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WHEN DOES FINANCE WIN?
A SET-THEORETIC ANALYSIS OF THE CONDITIONS OF EUROPEAN FINANCIAL INTEREST GROUPS' LOBBYING SUCCESS ON POST-CRISIS BANK CAPITAL REQUIREMENTS

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Abstract

Acknowledging the failure of the existing regulatory framework after the global financial crisis of 2008, world leaders vowed to reform financial regulation to strengthen stability and restore trust. The reform of bank capital requirements was a major item on this agenda: the Group of Twenty (G20) entrusted the reform to the Basel Committee on Banking Supervision (BCBS), whose so-called *Basel framework* constitutes the global standard for the prudential regulation of banking activities. While scholars have highlighted the important concessions that were made to financial interests in this reform, a series of demanding new policy tools—which were strongly opposed by financial industry representatives—were also introduced into the new Basel III framework. This dissertation explores this empirical puzzle and seeks to identify under what conditions European financial interests' lobbying on the reform of capital requirements was successful, and whether these successes constitute cases of interest group influence.

Defining influence as a situation where a proposed reform evolves during the decision-making process (policy shift) in the direction advocated by an actor (lobbying success) and where that evolution is caused by the actors' lobbying activity vis-à-vis the proposed reform (causal path), this dissertation then considers influence as a multilevel concept, which can be considered present if and only if all three of its components—policy shift, lobbying success and a causal path—are also present. In other words, policy shift, lobbying success and causal paths are the three individually necessary and jointly sufficient conditions for influence, which this study investigates in turn in the case of post-crisis bank capital requirements. The presence

or absence of a policy shift is assessed qualitatively by comparing, for twenty-nine policy issues contained in the Basel III framework, the initial BCBS reform proposals with the rules finally enacted at international and European level. The positions of financial and non-financial interest groups on each of these twenty-nine issues are then determined—through a quantitative text analysis of the position papers submitted by interest groups to BCBS and European Commission consultations on Basel III and the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR)—to determine whether the identified policy shift on a given issue constitutes a case of lobbying success for the interest group. Finally, using *fuzzy-set* Qualitative Comparative Analysis (*fs*QCA) to compare in a systematic manner cases in which success is observed and cases where it is absent, I uncover the configurations of conditions sufficient to produce successful lobbying and those sufficient to produce the absence of success, configurations which I then interpret in terms of causal mechanisms.

Strong collective action is found, in several forms, to form the basis of causal mechanisms producing successful lobbying. The observed sufficient configurations of conditions however suggest that the causal mechanisms producing success also include key contextual factors that are beyong the control of financial interest groups. The absence of these enabling contextual factors is shown, conversely, to lead to the absence of success.

This dissertation contributes to the existing academic literature in several ways. Empirically, first, it adds to the scholarship on bank capital requirements at the international and European level, using novel data to reassess, after the completion of the Basel III reform, the extent to which the final framework meets the initial ambitions. Methodologically, second, this dissertation employs a range of new methods and techniques to take on the challenges of measuring lobbying success and identifying multiple pathways to influence, two fundamental issues for empirical studies of interest group influence. Theoretically, third, the combinatorial approach used here to explore conditions of lobbying success permits an examination of multiple

conjunctural causation patterns in interest group influence.

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Throughout this dissertation I relied extensively on open source software, including the R language (R Core Team, 2021), the package Quanteda for text analysis (Benoit et al., 2018) and the packages QCA and SetMethods for qualitative comparative analysis (Duşa, 2018; Oana & Schneider, 2018). Research projects such as this one would not be possible without the hard work of all the volunteers who develop and maintain such tools, kindly answer questions and solve technical issues for the sake of science. I hope that my research bears testimony to the usefulness of these efforts.

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List of abbreviations

A-IRB advanced internal ratings-based approach

ABS asset-backed security

AMA advanced measurement approaches

ASF available stable funding

b.p. basis points

BCBS Basel Committee on Banking Supervision

BI business indicator

BIC business indicator component

BIS Bank for International Settlements

***cs*QCA** *crisp-set* Qualitative Comparative Analysis

CCB capital conservation buffer

CCF credit conversion factor

CCP central counterparty

CCR counterparty credit risk

CCyCB countercyclical capital buffer

CEBS Committee of European Bank Supervisors

CEO Chief Executive Officer

CET1 common equity Tier 1

CLO collateralised loan obligation

CMBS commercial mortgage-backed security

CME Group Chicago Mercantile Exchange Group

CRD Capital Requirements Directive

CRM credit risk mitigation

CRR Capital Requirements Regulation

CSR credit spread risk

CTP correlation trading portfolio

CVA credit valuation adjustment

D-SIB domestic systemically important bank

DCD Deviant Consistency in Degrees

DCK Deviant Consistency in Kind

DG directorate-general

DRC default risk capital

DTA deferred tax asset

EAD exposure at default

EBA European Banking Authority

EC European Commission

EP European Parliament

ERBA external ratings-based approach

ES expected shortfall

ESA European supervisory authority

EU European Union

***fs*QCA** *fuzzy-set* Qualitative Comparative Analysis

F-IRB foundation internal ratings-based approach

FICOD Financial Conglomerates Directive

FISMA Financial Stability, Financial Services and Capital Markets Union

FRTB fundamental review of the trading book

FSB Financial Stability Board

FSF Financial Stability Forum

FX foreign exchange

G-SIB global systemically important bank

G-SII global systemically important institution

G20 Group of Twenty

GDP gross domestic product

GFC global financial crisis

GHoS Group of Governors and Heads of Supervision

GICS Global Industry Classification Standard

GIRR general interest rate risk

HLA higher loss absorbency

HPL hypothetical P&L

HQLA high-quality liquid asset

IAA internal assessment approach

IDLC interest, lease and dividend component

ILM internal loss multiplier

IMA internal models approach

IMM internal models method

INUS insufficient but necessary condition of an unnecessary but sufficient conjunction

IOSCO International Organization of Securities Commissions

IPS institutional protection scheme

IRB internal ratings-based

IRBA internal ratings-based approach

IRT internal risk transfer

LC loss component

LCR liquidity coverage ratio

LE large exposures

LGD loss-given-default

LOLR lender of last resort

MARKT Internal Market and Services

MDB multilateral development bank

MRC minimum regulatory capital

MSDO most similar cases, different outcome

MSFA modified supervisory formula approach

NFC non-financial corporate

NGO non-governmental organisation

NMRF non-modellable risk factor

NPL non-performing loan

NSFR net stable funding ratio

O-SII other systemically important institution

OBS off-balance sheet

ORC operational risk capital charge

OTC over-the-counter

p.p. percentage points

PD probability of default

PFE potential future exposure

PLA P&L attribution

PRI proportional reduction in inconsistency

PSE public sector entity

QCA qualitative comparative analysis

QCCP qualifying central counterparty

QIS quantitative impact study

RC replacement cost

RCAP Regulatory Consistency Assessment Programme

RMBS residential mortgage-backed security

RoN relevance of necessity

RRAO residual risk add-on

RRBA revised ratings-based approach

RSF required stable funding

RTPL risk-theoretical P&L

RTS Regulatory Technical Standard

RW risk-weight

RWA risk-weighted assets

SA standardised approach

SA-CCR standardised approach to counterparty credit risk

SA-CR standardised approach to credit risk

SA-MAR standardised approach to market risk

SbM sensitivities-based method

SC services component

SEC-SA standardised approach for securitisation

SFT securities financing transaction

SMA standardised measurement approach

SME small and medium-sized entreprise

SRP Supervisory Review Process

SSFA simplified supervisory formula approach

STC simple, transparent and comparable

SUIN Sufficient but Unnecessary part of a factor that is Insufficient but Necessary

SW Smith-Waterman

TBTF 'too-big-to-fail'

TLAC Total Loss-Absorbing Capacity

UK United Kingdom

US United States

WFR wholesale funding ratio

Chapter 1

Introduction: Basel III and the limits of financial industry power

> Where reckless behavior and a lack of responsibility led to crisis, we will not allow a return to banking as usual (Group of Twenty [G20], 2009b).

On September 15, 2008, investment bank Lehman Brothers filed a petition under Chapter 11 of the United States (US) bankruptcy code—the largest bankruptcy filing in US history (Sorkin, 2008)—drawing the world's attention to the subprime mortgage crisis that had been brewing since the summer of 2007 and signalling the beginning of what would henceforth be known as the global financial crisis (GFC). Fuelled by low interest rates and dubious loan origination practices, a credit bubble had indeed developed in the US—but also in several European countries (Royo, 2009)— in the 2000s, attracting investments from banks, investment firms and insurance companies from all advanced economies through innovative financial products that repackaged, sliced and, supposedly, spread the risk of individual borrowers across a wide array of investors (Shin, 2009). The result was a major build up of risk across the international financial system: when the housing market collapsed in the US, banks and other financial firms started registering heavy losses, sparking panic on capital markets. In a few months, the short-term outlook for international

fiannce had changed from "steady profit growth" to "likely financial meltdown" (see, e.g., Brunnermeier, 2009; Hellwig, 2009).

"Why did nobody notice it?" Queen Elizabeth II—who herself was reported to have lost GBP 25 mln by November 5, 2008—asked economists (Pierce, 2008). The short answer was that financiers had little incentives to limit the accumulation of risk, and supervisors were ill-equipped by the existing regulatory framework to obtain information from firms about their various risk exposures, and even more so to force them to curb risk-taking. World political leaders however quickly pledged to remedy those shortcomings. As governments implemented financial relief programmes for banks—bailouts—to contain the ripple effect of shock and avoid more bank bankruptcies, and central banks took unprecedented action to restart frozen capital markets; it quickly became clear that the regulatory framework in place across all advanced economies had been insufficient to prevent excessive risk-taking and had even sometimes created perverse incentives (Barth et al., 2008; Blum, 2008; Cintra & Magalhães, 2008; Repullo & Suarez, 2008). Meeting in a new setting—the Group of Twenty (G20)—in Washington, D.C., on November 14, 2008, world leaders vowed to "implement reforms that will strengthen financial markets and regulatory regimes so as to avoid future crises" (G20, 2008). Coordinated by the Financial Stability Forum (FSF)—a group of national financial authorities from major economies then presided by Banca d'Italia's Governor Mario Draghi—-the action plan for financial reform was to affect all areas of international financial regulation (La Stampa, 2008). The general thrust of this general review was summarised again in a G20 statement: "The financial crisis has imposed huge costs. This must not be allowed to happen again" (G20, 2010).

This international regulatory activism was equally visible in the European Union (EU). Until the GFC, the main goal of European activity in the field of financial regulation had been the liberalisation of national markets in the hope to effectively create a Single Market for financial services (Abdelal, 2006; Jabko, 2006; Quaglia, 2007). The crisis significantly affected EU politics in the area of financial regu-

lation, with the emergence of a market-shaping coalition calling for detailed, constraining regulation on financial activities (Begg, 2009; Quaglia, 2012). The change of approach was made visible with the appointment of the Commission Barroso II in 2010, which saw Michel Barnier—a promoter of regulation—replace Charlie McCreevy—long-time advocate of free markets—as Commissioner for the Internal Market and Services. Regarding bank capital requirements, Michel Barnier made the Commission's goal clear to the banking industry:

> We must make sure that never again will the EU banking sector resort to public aid on such a massive scale. The public purse cannot afford it. And the citizens will not accept it (Barnier, 2010).

Strengthened capital requirements for banks were indeed to be an important element of the policy response to the crisis to "ensure that financial institutions maintain adequate capital in amounts necessary to sustain confidence" (G20, 2008). The Basel Committee on Banking Supervision (BCBS)—the international committee of central bank governors and heads of banking supervision authorities—was tasked with reviewing the existing international Basel II accord on capital requirements, adopted in 2004 (Basel Committee on Banking Supervision [BCBS], 2004b), and formulating reform proposals for all member jurisdictions to implement in their respective legal systems, including the EU, which had transposed Basel II into its Capital Requirements Directives (CRDs) (Directive 2006/48/EC, 2006; Directive 2006/49/EC, 2006). The BCBS unveiled on December 17, 2009 (BCBS, 2009b, 2009c) its first set of proposals for a new bank capital requirements framework—henceforth known as "Basel III"—which contained not only increased existing requirements, but also added important new policy instruments. With these proposals, the BCBS launched a regulatory project that, at the time of writing, is still underway. Indeed, while at the international level, the new bank capital requirements framework is now complete—with the final capital requirements for market risk and leverage ratio amendments being adopted in 2019—, most of the reforms agreed at

international level since 2016 remain to be transposed into the EU's CRD IV and the Capital Requirements Regulation (CRR)—the successor legislation of the pre-crisis CRDs.

Prudential standards, and in particular capital requirements, are a policy area of crucial importance not merely for banks, or even the financial sector, but for the whole of society. As the GFC painfully made clear, banking crises—which capital requirements are supposed to make less frequent and less severe—can have devastating effects that are felt across multiple countries and all sectors of the economy, for a series of reasons. First, the interconnectedness of financial markets and firms across the world creates risks that the failure of one large bank, insurer or other financial institution in one country destabilises other firms in other countries. This interconnectedness and the contagion risk it creates was at the core of the GFC in the fall of 2008. Second, banking crises lead to a restriction of lending to non-financial corporates (NFCs) and households: bankrupt banks do not lend, but even those banks that remain afloat tend to restrict lending in times of stress, which negatively affects investment and consumption levels, ultimately driving up unemployment (I discuss banking crisis in more detail in Chapter 3). Third, the sheer size of the banking sector may make taxpayer-funded bailouts banks extremely costly: in most member states of the EU, the total amount of the national banking sector's assets exceeds the country's gross domestic product (GDP), and often by a wide margin. The additional burden on public finances resulting from bank bailouts may then put into question states' own creditworthiness, expanding the crisis from a financial crisis to a sovereign debt crisis, as happened to countries such as Ireland and Spain (Donovan & Murphy, 2013; Quaglia & Royo, 2015; Royo, 2013). The sovereign-debt crisis that unfolded in the euro area following the GFC thus revealed in a dramatic manner the existence of a *bank-sovereign nexus* between a country's domestic banks and its public finances whereby perceived fragilities in one destabilise the other (Merler & Pisani-Ferry, 2012). As the fate of several Southern and Eastern member states of the EU illustrated, fragile banking sectors can then not

only take away citizens' savings and employment opportunities, but also the safety nets that used to be provided by the state when the latter must resort to austerity to reassure its own creditors. Evidence suggests that the financial crisis and its various consequences have been among the key factors contributing to the rise of populist rhetoric in several parts of the globe (Stephens, 2018; Thirkell-White, 2009). In the EU, the dramatic increase on Euroscepticism in crisis-striken countries can be seen as a consequence of the way both national and European institutions have handled the crisis (Algan et al., 2017; Hobolt & de Vries, 2016; Serricchio et al., 2013).

