

The Bank of Italy's response to the European Commission's consultation document on the review of the EU macro-prudential policy framework

The Bank of Italy welcomes the opportunity to respond to the European Commission's consultation document on the 'Review of the EU Macro-prudential Policy Framework'. This note sets out the Bank's position on the issues considered most relevant for the successful revision of the framework. The answers to the individual questions of the consultation are detailed in a separate document.

The Bank of Italy believes that generally speaking the macro-prudential framework for the EU banking sector is adequate, both in terms of flexibility and the range of instruments envisaged. There is, however, ample scope for enhancing it by increasing clarity and reducing complexity. Moreover, as the financial sector evolves and new sources of systemic risk materialize, it is important that the adequacy of the common macro-prudential policy framework be periodically assessed and that, at the same time, there be enough room for instruments not harmonized by EU legislation.

In updating the regulatory framework for the banking sector, greater flexibility in the range of macro-prudential instruments must be balanced by appropriate safeguards to preserve the integrity of the internal market and reduce the risk of ring-fencing. In this respect, the Bank of Italy has reservations about the introduction of a systemic risk buffer (SRB) for subsets of exposures, both because this could unduly increase the complexity of the system and because other macro-prudential tools are already available to counter potential risks from real estate or infra-group exposures. The Bank of Italy also disagrees with the complete removal of the cap on the other systemically important institutions' (O-SII) buffer, including that on the O-SII buffer of subsidiaries belonging to groups whose parent company is either a global systemically important institution (G-SII) or an O-SII, owing to the negative impact that this could have on preserving a level playing field in the internal market.

The Bank of Italy suggests caution in broadening the scope for mandatory reciprocity, especially in the perspective of a widening of the macro-prudential toolkit (e.g. the use of reciprocity on new liquidity tools might hamper the efficient transfer of funds within a cross border group). Moreover, mandatory reciprocity should not apply when banks' exposures towards the host country are not large. For practical reasons, a specific *de minimis* threshold should be introduced to avoid undue burdens for banks.

In order to reduce overlaps among policies and tools, the Bank of Italy believes that efforts should be made to co-ordinate micro and macro-prudential policy responses more effectively and to enhance the overall consistency of the framework. In revising

the framework, a clearer distinction needs to be done between macro and micro-prudential policies and tools, with a well-defined allocation of roles and responsibilities to the micro and macro-prudential authorities. As macro tools have been made available to the Designated Authorities, Pillar 2 measures, which are under the responsibility of Competent Authorities, should be confined to bank-specific risks only and should no longer address systemic risks. Indeed, Pillar 2 measures might interact with macro-prudential measures, such as the countercyclical capital buffer (CCyB), potentially hindering their effectiveness (e.g. by offsetting the benefits of releasing the CCyB in an economic downturn). Furthermore, Pillar 2 measures are not usually disclosed to the general public and thus lack the signaling function of macro-prudential tools. Likewise, the application of Articles 124/164 of the Capital Requirements Regulation (CRR) by the Competent Authorities should be confined to 'micro' risks only; accordingly, all references to systemic/forward-looking developments and financial stability considerations should be removed from the legal text.

There must be proper coordination mechanisms between the micro and macro-prudential policies, especially when they fall under the responsibility of different authorities. Should conflicting policy objectives arise (e.g. in downturns when pursuing stability at the level of the individual institution may be self-defeating), the modalities for coordination should be such as to give predominance to the overarching objective of financial stability.

As to additional macro-prudential instruments in the area of lending standards, such as limits on the loan-to-value, loan-to-income, and the debt-service-to-income ratios (LTV, LTI, DSTI), the Bank of Italy holds the view that their application should not be harmonized at the EU level at this stage. Indeed, the use of these instruments rests on very different legal frameworks and market practices and, therefore, it should remain in the remit of national authorities.

