other debt instruments, such as advances and debt securities or financial risks from off-balance-sheet items. However, NPLs represent the largest share of NPEs and the term 'NPLs' is widely used as equivalent in policy discussions, including in this IA. See European Central Bank, Guidance to banks on non-performing loans, 2017, p. 47.

[2] The latest update came into force in January 2018 and is expected to lead to some limited increase of provisioning for performing exposures (IA, p. 31).

[3] 'Pillar 2' refers to the existing supervisory framework for financial stability under the CRR (and the Capital Requirements Directive) which allows national supervisors to impose measures on a case-by-case basis, in addition to the 'Pillar 1' rules on capital requirements.

[4] Ratio between the amount of NPLs and the total amount of bank loans.

[5] See M. Magnus, Non-performing loans in the Banking Union, Economic Governance Support Unit, European Parliament, March 2017, pp. 5-6.

[6] Alternative approaches featured, for instance, in the replies to the targeted consultation and the discussion with experts from Member States, but were not discussed in the IA (IA, pp. 61, 64).

[7] See Better Regulation Guidelines, SWD(2017) 350, European Commission, July 2017.

[8] This would be in line with the recommendations of the Financial Services Committee (FSC) (IA, pp. 41-42). The average foreclosure period ranges from 3 to 5 years in the majority of EU Member States (IA, p. 35).

[9] The better regulation guidelines require a review of all potentially important impacts, regardless of whether they can be assessed precisely, and an explicit statement if economic, social or environmental impacts are not considered significant.

[10] Except in an unnumbered table in Annex 3. A draft version of the IA apparently even contained quantified information about direct and indirect benefits, for example an expected increase in EU GDP growth of 3.1% (cumulative in seven years), which was deleted in the final IA (see Annex to the RSB opinion, SEC(2018)146, 14 March 2018).

[11] A basis point is 1/100 of 1 %, i.e. 0.01 %. 1 % change equals 100 basis points.

[12] See endnote 10.

[13] EBA report on statutory prudential backstops. Response to the Commission's call for advice of November 2017 , 'Caveats', pp. 50-53.

[14] EBA report on statutory prudential backstops, p. 9.

[15] On the internet site used for the consultation, the Commission justifies the short consultation period on grounds of the political urgency of the initiative. The importance of stakeholder consultations for transparency and accountability of legislation is stressed in the better regulation guidelines of 2017, see endnote 7.

This briefing, prepared for the ECON Committee, analyses whether the principal criteria laid down in the Commission's own Better Regulation Guidelines, as well as additional factors identified by the Parliament in its Impact Assessment Handbook, appear to be met by the IA. It does not attempt to deal with the substance of the proposal.

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