Beyond their importance for containing the traditional risks inherent in a credit-based financial system (Diamond & Dybvig, 1983; Minsky, 1986/2008), capital requirements are also increasingly seen as a way to steer economic change towards socially desirable goals. Large international banks remain to date the main source of finance for fossil fuel companies (Mazzucato, 2021), in large part because such investments are highly profitable and entail relatively low capital charges. Calls for sustainable finance are gaining momentum with the multiplication of extreme climate events bearing testimony of the urgency of taking action against climate change: the adoption of the EU's taxonomy of sustainable investment—regardless of its many shortcomings (Och, 2020)—shows that environmental sustainability is making its way into financial regulation. But an increasing number of experts are also drawing attention to the *financial* risks arising from the increasing frequence of extreme climate-related natural disasters (Bolton et al., 2020): unpreparedness to such events may add financial disasters to natural ones. Imposing capital requirements for climate-related risks is increasingly seen as a way to break this "climate-finance doom-loop" (Philipponnat, 2020). Forcing banks to increase the amount of regulatory capital backing investments in activities that are contributing to climate change is expected to have the double benefit of making such investments less attractive, thereby inducing banks to dedicate a higher proportion of their lending capacity to environmentally neutral or virtuous investments, and to increase banks' margins of safety against the financial consequences of climate change (Finance Watch, 2021;

Symon, 2021).

With so much at stake in the regulation of capital requirements, the apparent continuity between Basel II and its successor Basel III appeared to some commentators as betraying the great expectations for radical policy change created by political leaders' statements in the immediate post-crisis (e.g. Crinetz, 2018; Lall, 2012; Ojo, 2011). Basel III was found to leave mostly uncontested the market-friendly paradigm behind the pre-crisis regulatory framework, failing to impulse a change of culture in banking and at most introducing incremental change with uncertain effects (Helleiner, 2014; Moschella & Tsingou, 2013; Underhill, 2015). This apparent failure to reform banking led many to consider that financial interests exert excessive influence over regulatory processes, depicting a world in which financial interests always obtain policies that meet their preferences, a world where regulators are captured by financial interests (Johnson & Kwak, 2011; Kwak, 2013). Scholars also highlighted how the transposition of Basel III in the EU–notably in the CRD IV and CRR I adopted in 2013 (Directive 2013/36/EU, 2013; Regulation (EU) No 575/2013, 2013)—further reduced the overall stringency of several requirements, attributing this dilution, directly or indirectly, to the influence of European financial interest groups (Buckley et al., 2012; Young, 2014).

Claims that Basel III merely preserves the status quo for the benefit of financial interests however do not do justice to the reform. Basel III introduced important new instruments that expand the scope of prudential standards, requires banks to consider risks that were previously left uncovered and at least tries to prevent the most egregious of abuses seen in the run up to the crisis. Pagliari and Wilf (2021) find that the BCBS's post-crisis standards for capital requirements actually constitute an exception to an otherwise consistent pattern of continuity in international financial regulation. Importantly, we should note that some of the proposals that drew the strongest opposition from financial interests—such as the leverage ratio or the special requirements for global systemically important banks (G-SIBs)—not only were enacted, but they were without the BCBS making important concessions,

as we shall see in Chapter 4. Furthermore, studies of international financial regulation and financial industry power generally agree that there are limits to the influence that financial interest groups are able to exert on regulatory processes and that several contextual factors condition these interest groups' capacity to obtain their preferred policy outcomes (e.g. Bell & Hindmoor, 2015; Culpepper, 2011; Dür et al., 2015; James, 2016; James & Quaglia, 2019a; Woll, 2013). The post-GFC reform of bank capital requirements therefore calls for nuancing any idea of financial interests as systematically able to obtain the policy outcomes they prefer: Finance does, sometimes, apprear to loose its lobbying battles.

The post-GFC reform of the international and European regulatory framework for bank capital requirements then presents us with an apparent puzzle. If financial interests are indeed influential in the sense of being systematically able to obtain their favoured outcome, how can we explain that international and European policymakers have enacted in Basel III and the CRD-CRR some reforms that are highly constraining for banks? But, symetrically, concluding from these lobbying failures that financial interest groups have *not* been able to exert influence on the post-crisis reform of capital requirements would leave unexplained the cases in which initial proposals by the BCBS were indeed watered down—by the BCBS itself or the EU institutions—and made consistent with the policy options advocated by financial interests. To solve this puzzle, it is necessary to identify the particular conditions under which the outcome of decision-making was significantly closer to financial interest group's advocated option—cases of lobbying success—and the conditions characterising cases in which, conversely, the decision-making process delivered outcomes that were not significantly closer to financial interest groups' preference. Such is the objective of the present research. In this dissertation, I identify 1 043 cases in which European financial interest groups expressed an opposition to tighter standards on a policy issue partaining to the Basel III reform, and determine for each case whether the interest group was successful or not. I then conduct systematic cross-case comparisons, using *fuzzy-set* Qualitative Comparative Analysis (*fs*QCA),

to identify patterns of conditions explaining cases of success, and those explaining cases where success was absent.

It is important to make clear here that in the present research, I focus on cases in which *financial* interest groups called for a light-touch approach to bank capital requirements. While many other interest groups—non-financial business interests, public authorities, non-governmental organisations (NGOs), and even researchers and private citizens—stated their preferences regarding the reform of bank capital requirements, limiting the scope of the study to those representing the interests of the financial sector enables me to focus on the few differences that exist between otherwise similar actors, differences that could explain observed differences in outcome—a so-called "most similar cases, different outcome" research design (Berg-Schlosser & De Meur, 2009)—. Similarly, I choose to restrict the analysis to *European* interest groups, that is, those interest groups that are active in the context of EU policy-making, to limit the number of potentially relevant contextual factors to be considered in the analysis as well as to facilitate data collection. The Basel III debate was in no way limited to the EU and involved interest groups from many non-European countries; nevertheless, those interest groups that are active in the EU context constitute a large subset of the universe of cases, which includes organisations based in non-European countries (e.g., US-based firms regularly lobbying the EU institutions, international trade associations) and Brussels is one of the most active places in the world for interest representation, with Washington, D.C., which makes a focus on the European subset empirically relevant for a study about the potential influence of financial interests on international regulatory processes.

The remainder of this chapter proceeds as follows. I shall first define the parameters of my research in more details, explaining the research approach followed in this disseration, defining the key concepts of *influence*, *lobbying success* and *European financial interest groups* and stating the empirical research question guiding the entire project. I then introduce the research design, starting with a short presentation of the policy area that constitutes the empirical focus of this research—the Basel

III reform and its transposition in EU law—which is followed by a presentation of the methods and data used to conduct the three main analytical steps of the research project. Finally, I summarise the societal and theoretical contribution that, I believe, this research makes before outlining the structure of the dissertation.

1.1 Studying the influence of financial interests

The present research constitutes an addition to an already long-standing and fruitful scholarship on interest groups' involvement in regulatory politics and how influential they may or may not be. The influence of financial interests in particular—banks and other financial industries—has been for decades a topic of interest for social scientists.

The vast literature on business power is reviewed in more details in Chapter 2, but it is worth highlighting already here that this literature is characterised by a great divide between large-N, cross-sectional studies relying on statistical analysis of quantitative data (e.g. Dür et al., 2015; Dür et al., 2019; Klüver, 2013a) and a wealth of small-N research offering in-depth, qualitative analyses of individual case studies or a handful of prominant cases (e.g. Howarth & James, 2020; James, 2016; James & Quaglia, 2019a; Young, 2014). Both types of approaches have delivered invaluable insights into the sources of business power, enabling theoretical advances based on strong empirical evidence.

Statistical analysis of large quantitative data sets have become the mainstream approach in cross-sectional interest group research over the past two decades (Bunea & Baumgartner, 2014; Pritoni & Vicentini, 2020), following calls to move away from case study designs and towards the analyses of broader sets of cases (Baumgartner & Leech, 1998; Beyers et al., 2014; Beyers et al., 2008; Dür, 2008b). This approach applied to the question of influence has enabled researchers to draw conclusions about the extent of business power over political decision-making (e.g. Baumgartner

et al., 2009; Dür et al., 2019), and to test the relation between particular independent variables—the varying degrees of a particular phenomenon—and observed varying levels of lobbying success (e.g. Bernhagen, 2012; Chalmers, 2018; Klüver, 2011, 2013a).

While useful to identify the net effect of particular independent variables, statistical analysis however is problematic for researchers who want to analyse the different combinations of conditions enabling lobbying success in a specific setting—such as the post-GFC reform of bank capital requirements. Indeed, identifying the potentially multiple causes of a given phenomneon—e.g., the lobbying success of financial interests—with statistical analysis usually requires analysing a large number of statistical interactions, which can only be done reliably when the analysis covers a large number of cases. This, in turn, leads researchers to formulate their research questions in broad terms—"business" rather than specific industries, "EU decision-making" rather than a particular policy area—, large enough to encompass a large number of cases, but resulting in high degrees of abstraction and a certain disconnect from the complexity of individual cases (Ragin, 1987/2014, p. x).

Qualitative case studies and comparisons, conversely, because they adopt a holistic approach to cases, embrace the inherent complexity of each individual case and integrate contextual factors in their explanations of business power. Case-oriented research designs, focusing on the observation of the causal processes characterising each individual case, then have a role to play in influence research as in many other areas of social science (Brady, 2010; Freedman, 2010). Process tracing (Bennett, 2010; Bennett & Checkel, 2015) is thus one of the most widespread methods used to draw conclusions about the influence of specific interest groups in the EU context (Dür, 2008b, p. 562) and many scholars have applied it to unearth the causal mechanisms linking the actions of an interest group to observed changes in different policy areas (e.g., Cowles, 1995; Dür & De Bièvre, 2007; Goldbach, 2015; James & Quaglia, 2019a; Michalowitz, 2007; Warleigh, 2000). The depth of reseachers' knowledge about their cases usually is the great strength of studies using process

tracing: virtually all the features of a particular case can be integrated into the analysis to consider the merits of rival explanations for the observed outcome.

Process tracing studies of influence however face several problems. Dür (2008b, pp. 563–564) lists five: (1) the absence of evidence of lobbying activity might unduly be taken as proof of absence, leaving gaps in the causal mechanism, and result in underestimation of influence; (2) evidence gathered through interviews with interest representatives and policy-makers —a common data collection strategy in process tracing research—may not be reliable, first, because the former have an interest to claim impact, while the latter must show their independence from external influences (Cigler et al., 2015, p. 26) and, second, because interviewees may simply fail to remember accurately events that may have happened years before; (3) in the absence of a yardstick, assessing the degree to which a particular group was influential may be difficult and leaves much room for a qualitative judgement that is difficult to verify; (4) if researchers give too much weight to levels of lobbying activity as an explanatory factor of influence, they may reach erroneous findings; (5) the quantity of data required in process tracing makes its use prohibitive beyond small-N research designs, limiting the generalizability of findings.

Admittedly, large-N quantitative research designs are not necessarily immune to all of Dür's criticisms, but it is true that a good process tracing requires gathering large amounts of evidence to reconstruct the causal mechanism producing the outcome of interest, and even more importantly, to discard rival explanations (Beach & Petersen, 2013). This makes process tracing too demanding for a systematic comparison of individual interest organisations even limiting the focus to a single policy area such as banking regulation. Nevertheless, many scholars do see causal process observations as a useful complement to data set observation research, and it is not rare that individual case studies are conducted to confirm with process tracing the findings obtained through statistical analyses (e.g. Dür & De Bièvre, 2007; Dür et al., 2019). We can then see how a "synthetic strategy […][a]ble to address more than a handful of cases and, at the same time, avoid making the simplifying

assumptions about cause which are characteristic of the variable-oriented approach" (Ragin, 1987/2014, p. xiv) could contribute to exploring patterns of interest group lobbying success and drawing inferences about interest group influence.

1.1.1 A configurational comparative approach to influence

The approach I adopt for the present study—*fs*QCA—constitutes a case-oriented, inductive approach that analyses regularities across cases in order to identify consistent relations between the presence of conditions—or, more often, conjunctions of conditions—and the presence of an outcome of interest. Qualitative comparative analysis (QCA), of which *fs*QCA is a variant, highlights configuration of conditions that are found empirically to be either sufficient or necessary to the occurence of an outcome. Researchers then interpret these configurations to identify the underlying causal mechanisms that they reveal.

With QCA, researchers seek to identify conditions or, more frequently, combinations of conditions that are either *necessary but insufficient* for an outcome to occur—there is no case in which the outcome occurs without the condition being present—or *sufficient but unnecessary* to produce the outcome—the presence of the condition always produce the outcome, but the outcome can also occur in the absence of the outcome. In terms of sets, a relation of necessity implies that the set of cases with the condition is a *superset* of the set of cases with the outcome (noted $\longleftarrow$) and a relation of sufficiency implies a condition set that is a *subset* of the outcome set (noted $\longrightarrow$).