Finally, the Bank of Italy believes that the lack of harmonized instruments to address systemic risks in the rapidly expanding non-bank financial sector leaves a gap in the EU's macro-prudential policy framework. Thus, national authorities should be encouraged to develop adequate tools to address risks arising from non-bank financial sector, consistently with the standards to be set at international level. However, at this stage the Bank of Italy considers it premature to identify a set of harmonized macro-prudential instruments beyond banking, as there is still no consensus as to what macro-prudential tools can be more effectively used (for example, whether they should be entity-based or activity-based).

**THE BANK OF ITALY'S RESPONSE TO THE CONSULTATION DOCUMENT ON THE
REVIEW OF THE EU MACRO-PRUDENTIAL POLICY FRAMEWORK**

Questions:

Q1: Do you consider the degree of coordination between the different authorities in the current framework (i.e. ESRB, national macro-prudential authorities, Commission, Council, etc.) appropriate? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all), and explain your scoring.]

Score 3. The Bank of Italy considers the institutional framework for the EU macro-prudential policy to be very complex. There are several procedures which are particularly burdensome and can be streamlined, such as: the process for adopting decisions under Article 458 of the Capital Requirements Regulation (CRR); the preventive notification procedures between the ECB and National Competent and Designated Authorities (NCAs/NDAs) provided for in Article 5 of the Single Supervisory Mechanism (SSM) Regulation. Nonetheless, generally speaking, greater simplification must be balanced by appropriate safeguards to preserve the integrity of the internal market and reduce the risk of ring-fencing.

Q2: (a) Would you consider appropriate to expand the macro-prudential framework beyond banking? [Please rank your answer from 1 (fully appropriate) to 5 (fully inappropriate), and explain your scoring.] (b) If deemed appropriate, what kind of systemic risks should be targeted and how?

Score 3. The Bank of Italy believes that the lack of harmonized instruments to address systemic risks in the rapidly expanding non-bank financial sector leaves a gap in the EU's macro-prudential policy framework. Thus, national authorities should be encouraged to develop adequate tools to address risks arising from non-bank financial sector, consistently with the standards to be set at international level. However, at this stage the Bank of Italy considers it premature to identify a set of harmonized macro-prudential instruments beyond banking, as there is still no consensus as to what macro-prudential tools can be more effectively used (for example, whether they should be entity-based or activity-based).

Q3: Do you see a need to strengthen the coordination between designated and competent authorities when using stricter Pillar 1 measures for real estate exposures to address systemic

*risks? [Please rank your answer from 1 (strong need) to 5 (no need), and explain your scoring.]
If you see a need, how should their coordination be strengthened?*

Score 1. Generally speaking, there must be proper coordination mechanisms between the micro and macro-prudential policies, especially when they fall under the responsibility of different authorities. Moreover, should conflicting policy objectives arise (e.g. in downturns), the macro-prudential policy objective should be given priority, considering the overarching importance of financial stability. Regarding the stricter Pillar 1 measures for systemic risks stemming from real estate exposures, as provided for in Articles 124/164 of the CRR, as well as the Pillar 2 measures, both of which are under the remit of micro-prudential authorities, the Bank of Italy believes that they should be used for micro-prudential purposes only (see the answers to Q6 and Q7).

Q4: Do activity-based instruments in the current framework allow to effectively tackle risks stemming from specific risk exposures? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]

Score 3. The scope for applying targeted instruments within the Capital Requirements Directive (CRDIV) and the Capital Requirements Regulation (CRR) is mainly related to real estate and intra-financial sector exposures.

In the Bank's view, sectoral risks of a cyclical nature can be effectively addressed by measures under Article 458 of the CRR and if need be by a sectoral CCyB (see also the answer to Q5). Similarly, interconnectedness within the financial system can be effectively reduced by increasing risk weights for intra-financial exposures, or by setting stricter limits on large exposures (LEs) in that sector (Article 458 of the CRR). While higher risk weights (RWs) increase the cost of intra-financial exposures, providing an incentive to substitute them with others, LE restrictions would cap the overall amount of exposures to counterparties belonging to the financial sector.

However, in the current framework, systemic sectoral risks can also be addressed by the Competent Authorities through Pillar 1 measures such as Articles 124/164 of the CRR for real estate exposures and Pillar 2 measures. Given the scale of the challenges in dealing with potential overlaps between micro- and macro-policy responses, the Bank of Italy deems it important that micro-prudential tools be used for micro-prudential purposes only.

