



LUIGI FEDERICO SIGNORINI

Senior Deputy Governor and
Member of the Governing Board,
Banca d'Italia

How should Basel banking standards evolve now?

Banks faced the pandemic crisis in a significantly stronger capital and liquidity position than they had at the onset of the Great Financial Crisis (GFC), also thanks to the Basel III standards adopted in response to it. For this reason the international banking system acted as a shock absorber rather than amplifier and kept lending to the real economy.

The positive role of banks in dealing with the crisis has also been facilitated by far ranging measures taken by the supervisory community under the aegis of the Basel Committee. The Committee encouraged banks to fully exploit the flexibility embedded in the prudential standards on capital and liquidity buffers making clear that a measured draw-down of such buffers in time of stress was appropriate. The same encouragement was made with regard to the use of the flexibility in the accounting framework. Further, the Final Basel III standards was deferred by one year, to 2023. The overall effect of such measures will be subject to a continuous monitoring by the Committee.

The dramatic events of last year underlined the importance of having a resilient banking system supported by a comprehensive and effective regulatory framework. The latter needs to evolve to keep up with the challenges that the financial sector will face in the future. Looking ahead, the regulatory agenda should focus on the implementation and evaluation of the reforms adopted in response to the GFC as well as on how to deal with emerging issues.

Notwithstanding the flexibility granted by the Basel Committee, the latter called the supervisory community to a full and timely adoption of the Basel standards at a national level. Furthermore, having in place the revised prudential framework will also facilitate the Committee in evaluating whether the new prudential framework has achieved its policy goals or whether there is still room for a fine tuning or simplification. The evaluation process will also shed light on whether the new regulatory framework is ready to address also the structural changes that will emerge in the 'post-COVID 19' environment.

The more forward-looking line of evolution refers to how the regulatory agenda should deal with emerging risks such as those posed by the ESG framework and the FinTech evolution. On the former aspect, works should continue to assess how to adequately

incorporate ESG factors in the prudential framework.

On the latter, the pandemic has shown the large potential benefits of the increased digitalization of the economic environment. The banking business and the financial sector in general made no exception to this trend. The regulatory framework should evolve to keep up with the spread of technology-enabled innovation in financial services in order to develop appropriate safeguards to deal with such new risks, such as cyber risks. An additional challenge for supervisors and regulators is also posed by the potential impact of the Fintech environment on banks' business models, as the competition in the provision of certain financial services is rapidly increasing. While still tackling the emergency, **global standard setters** such as the Basel Committee **should be ready to look beyond the crisis and start a comprehensive discussion on future trends and challenges** in banking and finance.