Such an approach, I argue, is particularly well-suited to analyse the lobbying success of European financial interest groups in the particular context of the post-GFC reform of bank capital requirements. Indeed, my goal here is to explain why cases that are a priori similar—similar actors lobbying on policy issues that are part of a same policy area—differ in outcomes: why European financial interest groups have obtained success in some parts of the Basel III and CRD-CRR, and not in oth-

ers by observing the differences between these cases. Because it implements Mill's (1843/2011) *method of difference*, whereby researchers consider the differences between similar cases that differ on the outcome of interest, the analysis of sufficient conjunctions of conditions in QCA is particularly well-suited to such most similar cases, different outcome (MSDO) research designs (Berg-Schlosser & De Meur, 2009). Furthermore, the way in which QCA handles causal complexity—assuming conjunctural causation and equifinality—is particularly useful to identify the multiple complex causal mechanisms that may account for lobbying success (Dür, 2008a). By assuming conjunctural causation, we assume that a particular condition is rarely sufficient on its own to produce the outcome but that it may produce its effects only when present with another condition; this does justice to the intuition that lobbying success and failure are the results of complex conjunctions of factors. By assuming equifinality, we assume that the outcome of interest can be produced by several different configurations of conditions—a disjunction of INUS conditions (Mackie, 1965)—that are all equally valid empirically. Analysing lobbying success and failure with QCA, we can then highlight hitherto unexplored configurations that, while sufficient to produce success (or failure) are too rare to appear in regression analysis results or too unrepresentative for generalisable case study-based findings.

Although QCA studies tend to make extensive use of quantitative data, they differ significantly from quantitative methods. First, QCA is qualitative in the sense that it does not analyse the statistical correlation between variables, but whether in each case conditions can be considered *qualitatively* present or absent. The calibration of raw data—be those quantitative or qualitative—then constitutes a crucial analytical step in QCA, requiring the researcher not only to specify which indicator they use to assess the presence of a condition, but also the criteria to determine, based on the indicators, in which cases the condition should be considered present/absent (Schneider & Wagemann, 2012, pp. 32–41; Ragin, 2008, chap. 4; Legewie, 2017; Basurto & Speer, 2012). The set membership scores resulting from the calibration procedure then are not mere normalisations of quantitative data but

nominal-scale measures representing the extent to which the condition characterises a case. Formulated differently, these nominal-scale measures represent the extent to which a particular case pertains to the "set" of cases where the condition is found present. These measures can be fully dichotomous, in which case we speak of "crisp" sets and membership scores can only accept two values: 1, meaning that the condition is present in this case, and 0, meaning that it is absent. However *fs*QCA, the variant of QCA which integrates Zadeh's (1965) fuzzy set logic, permits more nuance. Cases can have *imperfect* membership in sets, represented numerically by set membership scores above 0 but below 1. Fuzzy sets permit researchers to integrate difference in degrees where crisp sets only consider differences in kind: with fuzzy sets, it is for instance possible to differentiate among cases where lobbying success is absent: a case may be fully out of the set of cases of success because the policy outcome is actually worse than the initial proposal for the interest group, but a case where the outcome is only marginally better than the initial proposal contains an element of success, even though success is mostly absent. In fuzzy sets as in crisp sets, the crucial difference is the difference in kind, marked, in fuzzy sets, by the 0.5 cross-over point: cases with scores above 0.5 are "more in than out" the set—that is, the condition is present, albeit imperfectly—and cases with scores below 0.5 are "more out than in" the set, meaning that the condition is mostly absent.

After calibration, the data is reconstructed using a truth table, that is, a data matrix where:

> [e]ach logical combination of values on the independent variables is represented as one row of the truth table. Once this part of the truth table is constructed, each row is assigned an output value (a score of 1 or 0 on the dependent variable) based on the scores of the cases which share that combination of input values (that combination of scores on the the independent variables) (Ragin, 1987/2014, p. 87).

From the truth table, we extract all the combinations of conditions (truth table rows)

that are consistently sufficient for the outcome to occur and bring together these combinations into one (potentially long) Boolean sum of products. Then Boolean minimization is applied to logically reduce the complexity of this sum of products. QCA can then be considered as "a technique of data reduction that uses Boolean algebra to simplify complex data structures in a logical and holistic manner" (Ragin, 1987/2014, p. viii) relying on Mill's (1843/2011) method of difference to make causal inference.

The combinatorial logic of Boolean analysis is what constitutes its main asset: conditions are not considered in isolation; instead, the focus is on the interaction between the conditions. Thus, a particular cause (condition) may be found to bring about the outcome only when another condition is present ($O \longrightarrow AB$, where outcome O occurs when both condition A and B are present), but it can also be that a condition causes the outcome only when another cause is absent ($O \longrightarrow A{\sim}B$).[1]

It is this combinatorial logic that makes QCA a good fit to study a concept like influence (Colli, 2019, 2020; Rubenzer, 2008). Indeed, it is now conventional wisdom, as already mentioned, that many different factors interact with interest groups' lobbying efforts and can either enable success or, conversely, frustrate these efforts (see my review of the literature in Chapter 2). Beyond actors' resources and activities, particular choices of strategies, issue-specific factors and the institutional context combine into particular configurations of conditions which may or may not result in an actor obtaining the policy decisions it sought. Furthermore, scholars investigating the influence of interest groups have long acknowledged the possibility that multiple paths may lead to influence (Beyers et al., 2008; Dür, 2008a, 2008b).

To account for conjunctural causation and equifinality, QCA solutions usually represent multiple sufficient configurations of condictions as *disjunctions* of several *conjunctions* of conditions, that is, a Boolean addition (disjunction), where each

[1] In Boolean logic, an absent/false condition can be noted either by naming it in lower case or by preceding it with a tilde. Across my thesis, I will use the latter convention, as recommended by Oana et al. (2021).

term of the addition is itself a Boolean multiplication (conjunction). A Boolean multiplication ($*$) stands for the logical operator *AND*, meaning that for the whole conjunction to be true, all its constitutive conditions must be true. A Boolean addition ($+$) stands for the logical operator *OR*, meaning that the disjunction is true as soon as one of its members is true. The expression $O \longrightarrow A{\sim}B + {\sim}CD$ then reads as "outcome O always occurs when either A is present *AND* B is absent *OR* when C is absent *AND* D is present."

In this dissertation, I will express the various relevant concepts in terms of set relations and representing these relations with Boolean algebra. Seeking to explain why European financial interest groups sometimes obtained major changes towards less stringency in reform proposals on bank capital requirements but in other cases obtained at most marginal changes, the practical goal is then to produce, as the output of the QCA, two Boolean expressions. First, a Boolean expression in which each term constitutes a conjunction of conditions empirically sufficient to produce lobbying success for European financial interest groups on post-GFC capital requirements, and that altogether accounts for all observed cases of success. Second, an expression representing all the conjunctions of conditions that have been sufficient for the absence of success. The substantive interpretation of these two formulas will then enable me to draw conclusions regarding the influence of European financial interest groups on international banking regulation.

1.1.2 Key concepts

After introducing the general approach that I follow here, I shall now set the scope of the present research by defining a series of fundamental concepts used throughout the thesis: those are the notions of *European financial interest group*, *influence* and *lobbying success*. In conceptualising these notions, I adopt Goertz's (2020) "ontological-semantic approach" to concept structure, which invites researchers to address explicitly the multilevel and multidimensional structure of social science

concepts. We are to do so by, first, listing the secondary-level dimensions that are constitutive of a concept and the empirical indicators to be used to assess the presence or absence of each constitutive dimension and, second, formalising the articulation of dimensions or indicators at each level through the use of mathematical operators. Defining these concepts is imperative in order to set the criteria for the selection of empirical cases to be considered in the present study.

European financial interest groups

In terms of actors, the present study concentrates on *European financial interest groups*. As per the ontological-semantic approach mentioned previously, I define those actors as the subset of the universe of social actors that are characterised by the presence of three necessary conditions: (a) the actor is an *interest group*; (b) it is a *financial* actor; and (c) it is a *European* actor.

A certain diversity characterises the interest group literature as regards the general notion of *interest groups*, despite them being the basic unit of analysis in interest group research. Not only do various research agendas use different names—"lobby groups", "interest groups", "interest organisations", "civil society organisations", "pressure groups", "social movement organisations", etc.—but the scope of these definitions varies as well. This absence of a commonly agreed definition of the basic unit of analysis was at some point considered as impeding the accumulation of knowledge in interest group research (Baumgartner & Leech, 1998, pp. 22–23) and causing a "balkanisation" within the field (Beyers et al., 2008, p. 1108).

While the variety of terms and classification schemes used can indeed be seen as problematic, one key divide seems impossible to overcome: the distinction between "organisational" and "behavioural" definitions of interest groups (Baroni et al., 2014, p. 142; Pritoni & Vicentini, 2020, pp. 4–5). The first, narrow, organisational definition focuses on actors' organisational characteristics and considers as interest groups only membership organisations, that is, trade associations, professional associations

and NGOs (examples abound, but see, e.g., Beyers, 2002; Halpin & Thomas, 2012; Jordan et al., 2004; Rasmussen et al., 2014). The second is a behavioural definition, which considers as interest groups all organisations—or even individuals—that engage in political activities, regardless of their organisation form (e.g., Baumgartner et al., 2009; Berry, 1989; Dür et al., 2019; Klüver, 2013b; Salisbury, 1984; Truman, 1951; Wilson, 1990).

The persistence of these two different conceptualisations of interest groups is a consequence of the move away from pluralism and neo-corporatism as grand theories of interest representation and researchers' turn to more limited research questions (Lowery et al., 2008, p. 1235), which implies, as Pritoni and Vicentini note, that:

> the terms and definitions used depend on the particular research question. If your research question concerns the extent to which groups are influential in policy-making, you must use a behavioral definition of interest groups instead of an organizational one. This is because it is not only associational groups that lobby to reach policy outcomes: private firms, institutions and individuals also do so. Studying policy influence/success from a purely associational perspective would be partial, or even misleading. (Pritoni & Vicentini, 2020, p. 7)

For the present study, I adopt a behavioural definition of interest groups, consistent with my focus on their *influence* and consider as an interest group any organisation or individual that expressed a preference regarding the reform outcome for an issue pertaining to the policy area of bank capital requirements. Such a "top-down" sampling strategy is classic in interest group studies that focus in influence in the context of a specific policy area (e.g., Baumgartner et al., 2009; Bunea, 2014; Heinz et al., 1993; Klüver, 2013b). The criterion is operationalised in terms of an organisation or individual submitting substantial written comments in response to public consultations conducted by the BCBS and the European Commission (EC) on Basel III and the CRD-CRR. I detail in Chapter 5 the method followed to assess

this criterion empirically but the choice of a behavioural rather than organisational definition is supported by the general observation that, beyond membership organisations, many firms, public authorities, think tanks, individual scholars and private citizens submitted comments, thereby, manifesting—if only in a very limited way—their will to engage in the political process (a list of responding organisations is presented in Appendix B.1). Limiting my research to membership associations would then indeed unduly limit the scope of analysis. The notion of *interest group* should then here be understood as referring to *any organisation or individual, regardless of its legal form or status, who engaged in the political process by articulating an interest on the outcome of the reform of bank capital requirements and conveying it to policy-makers involved in the policy-making process.*

Adding one layer to the definition, I define an actor as a *financial* actor whenever its main economic activity either is a financial one (for firms and individuals) or is the political representation of a financial activity (for trade associations). By this definition, *financial interest groups* then are those actors that are at the intersection between the set of interest groups and the set of financial actors. "Financials" features as one of the few high-level groupings of economic activities in most classification schemes of economic activities. For the purpose of the present study, I define financial activities by referring to the Global Industry Classification Standard (GICS) classification by Standard & Poor's and MSCI, which includes in the "Financials" sector

> companies involved in banking, thrifts & mortgage finance, specialized finance, consumer finance, asset management and custody banks, investment banking and brokerage and insurance [as well as] Financial Exchanges & Data and Mortgage REITs [real-estate investment trusts]. (MSCI, n.d.)

By contrast, any organisation or individual whose main activity does not meet this definition are to be considered outside the set of financial actors (i.e. in the set of

non-financial actors).

Finally, the term *European* is here to be understood in the sense of an actor seeking involvement in EU policy-making and not with reference to its nationality, country of incorporation or headquarter location. To define the boundaries of the set of *European* actors, I then adopt a bottom-up approach to mapping the interest group population. As Berkhout et al. put it:

> A bottom-up mapping covers the community of organisations of all organisational entities which are potentially politically active but are not necessarily engaged in actively seeking actual policy influence. Typical for this approach is that it does not take the policy agenda – for instance, ongoing legislative processes – as a starting point but proceeds from census or lobby registration data. (Berkhout et al., 2018, p. 46)

Registers of interest representatives are regularly used in interest group studies (e.g., Gray & Lowery, 2000; Wonka et al., 2010). For the present study, I refer to registration in the EU's Transparency Register of interest representatives as the criterion to define whether an organisation should be considered as *European*.[2] Indeed, EU registration, because it requires a voluntary action from the organisation, is indicative of its potential active involvement in EU policy-making. Conversely, for an organisation willing to get involved in EU policy-making it would be difficult *not* to be registered. Indeed,

> [a]ccess to Commission and EP [European Parliament] decisions makers is conditional upon joining the Register and complying with its information disclosure requirements and code of conduct. Although the Register is voluntary, decision makers meet only with registered organisations. This makes it *de facto* mandatory […]. (Bunea, 2018, p. 379)

[2]The Register can be accessed at https://ec.europa.eu/transparencyregister.

Using EU registration as a criterion for case selection admittedly limits the scope of cases considered for the analysis (Pagliari & Young, 2020, p. 1706). First, it obviously leaves out of the set all European individuals and organisations that are not seeking involvement in political processes at all. However, since those would also be excluded based on the definition of interest group, this limitation does not affect case selection. Compared to a nationality/headquarter location criterion, it excludes organisations that may be interest groups in the sense of the definition above because they did articulate an interest on the reform of capital requirements and conveyed it to the EC by responding to its consultation, but are not registered. This is notably the case of a limited number of national-level organisations in EU member states. However, since registration is fast and virtually costless, we can reasonably assume that non-registration is only the consequence of these organisations' absence of willingness to conduct further lobbying activities at the European level. This criterion also leaves out of scope national policy-making institutions such as finance ministries, central banks and financial supervisors, actors which are indeed active at the EU level but do not need to register because of their status. However, the exclusion of *public* administrations from the set of organisations whose success is to be explained is an acceptable limitation considering the aim of the present research to study the influence of *private* European interest groups. Conversely, the choice of such a definition—and related indicator—rather than a definition of Europeanness based on nationality or location acknowledges the fact that an important part of EU-level lobbying is actually done by organisations based outside the EU, notably US-based firms. In terms of case selection, then, the present study focuses on the lobbying of those actors that are included in the intersection of three sets: the set of *interest groups*, the set of *financial actors* and the set of *European actors*, as illustrated in Figure 1.1.