Having said that, given the rapid evolution of the financial sector and the possibility that new sources of systemic risk materialize, it is important that the adequacy of the macro-prudential policy framework be periodically assessed (retaining a revision clause in the legislation) and that, at the same time, enough room be left for instruments not harmonized by EU legislation.

Q5: Do you consider a CCB for sectoral imbalances (e.g. in the real estate sector) a useful complementary instrument? [Please rank your answer from 1 (necessary complement) to 5 (useless complement), and explain your scoring.] If yes, how would you see the interaction of this sectoral CCB with the CCB already in place?

Score 2. The Bank of Italy recognizes that there are good arguments for enhancing the macro-prudential toolkit with a sectoral CCyB. The use of the broad-based CCyB can be inefficient if risks are building up in specific segments of the credit market. Should the largest contribution to the credit-to-GDP gap stem from the household sector, a broad-based CCyB would unduly penalize non financial corporations (NFCs) since the capital buffer would be imposed on total risk-weighted assets (furthermore, the risk weights required for corporate exposures are usually higher than those required for real estate exposures). In this scenario, a more targeted tool, addressing credit developments in the household and corporate sector separately, would be as effective as the broad-based CCyB, but more cost efficient as it would have fewer unintended consequences.

Moreover, a CCyB for the household sector would usefully complement the existing tools for real estate exposures, without affecting risk weights, which are used as the basis for the calibration of several other tools (i.e. TLAC/MREL requirements, contributions to the Single Resolution Fund).

Discussion on sectoral countercyclical capital buffers (sectoral CCyBs) can proceed in parallel with ongoing work at Basel to ensure consistency with what has been agreed at the international level. Their introduction needs to be motivated by sufficient empirical support.

Q6: Do you see a need for adjusting measures targeting risks associated with banks' real estate exposures? If so, please explain your answer.

As mentioned in the answer to Q3, micro-prudential tools such as those provided for in Articles 124/164 of the CRR and Pillar 2 should be used for micro-prudential purposes only, in order to avoid potential overlaps between the two policies (see also the answer to Q7). Systemic risks from the real-estate sector can be addressed effectively by macro-prudential instruments that already exist (Article 458 of the CRR), or may become available in the future (sectoral CCyB – see the answer to Q5).

Q7: Do you see a need for disentangling different responsibilities between competent and designated authorities? If so, please explain your answer.

Yes, please also see the answers to Q3 and Q6.

Pillar 1 measures pursuant to Articles 124/164 of the CRR under the responsibility of Competent Authorities should be used as 'micro' tools to address idiosyncratic risks. All references in these articles to systemic/forward-looking developments or financial stability considerations should accordingly be removed. This would avoid undue impact on variables typically affecting minimum capital requirements (such as RWs and LGD parameters) for macro purposes, with inevitable second-round effects on the calculation of macro buffers such as the CCyB.

Similarly, Pillar 2 measures should be used to address idiosyncratic risks only, as they might interact inefficiently with macro-prudential measures, for instance by offsetting the benefits of releasing the CCyB during downturns; moreover, Pillar 2 measures are not usually disclosed to the general public and thus lack the signaling power that is key to the functioning of macro-prudential (and monetary) policies. Therefore, sub-paragraph b) of Article 97 of the CRDIV (on systemic risk) should be deleted.

Generally, there must be proper coordination mechanisms between the micro and macro-prudential policies, especially when they fall under the responsibility of different authorities. Moreover, should conflicting policy objectives arise (e.g. in downturns), the macro-prudential policy objective should be given priority, considering the overarching importance of financial stability.

Q8: Do you see merit in better distinguishing the activity-based from the institution-based instruments under Article 458 CRR, also in view of applicable activation procedure(s)? [Please rank your answer from 1 (a better distinction is necessary) to 5 (a better distinction is not necessary).]

Score 1. Article 458 of the CRR grants the Competent or Designated Authority a high degree of flexibility when implementing macro-prudential measures, but this comes at the expense of consistency and coordination with respect to the other instruments contained in the CRR/CRDIV package.

