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Finance, Competitiveness & Innovation
Financial Sector Advisory Center (FinSAC)

Development banks: prudential regulation and supervision

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1. Development banks:
Prudential regulation and supervision

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- **There is no global or EU standards applicable to Development Banks**
- **Some DBs have a very long history and are explained by post WWII reconstruction needs or even financial inclusion needs**
- **Their specific features vary widely from country to country** → It´s up to the country determining its approach of regulation and supervision; many options are possible, on governance, capital, concentration or liquidity, among others
- Differently from state-owned commercial banks, **they operate under a development mandate, and do not seek to maximize profits for their shareholders**

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- **Some key principles on their prudential framework:**
  - **The closer to a commercial bank, the closer they should be regulated to a regular commercial bank** (i.e. deposit-taking entities, retail-oriented)
  - **The rationale and objectives for banking supervision should be clear**; what are the objectives of the supervision of development banks?
  - **Supervisors' ability to enforce should be clearly stated in the law**; go beyond non-binding/recommendations, including on fitness and propriety
  - **The regulatory and prudential framework applicable to development banks shall be monitored as closely** as commercial banks, outdated frameworks, that no supervisor remember, shall be avoided
  - What should the financial objectives of the development bank be?

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	Development Banks	State-owned commercial banks
Access to activity	• Created by law	• Licensed as new other credit institutions
Governance	• Special rules on Board members / Fit and proper	• Regular fit and proper criteria
Funding	• Liabilities guaranteed ex lege by the state / sovereign risk • Usually, not deposit taking	• No guarantee by the state on the SoBs' liabilities • Deposit-taking
Capital requirements	• Ad-hoc capital requirements • Usually in line with CRDIV/CRR3 • Maybe subject to ICAAP	• As any other commercial banks
Liquidity requirements	• May apply LCR / NSFR or special rules	• As any other commercial banks
Large exposures	• Specific rules to enable the business model	• As any other commercial banks
Recovery and Resolution	• Not applicable	• As any other commercial banks
Risk management requirements	• Commonly, fully applicable	• As any other commercial banks
Operational resilience	• Might be fully applicable	• As any other commercial banks
Disclosure requirements (Pilar 3)	• May be applicable	• Fully applicable

1. Development banks: Liquidity approach

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Development Bank	Country	Deposit-taking	Scope CRDV/CRRIII	Prudential regulation & supervision	LCR & NSFR applicability	Subject to Large exposure regime (LER)
Kontrollbank	Austria	Yes (legal entities)	Excluded	Yes (FMA)	No	No
KFW	Germany	No	Excluded	Yes (Bafin)	No (utilization ratio)	Yes
MFB	Hungary	No	Excluded	Yes (NBH)	No	Yes, with waivers
HBOR	Croatia	No	Excluded	No	No	No
Strategic Banking Corporation	Ireland	No	Excluded	No	No	No
ICO	Spain	No	Excluded	Yes (BdE)	Yes	No
BGK	Poland	Yes	Excluded	Yes (KNF)	Yes	Yes, with waivers
IDB	Romania	No	Excluded	Yes (NBR)	Yes	Yes
MDB	Malta	No	Excluded	Yes (MNB)	Yes	Yes, with waivers
SID	Slovenia	No	Excluded	Yes (BoS)	Yes	No (special regime)
Caisse des Dépôts et Consignations	France	Yes	Excluded	Yes (ACPR)	No	No
BGB	Bulgaria	No	Excluded	Yes (NBB)	Yes	Yes

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Thank you!