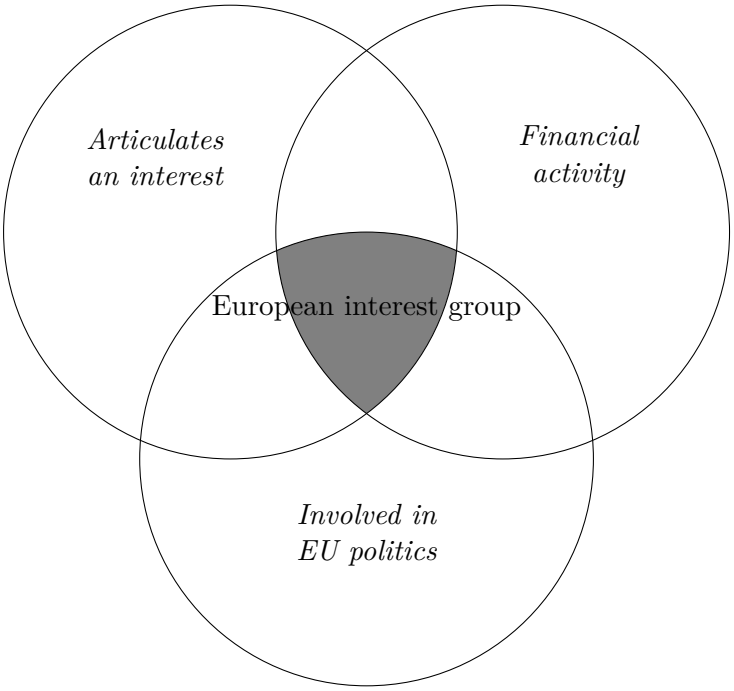

Figure 1.1: A set-theoretic definition of European interest groups

Influence

The notion of *influence*—the central concept in the present research—can be considered in several different ways. Here I focus on influence understood as an *actor's capacity to bring about political decisions that align with its policy preferences*. This definition implies that I focus on the *first face of power*, that is, the analysis of winners and losers at the decision-making stage of the policy process (Dahl, 1957), and leave aside influence on agenda-setting as well as the potential ability of actors to prevent other actors from genuinely recognising their own preferences, phenomena known in the literature as the *second* and *third* faces of power (Bachrach & Baratz, 1962; Lukes, 1974).

This admittedly narrow focus on decision-making does not imply that nothing goes on beyond decision-making, but is appropriate, I argue, considering on the one hand the empirical object of this study (the post-GFC reform of capital requirements) and on the other hand the evidentiary standards commonly admitted in political science (Dür, 2008b; Lowery, 2013). Indeed, while agenda-setting

dynamics may play an important role to explain why the dysfunctional pre-crisis Basel II rules were not reformed earlier, the magnitude of the crisis triggered a political reaction—epitomised by the G20's (2009a) commitment to a comprehensive overhaul of financial regulation—which put all policy issues relevant to banking on the political agenda, including issues that financial interests may have wanted to keep hidden (e.g., limits on leverage). Furthermore, while it is possible—and even likely—that some actors involved in debates about bank capital requirements have had difficulties identifying how different policy options will impact their activities, due to the complexity of the policy, this is quite different from considering that some actors may prevent others from recognising their own interest in bank capital requirements, and proving the latter empirically may well be impossible.

To identify the secondary-level dimensions constitutive of influence, it is useful to consider what the opposite of influence is in the context of a lobbying battle. That is, when should an actor be considered as *not influential*. Two alternative scenarios come to mind: (a) the actor actively lobbied to obtain amendments to the proposed policy but failed to obtain them (*lobbying failure*); or (b) the enacted policy is indeed closer to the actor's preferences, even though this outcome did not result from the actor's involvement in the policy process (*luck*). Reversing the perspective, influence can then be said to be present at the intersection of two conditions: *lobbying success* on the one hand, and a *causal link between the political activity of an actor and its success* on the other. In other words, lobbying success and a causal link between activities and success are two individually necessary and jointly sufficient conditions for influence to be present in a given case.

I detail in the next subsection my approach to the concept of lobbying success. As regards the existence of a causal link between an interest group's actions to shape policy and its lobbying success, the fundamental issue is to differentiate, among cases of lobbying success, those where lobbying success is the effect of actors lobbying actions—in which case actors can be considered influential—from those where lobbying success results from other factors—the actor then being "lucky".

An actor can be found to be influential on its own if the successes it obtains are found to be caused by its own actions. But an actor's attainment of its preferences regarding regulatory outcomes may also be the result of collective action: rather than the effect of its own individual lobbying activities, success results from the fact that the same preference regarding regulation was also advocated by other actors. Influence is then conditioned by the particular features of the lobbying coalition of which the actor is a member. In this sense, many individual interest groups might be individually non-influential while exerting influence collectively (Klüver, 2011, 2013b).

By contrast, favourable policy outcomes may theoretically also result from luck. Whether the economic importance of specific actors or industries—notably banks—makes them powerful or merely lucky in political decision-making is the object of a long-standing debate in the business power literature (Culpepper, 2015; Dowding, 2017; Lindblom, 1977; Przeworski & Wallerstein, 1988). The possibility that policy-makers avoid adopting policies that would discourage business investments in their jurisdiction—the anticipation mechanism at the core of the classic *structural power* argument (Lindblom, 1977)— may make an actor or a category of business actors successful. But in the absence of any action taken by those actors to cause this lobbying success, such cases should rather be considered as cases of luck and business interests as "systematically lucky" (Dowding, 2017).

Adopting an exploratory inductive approach to the subject, I find that, in the post-GFC reform of bank capital requirements, the influence of European financial interest groups was collective and limited. It was collective in the sense that, for favourable policy outcomes (final standards less stringent than the initial proposals) to be obtained, they had to mobilise into strong lobbying coalitions: coalitions counting numerous advocates, coalitions collectively making a particularly forceful argument, and/or strongly coordinated coalitions. Individual actors could not obtain success on policy issues where such large or active coalitions were not present. It was limited because conditioned by the presence of specific contextual factors: a signifi-

cant degree of regulatory complexity and the absence of a political pre-commitment to strengthen requirements. No case could be observed in which a significant reduction in stringency occurred during the decision-making process without European financial interests explicitly calling for it; therefore within the context of the post-GFC reform of bank capital requirements, we cannot find cases in which these actors were lucky.

Lobbying success and failure

Lobbying success is defined here in terms of preference attainment as "the coincidence of the policy preferences of an actor with the output of the political decision-making" (Klüver, 2013b, p. 7). A case of successful lobbying should ideally be one where, on a given policy issue, the result of the decision-making (policy output) is closer to the preferences of the interest group on that issue than was the initial proposal (policy input).

This definition supposes that cases qualified as cases of lobbying success meet a series of conditions. First, we should be able to observe amendments made to initial proposals over the course of the decision-making process that, when locating policy inputs and policy outputs on the space defined by the main dimension of conflict (the desired level of stringency of the resulting standards, in our case), create a distance between policy inputs and policy outputs. I call this phenomenon a *policy shift*, a notion I detail in Chapter 4. Second, the observed policy shift should bring the policy outcome closer to the interest group's preferred outcome for this policy: a case where a policy shift resulted in the outcome being further away from the position expressed by the interest groups throughout its lobbying activities could in no case be considered a case of success. This second condition logically limits the applicability of the notion of lobbying success to cases where an interest group actually conveyed its preference regarding the policy outcome to policy-makers involved in the policy-making process, that is, to cases of lobbying.

Another logical consequence is that lobbying success must be assessed at the level of each interest group-policy issue pair: a same interest group may be successful on a particular issue and unsuccessful on another; and on a same policy issue, two actors may well have opposite preferences, in which case one will be successful and the other unsuccessful. By contrast, all interest groups sharing the same preference regarding a same issue will be successful if the decision-making process delivers an outcome going into their direction, and unsuccessful otherwise.

While we may be tempted to equate success and influence, the two concepts differ crucially. Indeed,

> [i]nfluence presupposes a causal relationship between the lobbying activities of groups and the outcome of a policy debate, whereas success only captures actors' utility gains or losses, without attributing causality to their political activities. (Dür et al., 2019)

This "causal relation between the preferences of an actor regarding an outcome and the outcome itself" (Nagel, 1975, p. 29) which the concept supposes is the major challenge for empirical studies of influence. Finding evidence of this causality has been the object of numerous studies in recent years (e.g., Binderkrantz & Pedersen, 2017; Chalmers, 2018; Hermansson, 2016; Klüver, 2011; Mahoney, 2007a; Rasch, 2018).

Finding an appropriate measurement scale of lobbying success is, however, a challenge in itself (Dür et al., 2019, pp. 43–52; Bernhagen et al., 2014). Indeed, as scholars relying on spatial models of preference attainment would contend (e.g., Bernhagen et al., 2014; Vannoni & Dür, 2017), a quantitative, continuous measure of lobbying success enables researchers to differentiate among different *levels* of success or failure: in lobbying, success seldom is a black-and-white matter. On the other hand, a discrete, categorical scale reflects the important qualitative difference that exists between cases where actors obtain an important shift of policy towards

their preferred outcome and cases where the move in their direction is limited or insignificant.

I suggest a set-theoretic definition of successful lobbying that considers the interaction between the direction and extent of policy shifts and the direction of interest group preferences. As per the general definition of success above, we can already see that the outcome *successful lobbying* will only be present in a subset of the set of cases where the direction of the policy shift is the same as the direction advocated by the actor (*same direction*): in all the cases where this condition is absent (i.e., directions are opposite) lobbying success would also be absent.[3]

Cases where the direction of the policy shift is the same as the direction advocated by the interest group then all should be considered to all have at least partial membership in the set of *successful lobbying* (membership score above 0). As a Brussels interest representative interrogated on the subject puts it:

> When you asked for ten and you are given one, that "one" is a success.
> It is a little success, true, but it is success even if the rest is failure.[4]

Even cases in which the concessions made by the BCBS and EU institutions to the demands of European financial interests were small, or even marginal, they contain an element of success that should be reflected in my measure of lobbying success. Nevertheless, I argue that to determine, among the cases in which the actor was at least partially successful, which ones can be qualitatively considered as cases of *successful lobbying*, a second condition must be present: that an *significant policy shift* occured between policy input and policy output on the issue. Only where the standards enacted at the end of the decision-making process are significantly less stringent than the original proposals should we consider that the lobbying was

[3]Note that the condition *same direction* is also absent for cases where there was no policy shift (that is, no change was made during decision-making, or the changes made do not move policy outputs towards any of the involved interest group's preferred outcomes) since we exclude cases where no direction is advocated.

[4]Interview, Brussels, September 18, 2021

successful. By contrast, cases in which minor concessions only were made should not be considered cases of successful lobbying.

I label $SAMEDIR$ the set of cases for which the condition *same direction* is true, that is, where there is a policy shift in the direction advocated by the actor, and $SIGSHIF$ the set of cases for which the condition *significant policy shift* is true: a significant to major policy shift occurred on the policy issue that was the target of the lobbying. I note $SUCCESS$ the set of *successful lobbying* cases. Then, the definition of *successful lobbying* delineated above can be expressed using Boolean operators ($*$ for the logical AND and $+$ for the logical OR) as:

$$SUCCESS \longleftrightarrow SAMEDIR * SIGSHIF \tag{1.1}$$

The set of *not successful lobbying* cases—the negation of $SUCCESS$, noted $\sim SUCCESS$ can then be expressed, applying De Morgan's law as:

$$\sim SUCCESS \longleftrightarrow \sim SAMEDIR + \sim SIGSHIF \tag{1.2}$$

which reads as "cases are among the not successful lobbying cases when either there was no policy shift in the direction advocated by the actor *OR* the policy shift was of a limited extent."

An analysis of the influence of financial interest groups on the international and EU reform of bank capital requirements therefore requires to ask a series of intermediary questions about the extent of policy change, about the extent to which this policy change can be considered as constituting cases of lobbying success for the involved interest groups, and, finally about the sort of conditions that caused this lobbying success.

Figure 1.2 provides a visualisation of the set-theoretic conceptualisation of influence and lobbying success. Cases of lobbying success stand at the intersection of the sets "significant policy shift" (top left) and "same direction" (top right): all cases

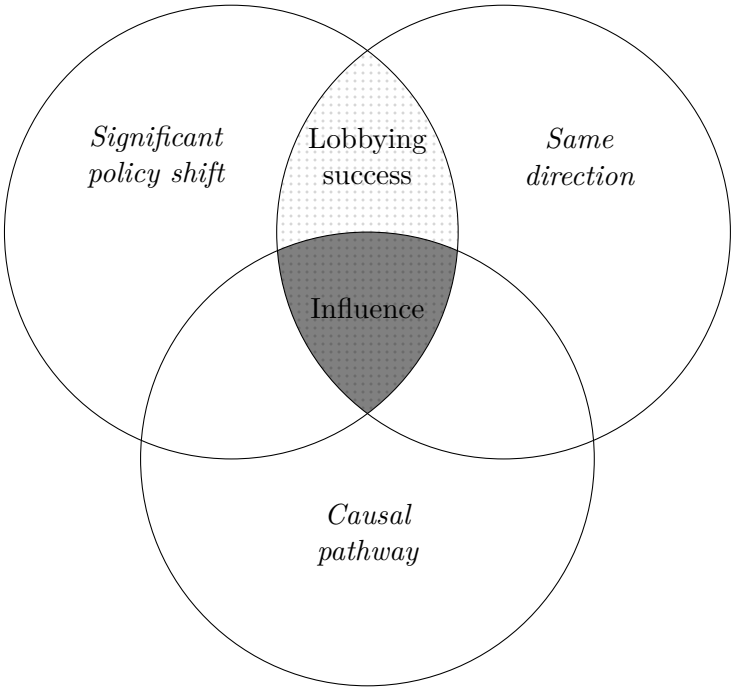

Figure 1.2: Influence and lobbying success from a set-theoretic perspective

within the dotted area are cases of success. Influence, in turn, constitutes a fraction of the lobbying success area, that which is also included in the set "causal pathway" (central grey area).