A distinction between the procedures prescribed for the activation of activity-based instruments and institution-based ones should ideally be made in the forthcoming proposal, with stricter procedures for activating institution-based instruments. This would reflect the potentially stronger impact these could have on the targeted institutions and take account of the risk of internal market fragmentation.

Finally, both types of instrument should clearly state until when they will apply (expiration date or review clause) to prevent ad-hoc measures, adopted to address contingent situations, from becoming 'permanent'.

Q9: Do you see the need to better frame either the focus (targeted risks) or the scope of the SRB (i.e. applicability to the entire stock only or also to subsets of exposures)? If so, please explain your answer.

The current broad and generic scope of the systemic risk buffer (SRB) – which allows authorities at national level to target long-term non-cyclical systemic risks – creates room for possible misuse. The SRB has also been used to address risks posed by the systemic relevance of individual systemic institutions, circumventing the cap on the buffer for other systemically important institutions (O-SIIs). This misuse of the SRB needs to be avoided by clearly specifying the objectives and conditions for its activation and by excluding its application to individual institutions.

The SRB should be applied to the system as a whole and, in very well-justified cases, to broad categories of institutions – with common business models or correlated risks.

The Bank of Italy suggests referring to the following risk drivers: i) the concentration of the financial sector; ii) the importance of the banking system to the functioning of the real economy. To ensure a level playing field, the EBA could be asked to develop implementing technical standards in order to devise a common methodology to measure these two risk drivers.

The Bank of Italy is concerned about an excessively broad scope of application of the SRB, when extended to subsets of exposures, both because this could unduly increase the complexity of the system and because other macro-prudential tools are already available to counter potential risks from real estate or infra-group exposures. More generally, a sectoral SRB could impair the integrity of the internal market and be used for ring-fencing practices. Should it be introduced, appropriate safeguard mechanisms would accordingly be required.

Q10: Should the SRB be explicitly defined as either an activity based or an institution specific tool? Please explain your answer.

Institution specific (please refer to Q9).

Q11: How do you assess the interactions of institution-specific instruments in the current framework?

While the G-SII and O-SII buffers are effective in targeting systemic risks, they might interact inefficiently with the systemic risk buffer (SRB). Overlapping between the two types of buffers needs to be avoided by setting clear objectives and conditions for the activation of the SRB, so as to exclude its application at the individual institution level (see also the answer to Q9).

Q12: How do you assess the main weaknesses of institution-specific instruments in the current framework?

Please refer to Q11.

Q13: Do you consider that the capital buffers for systemically important institutions are appropriately calibrated in the current framework? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]

Score 3. Capital buffers for global systemically important institutions (G-SIIs) should be aligned to those resulting from the framework approved by the Financial Stability Board (FSB); those for systemically important institutions at the domestic level should be calibrated according to the potential impact that their failure might have on the domestic economy.

To this end, the Bank of Italy believes that the calibration and capping of the O-SII buffer could be revised as follows:

1. the O-SII buffer would be applied by each authority up to a certain fixed percentage;
2. the ‘structural’ buffers (G-SII, O-SII and SRB) should be subject to an overall cap (see Q16);
3. the EBA could draft a regulatory technical standard (RTS) to develop a common methodology to calibrate the O-SII buffer in relation to the institution’s systemic importance.

Q14: Do you assess the caps of the G-SII and the O-SII buffers as appropriate? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all), and explain your scoring.]

Please refer to Q13.

Q15: Do you think that the 2 percent cap for the O-SII buffer should be revised? If so, please explain your answer.

The Bank of Italy would keep the cap as it is. A revision of the cap could be considered based on an impact assessment. Please also refer to Q13.

Q16: Do you consider that the current cumulation rules applicable to institution-specific buffers need to be revised? If yes, what revisions would you consider necessary?