1.1.3 Research question

The research question guiding the present study derives from the concepts of influence and lobbying success developed in the previous section. Determining whether European financial interest groups exert influence on banking regulation requires an investigation of the cases where European financial interest groups have lobbyied European and international policy-makers on banking regulation issue in order, first, to identify in which cases these interest groups have obtained the policy outcomes they called for, and to determine what conditions or combinations of conditions are sufficient for such a lobbying success to occur. Narrowing this goal to concentrate on the post-GFC reform of bank capital requirements—the empirical focus of the present study—I then formulate the following overarching research question:

> *To what extent do the cases of lobbying success obtained by European financial interest groups in the post-GFC reform of bank capital requirements constitute cases of financial industry influence on international and European regulatory processes?*

Answering this research question requires three steps. First, I must analyse how the post-GFC regulatory framework for capital requirements—Basel III at international level and its transposition into the EU's CRD and CRR—evolved, identifying the direction and extent of change between initial proposals and enacted standards (*policy shift*). Second, in order to determine whether these changes amount to lobbying success for financial interest groups, I must assess to what extent the changes identified in the policy process correspond to those called for by the financial interest groups lobbying on the new capital requirements framework (*lobbying success*). Third, I must identify the combinations of actor- or issue-specific conditions that constitute causal pathways to influence (*causal paths*).

I have formulated three sub-questions corresponding to these three steps and guiding my research:

1. **Policy shift:** *Have proposals for new bank capital requirements evolved towards more leniency or more stringency in the course of their elaboration by the BCBS (Basel III) and EU (CRD-CRR)?*
2. **Lobbying success:** *To what extent did the observed changes on each draft standard correspond to financial interest groups' preferences regarding those standards?*
3. **Causal paths:** *What causal mechanisms explain cases of successful lobbying on post-crisis bank capital requirements and what mechanisms explain cases of failure or limited success?*

I detail in the next section (1.2.2) how I answer these three sub-questions in the three empirical chapters of the thesis. Determining whether there has been a

shift in policy requires a detailed examination of the proposed and enacted rules on each of the main constituent parts of the Basel III framework, which constitutes the first empirical step of the study. I then conduct a quantitative text analysis of the position papers submitted by interest groups in response to BCBS and EC consultations to assess the extent to which the observed policy change corresponds to the positions they advocated. Finally, I use *fs*QCA to identify the configurations of conditions causally related to lobbying success.

1.2 Research Design

After developing in the previous section the configurational comparative approach that I adopt in the thesis, defining the key concepts and, finally, stating the research question and sub-questions guiding the research, I move on, in the present section, to the research design. I start with a short presentation of the empirical focus of the study, the Basel III framework and its European transposition (Section 1.2.1). I then move on to introducing the methodology (Section 1.2.2) and the data (Section 1.2.3) that I use to answer each of the three sub-questions.

1.2.1 The empirical focus: Basel III and its European transposition

The reform of bank capital requirements produced by the BCBS—the Basel III framework—and the EU institutions—who transposed the international soft-law standards into the CRD-CRR legislation—provides the empirical backbone of the present research. The Basel standards constitute the most important piece of regulation for banks for it states the minimum levels of capital a bank must have to operate, but also because the detailed prescriptions they impose on banks have a strong influence on corporate strategies. Beyond banks, the Basel standards have an impact on many financial activities that have connections with banks. Banks remaining, to date, the main credit intermediaries in Europe, decisions on capital

requirements also indirectly affect economic conditions for NFCs and households (see Chapter 3).

International cooperation on bank capital requirements has a long history: the BCBS was founded in 1974, the first version of the Basel standards—Basel I—was adopted in 1988 and the Committee has been the main venue for international policy-making on banking regulation ever since. After the GFC, it was to the BCBS that the G-20 entrusted the overhaul of the Basel II standards and their replacement with a new framework for bank capital requirements. Works on the new standards spread over the entire past decade: initial proposals were put forward for comments in 2009, and the last changes remain to be transposed into EU law.

The elaboration of the Basel III framework is a good case to observe the conditions under which European financial interest groups achieve lobbying success for several reasons. First, because bank capital requirements directly or indirectly affect a wide array of financial and non-financial actors, the process has witnessed the involvement of a large number of interest groups representing several different financial and non-financial industries, together with public authorities, researchers, etc. Since this involvement of non-bank and non-financial actors varied greatly across the various elements of the framework, a focus on the Basel III/CRD-CRR enables comparisons across issues in terms of the level and forms of this involvement and drawing conclusions as to its contribution to financial interest groups' lobbying success. Second, although Basel III forms an integrated framework, it is one composed of several autonomous parts, which the BCBS and EC have advanced in parallel but relatively independently from each other, and at different points in time. For instance, while works on a new definition of regulatory capital started as soon as 2009, the first consultation on rules for the calculation of risk-weighted assets (RWA) for operational risk was only conducted in 2014. Draft standards were discussed in separate consultations and adopted separately by the BCBS's Group of Governors and Heads of Supervision (GHoS).

Then, while at first glance the context in which the reform took place could be considered constant, we can observe differences when considering this context at the level of the constituent parts of Basel III. In particular, while in the immediate post-GFC years the objective of ensuring financial stability may have been the dominant concern of policy-makers, it is possible that in later years, with the economic and social crisis dragging on, the conflicting objective of fostering economic growth led policy-makers to adopt a more lenient approach to financial regulation (Howarth & Quaglia, 2016a). Furthermore, lobbying battles on different items in the Basel III framework are characterised by different structures of conflict, and the composition of lobbying coalitions is likely to vary across issues (Baumgartner et al., 2009; Klüver, 2013a). Beyond large universal banks, rare are the financial—and, even more so, non-financial—interest groups concerned with *all* parts of the framework. Instead, the number and types of actors lobbying differ from one issue to the next. I can therefore test how a series of issue-specific conditions relate to particular groups' obtention of high lobbying success.

1.2.2 Methodology

The starting point in my research is to establish to what extent the BCBS and the EU have modified their proposals for standards and legislation to make the rules more or, conversely, less stringent. In order to assess the direction and extent of policy change, I analyse the consultation documents and draft standards that the BCBS and the EU published between 2008 and 2019, as well as the final standards adopted by the BCBS' GHoS and the EU legislation adopted by the European Parliament (EP) and Council (CRD-IV and CRR-I, CRD-V and CRR-II).

The assessment relies on a paragraph-by-paragraph comparison of the rules proposed vs. rules adopted on each of the various policy issues encompassed by the Basel III framework. As detailed in Chapter 4, I identify twenty-nine such policy issues, for which I compare initial proposals and enacted standards, identify changes

and assess their effects in terms of the stringency of the regulatory framework for that issue. Observing changes in thresholds, ratios, coefficients, restrictions in the use of banks' internal models, etc., and in parallel the amounts of regulatory capital banks are expected to raise to meet the requirements, I assess whether the final policy outcome resulted more or less stringent—and to what extent—than the original proposals. This is supplemented, where these are available, with quantitative impact studies conducted by the BCBS, the EC and the European Banking Authority (EBA) over the past ten years. Based on that assessment of the direction and extent of change, I assign each policy issue a policy shift score on a scale from -4 to $+4$, where -4 represents a major shift towards less stringent requirements, 0 the absence of any shift and $+4$ a major shift towards a more stringent framework. Chapter 4 details the methodological steps followed to elaborate this measure of policy shifts and presents the resulting scores for each policy issue.

The second step is to assess to what extent the observed changes correspond to financial interest groups' preferences. I do this by conducting a quantitative text analysis of the written comments submitted by interest groups to BCBS and EC consultations on the post-GFC reform of capital requirements. The analysis proceeds in two successive elements. First, I map each sentence of each submitted document to one of the previously identified policy issues, using a semi-supervised topic classification algorithm. Mapping the comments submitted by each organisation to policy issues first enables me to sort, among all the theoretically possible combinations of policy issues and responding organisations, those that do constitute cases of lobbying (a significant amount of comments are found) from those on which the organisation did not articulate any interest (no or very little comments are identified). Second, I extract the polarity of comments identified for each case of lobbying through dictionary-based sentiment analysis. Occurrences of keywords indicative of a preference for a more or a less stringent regulatory framework on capital requirements are separately counted in each organisation's set of comments on each policy. On the basis of the difference between these counts, a numeric indicator

of the polarity of the document is extracted, locating the interest group's comments on the policy issue on the pro-stringent vs. anti-stringent continuum of preferences. The measure of the extent and direction of policy shifts and the indicator of interest groups' preference on each issue are then used to define the membership score of each particular case of lobbying in the set of *successul lobbying* cases based on Equation (1.1) on page 28. Besides producing a measure of lobbying success for European financial interest groups, the data resulting from the quantitative text analysis are also used as indicators for several of the conditions examined in the third step of analysis.

In the third step of the analysis, I apply *fs*QCA to identify cross-case regularities across policy issues to explore the various conjunctions of conditions that have been sufficient for European financial interest groups to be successful in their lobbying on a given issue, and those that, conversely, were sufficient to produce the absence of success. Two types of candidate conditions are tested: conditions characterising the coalition of actors expressing a shared preference for leniency, and conditions characterising the particular policy issue that is the target of this collective lobbying. The conditions were selected based on a review of the existing literature on interest group influence and business power (see Chapter 2). An initial list of condition, established on the basis of this literature review, was tested through a set of exploratory interviews with interest representatives, leading me to revise the definition of conditions and add further conditions that were signalled during the interviews. For each condition, I identified an indicator or set of indicators likely to reflect the presence or absence of the condition in each case, and the appropriate qualitative anchors to be used for calibrating data into set membership scores. Adopting a so-called "realist" approach to QCA (Schneider, 2018a), I follow the analytical protocol prescribed by Oana et al. (2021), starting with the analysis of necessary conditions before analysing relations of sufficiency. This third main empirical part of my study delivers the two Boolean expressions (sums of products) that I then interpret substantively in order to draw conclusions about the scope

conditions of European financial interest groups' lobbying success in the post-GFC reform of bank capital requirements.

1.2.3 Data

The present study relies almost entirely on open access data. In order to assess the direction and extent of policy shifts, I rely on a comparison of the capital requirements standards enacted by the BCBS—the Basel III framework—and the EU—the CRD and CRR—with the initial policy proposals for each of the main components of the framework as communicated by the BCBS in public consultations. To obtain an indication of the direction and intensity of interest groups' preferences regarding the outcome of the reform process for each of the main components of the new framework, I collected the written comments these actors submitted to the BCBS and EC public consultations, which the Bank for International Settlements (BIS)—who hosts the secretariat of the BCBS—and the EC make publicly available on their respective websites. Finally, to assess the presence or absence of conditions, I first extract statistical data from the corpus of interest groups' responses to consultations and, second, collect data from an array of publicly available sources such as social network profiles, public databases of newspaper articles and economic statistics, the websites of the organisations included in the scope of my study and, importantly, the data entered by organisations in the EU Transparency Register. The only exception to the use of open access data is the use of face-to-face interviews with interest representatives in the exploratory phase of the QCA analysis to establish a definite list of conditions to be tested.

1.3 Contribution of the research

This dissertation adds to the existing body of knowledge on the influence of financial interest groups in several ways. First, empirically, it contributes a new, in-depth

assessment of the extent to which the post-GFC framework on bank capital requirements was rendered less stringent under the influence of financial interests. Bank capital requirements, as was mentionned earlier in this chapter, constitute a policy area of major importance, at the EU-level as internationally. Bank capital plays a key role in containing financial sector instability, but bank managers have strong incentives to reduce to a minimum the proportion of their assets funded through equity capital, which is more costly than debt funding (see Chapter 3). Knowing to what extent the rules establishing the minimum amount of such regulatory capital are susceptible to erosion as a result of pressures from financial interests is therefore of the utmost importance; which explains why bank capital requirements have been studied by many economists and political scientists. The latest version of the Basel framework—Basel III—was notably the object of a lot of scholarly attention in the years following the GFC, an attention that has since then partially faded, in spite of the fact that the regulatory process was still ongoing. Now that the framework is complete at the international level, and soon to be transposed into EU law, it is possible to take a comprehensive view of it in order to identify on what issues were concessions made to the anti-stringency preference expressed by financial interests.

Second, methodologically, this dissertation is, to my knowledge, one of the first applications of QCA to study the influence of financial interests on regulatory processes. Relying on a set-theoric approach enables me to explore cross-case regularities susceptible to reveal multiple causal mechanisms producing success and identify the component factors of these mechanisms. Such a research approach then constitutes a major asset for the study of influence, a field in which finding a way to handle causal complexity—conjunctural causation and equifinality in particular—has long been recognised as a major methodological challenge (Dür, 2008a). This dissertation also makes a methodological contribution in applying a range of quantitative text analysis techniques to interest groups' position papers in order to extract data about these actors' policy preferences and lobbying activities, as well as about the structure of lobbying coalitions.

Third, this dissertation makes a contribution to existing theory on financial industry power. The use of an exploratory, combinatorial approach such as QCA indeed enables me to identify scope conditions that refine our understanding of the limits to the political influence of financial interests.

1.4 Outline of the dissertation

Besides this introduction, this dissertation is composed of six additional chapters. In Chapter 2, I review the interest group literature. After locating the study of influence in the broader field of interest group studies, I examine the main theoretical debates about the sources of business political power, as well as the methodological debates related to studying influence empirically.

In Chapter 3, I turn to the literature on banking and its regulation. Understanding the political economy of banking and how prudential regulation is likely to affect the costs and benefits that a diverse array of social groups draw from banking activities is, I argue, necessary for studying influence in the particular context of the post-GFC reform of capital requirements. I draw from this review several expectations about the main dimension structuring lobbying conflicts on capital requirements and the possible positioning adopted by financial and non-financial interest groups.

The next three chapters are devoted to the empirical examination of influence. In Chapter 4, I assess the degree of policy change occurred in each of the main parts of the Basel III framework, from initial BCBS proposals to the rules finally adopted by the EU, where transposition has been completed, or, where it has not, endorsed by the BCBS's GHoS. I elaborate a policy shift indicator providing a numeric representation of the extent to which policy-makers have increased or conversely reduced the stringency of the rules.

Chapter 5 contains the quantitative text analysis which I use to analyse interest

groups' positions and identify cases of lobbying success and non-success. I extract from the corpus of interest groups' responses to public consultation an indication of the direction and intensity of groups' preferences regarding BCBS and EC proposals in each of the main constituent parts of the Basel-CRD framework. Based on this analysis and the results of Chapter 4, I determine the membership score of each interest group-policy issue pair in the set of *successful lobbying* cases.

Next, in Chapter 6, I move on to examining the conditions that produce lobbying success, using QCA. I operationalise a series of conditions to be examined, based on expectations derived from my review of the literature on business power and from a series of exploratory interviews and make inferences about the conditions sufficient for the occurrence of lobbying success.

A final Chapter 7 summarises and discusses the empirical results. Based on these results, conclusions are drawn regarding the diverse configurations of conditions that enable financial interest groups to achieve lobbying success in banking regulation.

Chapter 2

Business Power in Political Science: A Review of the Literature

The present research on the influence of financial interest groups on banking regulation builds upon a vast body of academic research on the influence of special interest groups such as business, which dates back at least to the 1960s. In the present chapter, I review this literature, trying to locate the issue of influence in the broader evolution of interest group research (Section 2.1). An important part of this literature review is devoted to gathering the many theories that scholars have produced about the sources of and limits to business power (Section 2.2). It is followed by a review of the methodological debates animating the community of interest group research about the ways to empirically measure influence (Section 2.3).

2.1 Influence in interest group research

Ever since Schattschneider's *The Semisovereign People* (1960) drew scholarly attention to the bias towards moneyed elites in the US interest representation system, interest group scholars on both sides of the Atlantic ocean have tried to find methods to measure the extent of this possible bias and identify the conditions that enable it.

Despite influence being one the earliest questions in interest group research (Olson, 1965; Schattschneider, 1960; Truman, 1951), the focus of studies progressively shifted away from it between the 1970s and the 1990s, leading Baumgartner and Leech (1998, p. 17) to conclude that interest group research had fallen into "elegant irrelevance" by the end of the last century. Ten years later, Beyers et al. (2008, p. 1103) identified four challenges that explained the "niche field" status of interest group research. Those were: (1) the limited size of the interest group research community; (2) the absence of a consensual definition of what is an interest group and what is not (Baroni et al., 2014), as well as the still problematic definition of *influence* itself (Dür, 2008a; Lowery, 2013); (3) the different research agendas pursued by interest group scholars in Europe and the US—with US scholars analysing collective action issues (Olson, 1965) and lobbying strategies while Europeans research interest groups' influence— and (4) the absence of international datasets making comparative analyses difficult if not impossible (Lowery et al., 2008).

The boom of academic publications particularly since 2007 has transformed this niche field into what is now a significant part of political science research (Bunea & Baumgartner, 2014; Pritoni, 2015). The definition of *interest group* remains divided: studies cluster around two opposed definitions: an organisational definition that only considers as interest groups membership associations dedicated to the promotion of their members' interest in political arenas; and a broader behavioural definition that disregards the organisational structure and includes all non-state actors—associations, but also firms, public institutions and even individuals—that participate in policy debates. However, as Pritoni and Vicentini (2020, p. 7) note, this divide is justified by the diversity of research questions: since firms, institutions and individuals also lobby, it would make little sense to restrict a study of influence to associations (Brasher & Lowery, 2006). Furthermore, research agendas have moved closer and closer in recent years across the Atlantic: topics and methods are increasingly similar across interest group research in the US and the EU. Finally, in the past decade, projects such as the INTEREURO project (Beyers et al., 2014)

have supported a wide array of studies on lobbying, notably focusing on influence and business power (e.g., Bernhagen et al., 2014; Dür et al., 2019).

In what is now a booming field of research, a number of studies have focused more particularly on the political influence of business interests, in the US (Falke, 2011; Hacker & Pierson, 2002; Hathaway, 2018; Yackee & Yackee, 2006) and global context (e.g., Farrell & Newman, 2015; Fuchs, 2007), but also in the EU (e.g., Bernhagen, 2007, 2012; Bernhagen & Bräuninger, 2005; Busemeyer & Thelen, 2020; Culpepper, 2011; Dür et al., 2015; Dür et al., 2019; Eising, 2004, 2007; Gross, 2017).

Narrowing the focus further, a number of scholars have set to assess empirically the political sway of *financial* interest groups in particular. The GFC—with the regulatory failures it revealed and the reforms it triggered—has renewed research agendas on financial regulation (Helleiner & Pagliari, 2011), including on financial lobbying. Several studies find financial interests to be particularly influential on both sides of the Atlantic as well as in international policy-making fora (Admati & Hellwig, 2013; Baker, 2010; Baxter, 2011; Johnson & Kwak, 2011; Lall, 2012). Other scholars however draw attention to the not so rare instances when financial interests failed to influence policy outcomes (James, 2016; James & Quaglia, 2019a; Young, 2012).

Though this literature sometimes reaches apparently contradictory conclusions about the extent of financial interests' influence on policy-making, the overall picture that it paints is one where said influence is exerted in multiple ways and is contingent upon a variety of factors (Howarth & James, 2020; James, 2018; James & Quaglia, 2019b; Kastner, 2018; Macartney et al., 2020; Pagliari & Young, 2016; Quaglia, 2008; Young, 2014, 2015). In that sense, it illustrates the challenges for the study of interest group influence that Dür identified: "the difficulty of defining influence, the need to consider several pathways to influence, and the problem of measuring influence" (Dür, 2008a, p. 1220).

2.2 Sources and Limits of Business Power: Structure, Resources and Context

It is now conventional wisdom in interest group research that business power stems from both agential and structural factors (Culpepper & Reinke, 2014). The former include a diverse set of political *activities*—campaign contributions, lobbying, etc.—through which business interest groups use the resources at their disposal to gain access to policy-makers and influence their evaluation of available policy options. The latter underpin the *structural power* argument, which stresses that the *structures* of modern economies place business interests in a position to exert influence on political processes. The literature however highlights how these sources of power are contingent upon features of the institutional context and issue-specific factors that may limit business interests' ability to influence policy outcomes.

2.2.1 Instrumental power: The role of political resources

In a resources-based perspective "business interests may be able to exert influence because they can convert their economic power into resources that are valuable in political struggles" (Dür et al., 2019, p. 10; see also, e.g., Gerber, 1999; Hall & Deardorff, 2006). The first of these resources is *money*. American scholars have long tried to assess the effect of campaign contributions on interest groups' political influence, without reaching definitive conclusions. Some studies did find that firms with the highest lobbying expenditure did tend to pay less tax later on (Richter et al., 2009), or enjoyed a surge in shareholder value (Hill et al., 2013). More than direct influence, however, Hall and Wayman (1990) find that campaign contributions buy *access* to—and time with—politicians, which *may* then transform into influence. More importantly, it is also conjectured that financial resources enable interest groups to mobilise more manpower in service to their lobbying activities, including "revolving door" lobbyists who bring to interest organisations their knowledge of both insti-

tutional processes and regulation in a particular policy area of interest (LaPira & Thomas, 2014, 2017). Financial resources appear to be more an enabling factor than a key determinant of lobbying success. McKay (2012, p. 908), although she finds no systematic relation between organisations' financial resources and lobbying success, however advances that "greater money is linked to certain lobbying tactics and traits, and some of these are linked to greater policy success". If financial resources do matter for lobbying success, in sum, it is at most as a remote condition, enabling interest groups to conduct activities that are causally relevant for the attainment of their policy preferences.

The second resource that appears to be crucial for lobbying is *policy-relevant information* (Austen-Smith, 1993; Esterling, 2004). Policy-making institutions' ability to produce internally the expertise required for regulation has failed to keep pace with the growing complexity of the policy areas they need to regulate (Drutman, 2015; LaPira et al., 2020), making them ever more dependent on information provided by stakeholders. Banking regulation appears to be a case in point: the Basel standards and their implementation indeed grew longer and more complex since the 1980s, as regulators sought to "catch up" with financial innovation (Amadxarif et al., 2019; Barth & Miller, 2018). Many studies adopt an exchange-based perspective on lobbying, whereby policy-makers provide interest groups with influence on policy in exchange for policy-relevant information (e.g. Bouwen, 2004a; Hall & Deardorff, 2006; Michalowitz, 2004; Pappi & Henning, 1999) and some even show that the need to extract information leads the EC to actively support the creation of interest representation fora (Broscheid & Coen, 2003, 2007). In this perspective, interest representatives can make use of the policy-relevant information at their disposal in three ways. The first is to use information as a *currency for access*, a resource for establishing and maintaining personal contacts with relevant decision-makers (Bouwen, 2004a, 2004b; Chalmers, 2013a; Hansen, 1991). Indeed, given the limited time and attention policy-makers can devote to any single issue, they tend to limit access to interest groups that promise to offer relevant and reliable information.

Providing information then enables lobbyists to get a foot in the door.

Second, information can be used for *persuasion* (Lohmann, 1993). The market data and simulations lobbyists bring to policy-makers can help these to assess the likely consequences of different possible policy options. Business lobbyists in particular are said to generally enjoy an informational advantage over policy-makers. Indeed, while the latter have to juggle with several, potentially unrelated policy issues, the former usually focus on a few regulatory initiatives impacting the activity they represent. Lobbyists can then use the informational asymmetry to promote their preferred policy option and talk down undesired ones (Ainsworth, 1993; Austen-Smith, 1993; Lohmann, 1993; Rasch, 2018).

It is in this use of information for persuasion that lobbyists' *framing* of policy issues—i.e., "selecting and highlighting some features of reality while omitting others" (Entman, 1991, p. 53)—is particularly important. Given information asymmetries between interest representatives and policy-makers, the light in which the former presents an issue may well bear on the latter's assessment of available policy options (Klüver & Mahoney, 2015; Klüver et al., 2015). For Underhill (2015), the dependence of public authorities in charge of financial regulation at the international level (the BCBS for Basel III) on private expertise is such that over time their policy ideas have become aligned with the preferences of the private sector they are supposed to regulate, so much so that even the shock of the GFC did not fundamentally moved these ideas.

Times of crises, because they increase the pressure on policy-makers, are particularly prone to framing contests (Boin et al., 2009). Both governments and lobbyists have thus framed the GFC in a variety of different ways, in which some scholars identify attempts to shift the blame away from the financial sector (Engelen, 2015; Engelen et al., 2011; Rhodes, 2014; Sinclair, 2010; Wyplosz, 2013). Persuasion and framing strategies however have their limits. First, lobbyists have a long-term interest in maintaining their reputation as credible and reliable informants in or-

der to keep their access to policy-makers (Bernhagen, 2007; Berry, 1989). Second, even though they may be disadvantaged in terms of technical information, decision-makers are not helpless. Institutional screening mechanisms help them assess the credibility of industry claims, and past reputational damage directly impact firms' influence (James, 2018).

Of course, the effect of this use of information on lobbying success crucially depends on the extent of the information asymmetry, which varies across different types of policy-makers: the specialised staff of a US bureaucratic agency or a EC directorate-general (DG) are likely to be less disadvantaged than members of Congress or the EP (Klüver, 2013b; Yackee, 2006a, 2006b). Interest representatives then adapt the information that they provide according to the type of interlocutor: De Bruycker (2016) thus finds that exchanges with civil servants tend to be dominated by expert information, while lobbyists tend to concentrate on political information in their communication to politicians.

A third and final way for lobbyists to use the technical information they possess is to provide it to friendly policy-makers—those who share their policy preferences—thus reducing the costs of information incurred by these policy-makers in the pursuit of the shared preferences. The production of detailed position papers, technical briefings and reports or ready-made amendment proposals can thus be conceived of as a *legislative subsidy* (Hall & Deardorff, 2006) that helps interest groups to induce politicians to take up their issue in the legislative process (see also Bauer et al., 1963/1972; Gilligan & Krehbiel, 1989). Previous studies have shown evidence of this in the EU, where policy-makers tend to offer greater access to these lobbyists who bring information that helps legitimize their already held policy preferences (see e.g., Broscheid & Coen, 2003; Coen & Katsaitis, 2013). However they use it, the literature then indicates that the possibility for business interests to display expertise is a key factor of their lobbying success, one particularly important when lobbying on policy issues characterised by a high degree of regulatory complexity.

Beyond actors' individual resource endowment, important factors relate to the strategies that they may adopt to increase these resources and how they choose to use them. In this regard, the choice of a strategy focusing on *inside lobbying*—that is, targeting key policy-makers, trying to gain access to them and persuade them—and *outside lobbying*—appealing to the public through media campaigns and membership mobilisation—may be expected to have an impact on a group's lobbying success. A number of studies have highlighted how business interests tend to use the first of these two strategies, while citizen groups make more use of the second (Beyers, 2004; Binderkrantz, 2008; Dür & Mateo, 2014; Halpin & Thomas, 2012; Salisbury, 1984). Beyond group types, Binderkrantz and Krøyer (2012) find that the technical complexity of the goals an interest group pursues also largely determines the choice of strategy: technically complicated goals are usually pursued through direct contacts with bureaucrats. Outside lobbying may also be used to take advantage of favourable public opinion: Kollman (1998) thus finds that groups use outside strategies to benefit from pre-existing public preferences that support their goals. The independent effect on lobbying success of choosing one or the other strategy however is unclear. Binderkrantz and Pedersen (2017) find that the different levels of lobbying success that business and citizen groups achieve on decision-making is partly explained by different strategies, but more fundamentally by the different nature of the interests they pursue: changing the technical contents of legislative proposals for the former, putting an issue on the political agenda for the latter.

In parallel, interest groups may choose to lobby alone or join coalitions, either formal or informal ones. Several studies have analysed motivations that may account for groups' particular decisions to join coalitions (e.g., Beyers & De Bruycker, 2017; Gray & Lowery, 1998; Hojnacki, 1997; Hula, 1999; Salisbury et al., 1987). These highlight the role of reputational leadership and ideological proximity (Beyers & De Bruycker, 2017; James & Christopoulos, 2018; Leifeld & Schneider, 2012; Sabatier & Jenkins-Smith, 1993), but also the maintenance costs of coordination in relation to the depth of their own interest and how much potential allies can contribute to a

joint lobbying campaign (Hojnacki, 1997; Olson, 1965). For Hanegraaff and Pritoni (2019), forming coalitions should be seen as the "weapon of the weak": they indeed find that decisions to form coalitions are often motivated by organisations' fear to be insufficiently influential, with this insufficiency putting their survival at risk.