According to CRD IV, if more than one of the institution-specific buffers (G-SII, O-SII, SRB) are activated at the same time, the highest applies, thus acknowledging potential overlaps. Some degree of cumulation can be considered provided that the SRB's purpose, scope and triggers are clarified and its separation from the other two buffers is ensured. Besides the need for clarification and separation, a notification and approval procedure should be prescribed whenever the sum of these buffers exceeds a certain threshold (e.g. 5 per cent).

Q17: Do you see a need for developing additional harmonized macro-prudential instruments? If yes, what type of new instrument would you deem necessary and why?

The Bank of Italy believes that generally speaking the current EU macro-prudential framework for the banking sector envisages an adequate range of instruments. Therefore, as of today the Bank does not see the need to develop additional harmonized macro-prudential instruments.

However, as the financial sector evolves and new sources of systemic risk materialize, it is important that the adequacy of the macro-prudential policy framework be periodically assessed.

With regard to the specific (additional) instruments listed in the Consultation paper:

- Instruments addressing lending standards. The Bank of Italy shares the European Commission's view of the effectiveness of instruments addressing lending standards, such as limits on loan-to-value, loan-to-income, and debt-service-to-income ratios (LTV, LTI, DSTI). Since they target credit demand directly, they can be very effective in addressing systemic risks associated with excessive credit growth. Nonetheless, the Bank is concerned about the advisability of introducing at this stage the possibility of setting caps on LTV, LTI and DTI ratios as harmonized measures at the EU level. Indeed, the use of these instruments rests on very different legal frameworks and market practices and, therefore, it should remain in the remit of national authorities.
- Concerning the macro-prudential use of the leverage ratio, the Bank notes that this has not yet been fully implemented, even for its micro-prudential use. Therefore, its

application for macro-prudential purposes, without having first tested its micro-prudential implications, seems somewhat premature. Similar considerations hold for other micro-prudential measures not yet finalized and tested, such as liquidity measures (e.g. net stable funding ratio).

- As to the possibility of setting large exposures limits at sectoral level, the Bank believes that this is already granted to national authorities under Article 458 of the CRR.

Q18: How do you assess the possibility for the ESRB to develop technical guidance on the use of non-harmonised instruments, for example via issuing recommendations? Would you see a specific type of instrument for which such an approach could be warranted and suitable?

The Bank of Italy supports the development of technical guidance as an effort to harmonize to the extent possible the definition of the instruments, not their use (see the answer to Q17).

Q19: Do you consider the current hierarchy of Instruments ('pecking order') as appropriate? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all), and explain your scoring.]

Score 3. If the macro-prudential framework is appropriately revised by restricting the use of micro-prudential tools such as those provided for by Articles 124/164 of the CRR and Pillar 2 to micro-prudential purposes only – as requested in our answers to Q3, Q6 and Q7 – a pecking order would no longer be needed.

Otherwise, establishing a pecking order of the measures would require significant revision. In particular, Pillar 2 measures should in any event be excluded from any pecking order, especially because of their lack of transparency: as stakeholders do not possess all the information needed to assess the technical conditions of banks, market discipline could be undermined.

Q20: Can overlaps in the tools' scope facilitate the circumvention of control elements embedded in the activation mechanism? If you answer yes, please explain how.

Yes, please refer to Q9 and to the possible misuse of the SRB to circumvent the O-SII buffer.

Q21: What adjustments, if any, would you suggest for the notification and activation requirements for the SRB?

The SRB should be activated in specific circumstances only, to be stated in the CRR/CRD IV (see Q9).

Q22: What adjustments, if any, would you suggest for the notification and activation requirements for the measures under Article 458 CRR?

In keeping with the current approach set out in the CRR, Article 458 measures should be activated only in the event that all the other tools set out in the CRR-CRD cannot be used. In principle, the Bank of Italy believes that measures adopted for financial stability purposes should be applied in a consistent manner: to avoid discrimination, measures adopted to address risks arising from specific sectors or transactions should apply to all institutions operating in the same business and facing the same risks.

As to the notification requirements, taking into account the high degree of flexibility currently granted to the Competent/Designated Authorities under Article 458 of the CRR, the Bank of Italy suggests that the current notification (and activation) requirements be retained. Should the Commission decide to modify the text of Article 458, more stringent procedures for the institutions-based measures (for instance the application of an add-on to a specific subset of institutions) than the exposures-based measures should be envisaged (see also Q8).

Q23: What adjustments, if any, would you suggest for the notification and activation requirements for the CCB?

No suggestions.

Q24: Do you see the risk that especially the O-SII buffer and the SRB could be used for ring-fencing purposes? If yes, what do you suggest to address this risk?

Yes. Without a clear notification process and strong safeguards (i.e. cap or approval procedures) both these buffers could be used for ring-fencing measures (see the answers to Q9 and Q15).

Q25: How do you assess the shared responsibilities of the ECB/SSM and national authorities for macro-prudential policy within the Banking Union? In particular, do you think that the current asymmetry of powers conferred upon the ECB/SSM is appropriate? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all), and explain your scoring.]

Score 4. The ECB should also have the power to attenuate national measures when they are assessed to be disproportionate to the level of systemic risk or when the conditions requiring the application of those measures are no longer met.

Q26: How do you assess the coordination need between the different authorities involved? [Please rank your answer from 1 (strong need for more coordination) to 5 (no need for further coordination), and explain your scoring.] Do you see areas in which this coordination could be improved?

Score 4: The Bank of Italy believes that the current coordination process is broadly adequate. See also the answers to Q27.

Q27: Do you see need for amending the time periods of the notification process between national authorities and the ECB/SSM? [Please rank your answer from 1 (strong need for amending) to 5 (no need for amending).] What time limitations would you suggest?

Score 3. According to Article 5(1) of the SSM Regulation, national authorities wishing to implement a macro-prudential measure shall notify their intention to the ECB ten working days in advance of adopting their decision; the ECB shall express a non-binding opinion within five working days. The same mechanism applies when the ECB decides to ‘top-up’ a national measure (Article 5(2)).

This process is quite onerous, also considering that for each measure three written procedures are launched by the ECB: the Financial Stability Committee, Supervisory Board and Governing Council. In particular, the decision on the calibration of the countercyclical capital buffer must be notified on a quarterly basis by all national authorities of the euro area even if there is no change, resulting in 76 (19x4) notifications per year and 228 (19x4x3) written procedures for each authority.

A review of the SSM regulation is therefore required in order to streamline the operational process. A possible solution could be to trigger Article 5 of the SSM Regulation only when changes in systemic risk assessment or in macro-prudential policy considerations occur.

Q28: Do you see need to broaden the scope for mandatory reciprocity in the CRR/CRDIV? If yes, for which instrument(s) do you see such a need?

The Bank of Italy suggests caution in broadening the scope for mandatory reciprocity, especially in the perspective of a widening of the macro-prudential toolkit (e.g. the use of reciprocity on new liquidity tools might hamper the efficient transfer of funds within a cross

border group). Indeed, the current provisions on reciprocity set out in the CRR/CRDIV are adequate in curtailing the risk of leakages and distorted competition, while ensuring enough flexibility at national level when setting appropriate macro-prudential policy responses.

Moreover, mandatory reciprocity:

1. should not apply when banks' exposures towards the host country are very small. For practical reasons, a specific *de minimis* threshold should be introduced to avoid undue burdens for banks;
2. is extremely burdensome for positions classified in the trading book, considering that the forthcoming fundamental review of the trading book (FRTB) quantifies capital requirements according to a 'portfolio-approach methodology'. Accordingly, for reporting banks it is time consuming and extremely onerous to calculate the portion of capital buffers related to these exposures. For this reason, a specific approach for trading exposures needs to be developed.

Q29: Do you think that the ESRB's mandate and tasks are appropriately formulated to ensure efficient coordination of macro-prudential policies in the EU? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all).] If not deemed fully appropriate, what changes would you suggest to ensure such efficient coordination?

Score 2. There is a need to clarify the interaction between the ESRB and the ECB/SSM (with its new macro-prudential role), also on specific issues, e.g. communication of macro-prudential policy.