How much lobbying success coalition strategies account for is a question open for debate. In the US context, Heaney and Lorenz (2013) find that an actor may increase its lobbying success to the extent that its coalition strategy makes it the shortest path between other organisations in the coalition network. Centrality in the network, by contrast, does not seem to increase lobbying success (Varone et al., 2017). Focusing on Europe, interest organisations appear less keen to enter formal coalitions than their US peers but do a lot of networking to exchange information relevant for their lobbying (Mahoney, 2007b; Pagliari & Young, 2020). James et al. (2021) have recently mapped these networks, showing how financial integration in Europe has enabled the emergence of international networks of financial actors, complementing existing national lobbying networks. Types of network ties may furthermore have an indirect incidence on lobbying success to the extent that they influence how much relevant information actors extract from their networks, to be used subsequently in contacts with policy-makers. Chalmers (2013b) thus finds that interest groups whose networking strategies rely on strong ties rather than weak ties—i.e., exchanging with friends rather than mere acquaintances—obtain more information, thus making them more successful.

2.2.2 Structural power: Getting what you want without trying?

The classic structural power argument (Lindblom, 1977; Przeworski & Wallerstein, 1988) relies on the premises that (1) in a modern, capitalist economy, business has a quasi-monopoly on where and when investments are made and; (2) incumbent governments, who seek re-election, depend on said investments being made in their jurisdiction to present a positive economic balance of their mandate to the electorate

and, through tax income, have the means to acquire the loyalty of important constituencies. This dependence on private sector investments forces governments to accommodate the demands of business interests because, "[r]egardless of who won elections in the capitalist democracies, the holders of capital could sabotage government policy simply by sitting on their money rather than investing it" (Culpepper, 2015, p. 392). The cooperation of business interests—i.e., their investments—are particularly important for incumbent governments because of the centrality of economic issues in citizens' voting behaviour: while not the only motivation of citizens' choice of a candidate, a government's economic performance has been shown to weigh heavily on voting behaviour (see e.g., Alvarez et al., 2000; Lewis-Beck & Stegmaier, 2000). One step further, empirical studies have shown how governments anticipate in their decisions this centrality of economic issues in electoral contests (Kiewiet, 2000).

Then, as Dür et al. (2019, p. 10) put it "economic voting is the mechanism through which the structural power of business unfolds": if policy-makers' decisions incorporate anticipations of economic voting, they may try to anticipate business preferences and to avoid adopting policies that could lead Chief Executive Officers (CEOs) to invest elsewhere. In other words, for the proponents of the classic structural power argument, business interests, because of their "investment veto weapon" (James & Quaglia, 2019a, p. 259) may, in theory, obtain favourable regulation without having to actually lobby for it. In this sense, structural power may be as much about keeping items off the political agenda as about influencing the outcome of policy processes (Bachrach & Baratz, 1962).

As Culpepper (2015, p. 392) notes, however, the original structural power argument "fell out of intellectual fashion in the 1980s" because of two challenges. First, empirical studies in the 1980s showed that business interests tend to lose many of their lobbying battles, contradicting the idea of a special place for business in public policy-making:

> Scholars who looked carefully could find no privileged position of business: business was characterized as an interest group like any other, which won some conflicts and lost others. Even when business was unified, so too were its opponents, and in these confrontations business groups often lost the political debate (Culpepper, 2015, p. 392).

Scholars like Vogel (1987, 1989) and Smith (2000) thus stressed that the "fluctuating fortunes" (to quote the title of Vogel's 1989 book) of business interests in the US Congress contradicted the idea that business interests would always obtain favourable outcomes due to their place in the capitalist economy. Second, because structural power is said to work through keeping issues off the political agenda, it is largely unobservable, making structural power accounts difficult to falsify. Existing standards of evidence in political science demand that agenda-setting power be demonstrated empirically by showing that explicitly contemplated possibilities—for which there is observable evidence—were abandoned due to potential negative business reactions (Fairfield, 2015).

As Bell and Hindmoor note: "[i]t is not hard to see how banks in general [...] might be described as possessing structural power" (Bell & Hindmoor, 2015, p. 456). By its sheer size, the ease with which capital can be freely moved across borders and the crucial role of financial intermediation in modern economies, finance always seemed a good candidate for structural power (Sharman, 2010; Strange, 1988). After being neglected in the 1990s and 2000s—Hacker and Pierson (2002) being a notable exception—structural power arguments enjoyed a sort of renaissance, largely triggered by the GFC. Indeed, as Culpepper notes:

> [t]hat banks were in fact too big to fail highlights, as only cataclysmic real-word events can, both the poverty of political science models based on lobbying influence alone and the wealth of other advantages that banks enjoy in domestic political systems (Culpepper, 2015, p. 392).

Scholars who have undertaken to study the structural power of financial interests—and more broadly of business interests—in recent years have however taken note of Vogel's criticisms and focused on explaining variations in structural power. Hacker and Pierson (2002) had already started qualifying structural power, highlighting how the varying availability of exit options correlated with business groups' ability to shape social services policy in the US. In particular, they highlighted the importance of the institutional context, showing how more centralised decision-making—at the federal level in the US—closed off exit options for American business. In this sense, international regulatory cooperation—such as that happening in the BCBS—may be interpreted as limiting the structural power of large banks by limiting their ability to move to a jurisdiction with a lighter regulatory touch (Singer, 2004). Going further, Bell (2012) argues that structural power is shaped by policy-makers' ideas, in particular by how they construct perceptions of business threats to exit.

Looking at financial regulation after the GFC, Bell and Hindmoor (2015, 2017) draw our attention to the role of policy-makers' agency in the construction of structural power, showing how ideational revision—the questioning of the efficient market hypothesis—among policy-makers and more assertive state leadership challenged the influence of the City of London in the United Kingdom (UK) structural reform of the banking sector. Quaglia (2012) tells a similar story at the EU level, arguing that proponents of a "market-shaping" approach to financial regulation—including several European state leaders—capitalised on the crisis to counter the pre-crisis "market-making" approach supported by international finance. In a similar vein Bernhagen and Bräuninger (2005) developed a model of business lobbying whereby the structural power of business on policy is conditional upon (a) the relation between the expected effects of the policy and the material cost of lobbying against it; and (b) whether politicians are likely to suffer more—electorally—from the negative macroeconomic effects of a bad policy or from "selling out to big business".

Finally, agenda-setting dynamics may play an important role in mediating structural power. Howarth and James (2020) thus show how in the UK bank structural

reform, changing the political venue led to expanding the conflict with a more important involvement of pro-regulation actors, while in France the use of the traditional venues resulted in much more limited reforms.

Post-GFC scholarship on structural power has then largely renewed the structural power argument as "a resource that could be used strategically by business" (Culpepper & Reinke, 2014, p. 429), bringing it back into the realm of agential factors of lobbying success on equal footing with lobbying activities:

> Where capital strikes involve coordinated political action among companies, the power exercised by business flows directly from its role as the capital holder in the economy and its growth and employment capacities, not from its investment in lobbying offices or trade associations (Culpepper & Reinke, 2014, p. 430).

Woll's (2014) "power of inaction" argument is a good example of how structural power can be a political resource in itself: comparing bank bailout schemes in four European countries, she observes that banks' capacity to force governments to assume losses from the GFC was greater when they did not organise collectively to lobby the government and only left politicians to consider the likely negative impact of 'too-big-to-fail' (TBTF) banks' failure on the economy. However, bank bailouts may well be a very particular case of policy-making since the dynamics that Woll observes in the adoption of bank bailout schemes do not appear in cases of more traditional regulatory politics such as bank structural reform (Howarth & James, 2020). Since the present study focuses on European financial interest groups, it is unlikely that we could observe significant variation between actors in terms of structural prominance. The economic foundations of such prominance are, by definition, attributes common to members of an industry or even an economic sector. What we may look for is the instrumental use of this prominence in the form of threats: When financial interest groups issue warnings that stricter capital requirements will destabilise the economy and cause a credit crunch, they are effectively

issuing a threat the credibility of which lies in the centrality of bank intermediation in modern economies.

2.2.3 Lobbying in context: The role of institutions and issue-specific factors

The literature reviewed so far has stressed the importance of interest group characteristics—the resources they can muster and the strategies they can adopt. Lobbying success is however also very much shaped by the broader context in which lobbying battles are fought (Klüver, 2011; Mahoney, 2007a), with important implications for business power.

A first important contextual factor is the ideological proximity between the bureaucrats and elected officials in charge of drafting and adopting legislation and representatives of business interests. It is indeed conjectured that business interests may fare better if the policy process involves bureaucracies and political institutions whose members share their ideological preferences. Bernhagen et al. (2015, p. 570) thus find that in the EC "the context of a friendly Directorate-General reinforces the effectiveness of lobbyists' informational resources", which in turn reinforces the original ideological proximity, notably that existing between financial interests and the services in charge of financial regulation, formerly part of DG Internal Market and Services (MARKT) and now part of DG Financial Stability, Financial Services and Capital Markets Union (FISMA) (Bouwen, 2009, p. 23). Ideological proximity may become even stronger as a result of common educational and professional backgrounds shared by policy-makers and industry representatives, resulting from "revolving doors" dynamics (Braun & Raddatz, 2010; LaPira & Thomas, 2017; Seabrooke & Henriksen, 2017; Seabrooke & Tsingou, 2009).

The formal rules governing the policy-making process in a particular case constitute a second important factor expected to affect lobbying success. From one country to the next, and across different governance levels, the particular institutions gov-

erning how a policy is formed, enacted and implemented defines the set of access points available for lobbyists to interact with policy-makers and the tools available to said policy-makers to amend or even reject a legislative proposal. (Kitschelt, 1986; Mahoney, 2004, 2007a; Marks & McAdam, 1996; North, 1990; Princen & Kerremans, 2008). Variation in institutional settings are obviously important in studies comparing lobbying success across countries (e.g., Mahoney, 2007a). But even within a single jurisdiction, policy-making venues differ in the extent to which they favour different types of business interests (Baumgartner & Jones, 2009; Dür & De Bièvre, 2007), and it is important to understand how the particular institutional features of the policy process may tilt the balance between opposite interests. Studies by Bunea (2017) and Binderkrantz et al. (2020) have thus shown how the institutionalisation of open online consultation as a mandatory step in the EC's process to formulate legislative proposals has contributed to reduce the privileged position of interest groups traditionally considered as "insiders" and counteract the influence of business interests.

In the reform of bank capital requirements, the institutional context was mostly a constant: all international-level standards—Basel III—were established by the BCBS through the same procedure, and at the EU level these standards were transposed through the ordinary legislative procedure ("codecision"), based on proposals issued by the services of DG MARKT. If differences in ideological proximity or formal rules had an impact on lobbying success in our case, we should then observe a difference in terms of policy shift between issues where standards were already transposed and those where they were not.

The importance of the institutional factors are furthermore closely related to issue-specific factors that have been shown to importantly condition lobbying success: salience and degree of conflict (Culpepper, 2011; Mahoney, 2007a, 2008). Several studies have argued that the salience of a policy issue—i.e., the degree to which a particular policy area draws attention from the public—affects voting behaviours and policy evolution (Jones & Baumgartner, 2005), with important implications

for business power (Culpepper, 2011; Rasmussen, 2015b; Schattschneider, 1960). When the public shows little interest in a particular policy area, regulation tends to be discussed among experts of the field—both from public institutions and the industry—in informal governance arenas characterised by their low degree of politicisation. Such "quiet politics" (Culpepper, 2011) are expected to make business interests particularly influential because those informal governance arenas usually exclude non-business interests whose preferences on regulation may oppose those of the industry. Meanwhile, if a scandal or catastrophe suddenly draws public attention to that particular area—as happened with financial regulation following the GFC (Bell & Hindmoor, 2015; Woll, 2013)—the issue is likely to be pushed towards more "noisy" political arenas, characterised by higher levels of politicisation involving more countervailing actors. The consequence is a higher degree of conflict over the policy and a stronger coalition—here understood as a set of actors sharing similar goals in the lobbying battle (Baumgartner et al., 2009; Klüver, 2013b)—to oppose business interests, which can push policy-makers to temporarily override business power and embark on far-reaching reforms (Mitchell, 1997, p. 10). Post-crisis reforms of banking regulation in the UK, with the establishment of an Independent Commission on Banking (Bell & Hindmoor, 2015; Howarth & James, 2020) illustrate how the heightened salience resulting from the GFC resulted in a change of the institutional context and ultimately in reduced power for the financial industry.

As mentionned in the introductory chapter, the first components of Basel III were defined in 2009-2010, while the latest standards were only finalised in 2019-2020. We can then expect that "early" and "late" components were discussed in very different contexts. The former were debated in the immediate aftermaths of the GFC, a time when the salience of financial regulation and financial stability issues was very high. As time passed, however, salience decreased; if this factor is causally relevant for the lobbying success of financial interests on bank capital requirements, we should then be able to observe more cases of success in later periods.

Finally, just like increased competition between business and non-business groups

is likely to reduce the influence of any one group, so do conflicts among business groups and within industries (Salisbury, 1992; Schattschneider, 1960). The lobbying success of financial interests on banking regulation may then also depend on the degree of conflict among the community of business interests—financial and non-financial—as well as the degree of conflict among financial interests themselves. Regarding the wider community of business interests, first, Pagliari and Young (2014) have shown how the involvement of a wider set of private sector groups may benefit financial interests: because, on financial regulatory issues, financial interest groups often manage to tie their interests to those of non-financial groups indirectly affected by the regulation, actor plurality has the effect of "leveraging" financial sector influence. Business unity on financial regulation issues is, as a result of these tied interests, significantly stronger than in other domains of economic regulation (Young & Pagliari, 2017).