Q30: How do you assess the current capacities of the ESRB to deliver on its mandate for conducting system-wide risk analysis, including its access to relevant data? [Please rank your answer from 1 (fully adequate) to 5 (not adequate), and explain your scoring.]

Score 2. The ESRB should continue to operate by leveraging on its Secretariat, while maintaining close ties with the central bank community. In particular, the degree of coordination between the ESRB and the ECB should be preserved as it is, in order to further exploit synergies. As the ECB has been tasked to coordinate national macro-prudential policies for the banking sector within the SSM, the ESRB could shift its focus towards developing a sound analytical framework for risks beyond banking and across sectors, while maintaining its EU wide perspective also for the banking sector.

As to granting timely access to the data, undeniably a key aspect for the ESRB, any revision of the rules should take into account the impact on IT costs for both the supervisors and the

banking systems. As far as possible, the ESRB should rely on current data available at EU and Eurozone level (e.g. Implementing Technical Standards on Supervisory Reporting and ECB regulations).

Q31: In particular, do you consider that the resources of the ESRB Secretariat are adequate in this context? [Please rank your answer from 1 (fully adequate) to 5 (not adequate), and explain your scoring.]

Score 2. Please refer to Q30 (the ESRB resources could focus on non-banking/cross-sectoral issues at the EU level).

Q32: What do you consider to be the best ways to ensure that the macro-prudential perspective is sufficiently reflected in EU policy making where systemic risk considerations are involved?

The ESRB should continue to promote a 'macro-prudential culture' in the EU. Besides issuing warnings and recommendations, it could also identify the desired macro-prudential stance and effectively communicate it to the public (See the answer below).

Q33: How do you assess the instruments and powers of the ESRB? In particular, do you see the need for the ESRB's powers to explicitly include 'soft power' tools with a view to fulfil its mandate?

The ESRB itself does not see the need for more soft powers, but it can certainly use instruments similar to the quarterly General Board press release, such as statements, to communicate the desired macro-prudential stance.

Q34: Do you consider the transparency related to the act or explain mechanism (e.g. in following up recommendations, etc.) as satisfactory? [Please rank your answer from 1 (fully adequate) to 5 (not adequate at all).] If not deemed fully satisfactory, what improvement would be necessary?

Score 1. The ESRB's *Handbook on the assessment of compliance with ESRB recommendations* now includes two important principles (four-eye review and effective dialogue), designed to ensure that recommendations are correctly interpreted.

Q35: Would you consider the two-tier managerial structure along the lines proposed above an appropriate way to improve the governance structure of the ESRB? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]

Score 3. The Bank of Italy does not have a strong preference on this.

Q36: How does the current size of the General Board affect the exchange of confidential and sensitive information and smooth decision making? Do you see merit in reducing its size and/or shifting some of its tasks to the Steering Committee? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]

Score 4. A broad range of expertise is vital for the ESRB's General Board to fulfil its task. Decisions on operational issues could be delegated to the Advisory Technical Committee (ATC), with the General Board retaining the power to reconsider delegations of responsibilities.

Q37: (a) How do you suggest accommodating the establishment of macro-prudential authorities at the national level, and the SSM and SRB, in the General Board's membership? (b) Do you consider it warranted to require Member States to designate a single national representative, with representation possibly varying in accordance with the concrete issues for discussion and decision? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]

Score 2 on (a): in particular, national Designated Authorities currently not represented could become members without voting rights (so that each Member State maintains one vote).

Score 5 on (b): voting rights should remain in the hands of the Governors of the central banks. When issues regarding specific financial sectors are discussed, central banks could also represent the position of other national authorities, subject to previous agreement at the domestic level, e.g. within the national macro-prudential authority. In fact the Bank of Italy believes that, whatever the specific institutional arrangements at the national level, countries should be substantially compliant with the ESRB Recommendation on the macro-prudential mandate of national authorities, according to which the central bank shall play 'a leading role in the macro-prudential policy'.

Q38: How do you assess the work of the two ESRB advisory committees (ATC and ASC)? In particular, would you suggest any changes in their role and/or composition?

Please refer to Q36 (delegation of the powers of the General Board to the ATC).