Going one step further, scholars in recent years have insisted on the need to disaggregate "finance" into its many component parts (Helleiner & Pagliari, 2011, p. 179), by opposition to the treatment of the financial industry as a single group that was widespread in earlier studies (e.g., Drezner, 2008; Singer, 2007), or the sole focus on large, international firms (Johnson & Kwak, 2011; McKeen-Edwards & Porter, 2013). Chalmers (2018, p. 13), analysing how unity and conflict *within* financial interest groups affect lobbying success, finds "considerable evidence that industry conflict substantially reduces the odds of the financial industry winning their lobbying battles", while unity—understood in terms of expressing similar preferences or abstaining from issuing dissenting comments—increases chances of lobbying success.

2.3 Measuring Lobbying Success: Methodological Issues

If we start with the premise that an actor is influential if, through its actions, it obtains policies that are more in line with its preferences than they would have been without said actions (Dahl, 1957), then assessing whether and to what extent the outcomes of policy processes do meet interest groups' preferences is the main methodological challenge facing students of interest group influence. In other words, in order to assess interest groups' *influence*, we must first measure their *lobbying success* (Dür et al., 2019, p. 43).

The literature suggests various approaches to measure lobbying success in terms of policy moving closer to an actor's policy preferences (Dür, 2008b), although recent studies tend to converge towards "preference attainment" approaches (or "goal attainment" approaches, the approach that I adopt in this dissertation, as stated in Section 1.1.2). Dür et al. (2019) distinguish the different approaches used in previous studies on two dimensions: (a) the source of data, which can be *subjective*—relying on actors' self-assessment of their success—or *objective*—based on a comparison of actors' preferences regarding a particular policy and the outcome of the policy process; and (b) the scale of measurement, which can be discrete—based on qualitative distinctions between success and failure using a dichotomous or ordinal scale—or continuous estimating "the extent to which actors have attained their goals on a continuum ranging from 'not at all' to 'fully'" (Dür et al., 2019, p. 44). Both discrete and continuous scales have their flaws. Continuous measures, reflecting spatial models of political conflict in which actors' preferences can be placed on a continuum or in a multidimensional political space have the potential to convey more information, but face an issue of equivalence of numeric scales across policy issues, for which the political space may be different due to varying points of reference (Crombez, 2002; König & Bräuninger, 1998; Vannoni & Dür, 2017). Discrete measures are expected to solve that issue: since categories (successful vs. unsuccess-

ful, fully vs. partially successful) are defined independently from the boundaries of the political space on any particular issue, measures are supposed to be comparable. However, as Bernhagen et al. note,

> dichotomous measures of success are based on the analogous assumption that success on one issue is equivalent to success on another issue—an assumption that is at best marginally more plausible than the assumption of equivalence underlying quantitative measurement (Bernhagen et al., 2014, p. 206).

The choice between a discrete and a continuous scale of measurement must then weigh the costs and benefits of each approach in terms of comparability and degree of detail in the information conveyed by the scale (Benoit, 2004; MacCallum et al., 2002). In this dissertation, my "measure" of lobbying success is actually a set membership score, which is not a continuous measure but a discrete one, and since I define the set of *successful lobbying* cases as a fuzzy set, the scale used to measure lobbying success in the present study can be considered an ordinal one. However, I argue that the assumption of equivalence mentioned by Bernhagen et al. is not problematic in a case-based approach such as QCA: the truth table analysis and logical minimisation process is not dependent on the respective empirical importance of cases but only on what conditions are present in each case and whether the outcome is, qualitatively present. It is in the substantive interpretation of the solution that the researcher looks at what cases each term covers to determine the empirical relevance of the configuration of conditions.

Studies assessing influence based on subjective data have usually done so by asking interest representatives to assess their own influence and that of their opponents in interviews or surveys. Based on those sources, most of them provide a discrete measure of influence (e.g., Egdell & Thomson, 1999; Heinz et al., 1993; Newmark & Nownes, 2017; Whiteley & Wingard, 1987), although some built quasi-continuous scales applied to groups or lobbying sides considered collectively by aggregating indi-

vidual discrete success scores (e.g., Heinz et al., 1993; McKay, 2012). One main issue arises with self-attributed measures of influence: interest representatives have been found in many cases to either under- or overestimate the influence of the groups they represent, as well as that of their opponents (McKay, 2012; Newmark & Nownes, 2017). In a recent study of Swiss interest groups' positions collected through both analysis of position papers and a survey, Ingold et al. (2019) find significant discrepancies between results obtained through the two methods: besides assessment of specific policy instruments being generally better in position papers than in surveys, they note that the sentiment of those interests who lost in the lobbying battle tend to improve between the time of public consultation (before decision-making) and the time surveys are conducted (months or years after), suggesting that there may be a systematic "correction" of positions after suffering defeat, biasing ex-post measures of influence on any particular policy and confirming earlier evidence that positions are not stable over time (Leach et al., 2014; Montpetit & Lachapelle, 2015).

Content analysis of interest groups' position papers then offers a more promising way forward. The development of content analysis methodologies and techniques (Krippendorff, 2018; Krippendorff et al., 1989) enabled scholars to take advantage of the numerous publicly available textual documents on policy-making, in particular responses to public consultations (Bräuninger et al., 2013; Bunea, 2013; Klüver, 2009, 2013a; Varone et al., 2017). Nevertheless, extracting non-state actors' policy preferences from their position papers remains an arduous task. As Eising notes, in position papers,

> it is sometimes not easy to gauge if groups are in favour of a policy proposal, against it, or indifferent, ambiguous or neutral about it. Fundamental opposition may be hidden behind a technicality (Eising, 2017, p. 9);

In terms of techniques, manual coding of positions remains to date the gold standard of content analysis—despite the known reliability issues linked to human coders

(Mikhaylov et al., 2012)—and is still used either as the main technique of analysis (Bunea, 2013; Eising et al., 2015; Pritoni, 2015), or as a benchmark for validating results obtained through automated text analysis algorithms (e.g., Klüver, 2009; Lowe & Benoit, 2013). Automated text analysis techniques have however developed importantly in recent years (Grimmer & Stewart, 2013), with different supervised and unsupervised models being used to extract information from text in different areas of political science (Baturo et al., 2017; Benoit & Laver, 2003; Laver et al., 2003; Mueller & Rauh, 2018; Schonhardt-Bailey, 2005; Slapin & Proksch, 2008). Interest group research has started to make use of automated text analysis techniques to assess lobbying success—e.g., Yackee and Yackee (2006) in the US and Klüver (2009, 2013a) in the EU. Bunea and Ibenskas (2015) severely criticised Klüver's application of *Wordfish* (Slapin & Proksch, 2008)—an unsupervised scaling algorithm made for the analysis of party manifestos—to interest group position papers. However, the development of new techniques better suited for this particular type of textual sources, first, and, second, the cost efficiency of automated techniques seem to make them particularly useful instruments for interest group scholars (Klüver, 2015).

Importantly, one should note that both manual coding and automated text analysis can be used to produce either discrete or continuous measures of lobbying success. As Dür et al. (2019, p. 46) note, Klüver's (2013b) analysis of lobbying success relies on "objective and fully quantitative measures of lobbyists' policy positions", which she relates to quantitative shifts of EC documents on a continuous dimension. However, she transforms this quantitative measure using a dichotomous scale opposing success and failure.

2.4 A configurational comparative contribution: QCA and the study of influence

How can a configurational comparative approach such as the one that I propose to use for the present study contributes to the study of interest group influence? Coming back to Dür's (2008a) three challenges—definition of influence; multiple pathways to influence; and measurement—I argue that the adoption of a QCA approach can make a useful contribution on each of those three fronts.

First, the concepts that are key to the study of interest group influence—*interest groups*, *lobbying success*, *influence* itself—lend themselves, as I have shown in Section 1.1.2, to definitions in terms of set relations. The conceptualisation of influence at the core of most studies relies—implicitly or explicitly—on a necessary and sufficient condition structure, whereby an actor is considered influential if it is successful *and* if that success can be attributed to the actor's involvement in the policy process. Although in recent years—partly in response to calls for more cross-sectoral large-N studies—statistical analyses have grown in importance in the study of influence, even these quantitative approaches conceive influence as the combination of several necessary conditions (Klüver, 2013b, pp. 7–8; Dür et al., 2019, p. 4). Configurational comparative approaches such as QCA rely on the formalisation—through Boolean logic—of such relations of necessity and sufficiency in real-world cases, making the structure of the concepts explicit (Rihoux & Ragin, 2009; Schneider & Wagemann, 2012).

Second, QCA is an outcome-oriented method: it is an approach that is designed to search for the causes of an observed outcome by identifying all the configurations of conditions under which that outcome—such as lobbying success—occurs in particular cases. In other words, it seeks to identify the causal mechanisms that produce the outcome in those cases. This holistic, outcome-oriented approach is common to QCA and process tracing, the methodology used in most case-study and small-N

comparative research on influence. The difference is that QCA enables researchers to expand the comparative approach to a larger number of cases by relying on truth table analysis and logical minimisation. QCA then differs from regression analysis—the method of choice in most large-N studies of influence—which focuses on the net effect of independent variables on a dependent variable. I argue that these two different perspectives complement each other: the existing literature, as we have seen, has identified a number of variables likely to shape lobbying success. Large-N studies based on regression analysis are good at identifying relevant variables across a large number of organisations and cases but have difficulties going beyond net effects of variables and identify complex configurations of conditions sufficient to produce lobbying success, especially where there are relatively few cases or little variation among them. By contrast, case studies and small-N research designs are effective at identifying complex causal pathways to influence, but can hardly be extended to analyse the full *variety* of possible pathways through which a diverse set of interest groups can achieve influence. QCA then offers a middle-ground that is adapted to mid-N research designs such as this one. It necessarily reduces the complexity of individual cases more than process-tracing, because a limited number of conditions only can be analysed at a same time, but it compensates by enabling researchers to make systematic comparisons across a greater number of cases giving researchers interested in "causes-of-effects" questions an alternative to regression analysis that does not require to increase the number of cases to test complex interactions between variables (Goertz & Mahoney, 2012; Ragin, 1987/2014).

Third, QCA is a set-theoretic research approach, that is, it analyses interactions between sets, which are defined by the presence or absence of a condition, not variables. This is particularly relevant for the measurement issue in the study of interest group influence, because the process of defining the membership of a case into a set—known as "calibration"—implies not only the identification of the appropriate (numeric) indicator, but also the definition of qualitative criteria ("anchors") that specify from which level on the indicator the case can be considered a member

of the set. Calibration then forces researchers to make explicit the relation between the indicators they chose and the concepts that they want to measure by requiring a justification for the choice of qualitative anchors. Furthermore, the use of a set-theoretic approach with Boolean algebra enables the construction of "measures" of influence that reflect the complex structure of the concept with a logical operators *AND* and *OR* respectively indicating a necessary-and-sufficient condition structure and a family resemblance structure (Goertz, 2020)

Chapter 3

Banking and its Regulation: A Political Economy Perspective

Financial interest representatives are often said to hide behind the "mystique" of finance (Admati & Hellwig, 2013) to keep non-experts away from debates about financial regulation, making them the only interlocutors for policy-makers. Banking and its regulation may be complex, but having a proper understanding of its political economy is, I argue, essential in order to understand the lobbying battles that the post-GFC reform of capital requirements triggered, the structure of conflict on the different policy instruments that the framework includes, and the arguments that various interest groups are likely to defend, as we will see in the subsequent chapters of this dissertation.

Understanding lobbying on Basel III and the EU's CRD-CRR thus requires, I argue, to delve into the intricacies of how banking works, how banking crises occur, and how regulation has evolved to limit the negative effects of such crises. There exists a vast economics and political economy literature on these issues, which I review in the next sections of this chapter. How does this literature helps understanding lobbying activities? I argue that understanding the economics of banking enlightens our understanding of the positions defended by the various interest groups fighting the lobbying battles over prudential requirements. Beyond the technicalities of the position papers, we can then see how the arguments they bring forward relate to

the more fundamental tension between those actors who stand to benefit directly or indirectly from looser regulation, and those whose interests are better protected by tighter requirements. This literature then helps make sense of the structure of conflict that I will observe based on the content analysis of position papers. Furthermore, because it clearly highlights the tension that policy-makers face in defining the goals that prudential regulation should pursue and the difficulties that awaits them when trying to define the appropriate policy instruments, this literature highlights the importance of interest groups' informational lobbying and framing strategies during the policy process.

The remainder of this chapter proceeds in three steps. Section 3.1 examines the benefits that different sets of economic actors and society as a whole derive from banking, but also how the risk of crises affecting actors far beyond banks' shareholders, clients and creditors are inherent to the very activity of banking. In Section 3.2, I turn to banking regulation, tracing its origins and how economic theories of economic regulation influenced the development of prudential requirements. Finally, in Section 3.3, I draw a series of lessons for the present study of financial interests' influence on Basel III and its European transposition.

3.1 Social benefits and costs of banking

3.1.1 The added-value of banking for society

A vast literature debates the contribution of banking to spurring economic growth and promoting good corporate governance and innovation, but there is no consensus on the actual effects on those dimensions of more or less bank intermediation, as opposed to financial markets (for a review see Allen et al., 2014). The literature however highlights three functions of banking that appear to contribute importantly to increasing social welfare: banks provide solutions to information asymmetries between borrowers and lenders, inter-temporal smoothing of risk, and liquid, money-

like assets to the economy.

First, acting as a *delegated monitor of borrowers*—making sure that borrowers will make appropriate use of the funds lent to them— on behalf of investors, banks help overcoming information asymmetries between the former and the latter. The monitoring of each borrower by its lenders entails a fixed cost that has to be distributed among numerous lenders, leading to a potential collective action problem that is likely to result in sub-optimal monitoring. Banks, as Diamond (1984) suggests, act as a single monitor for all lenders. The bank's incentive to fulfil its mission comes from its commitment to repay lenders a fixed amount (the original capital plus interests): in order to be able to repay, it has to make sure that itself will receive an income from its loans to borrowers. Banking activities then participate in a better allocation of resources, which is particularly instrumental in cases where (1) investors are small scale savers (e.g. households) and (2) information about borrowers is difficult to obtain, notably in emerging financial systems (Boot & Thakor, 1997) or markets with numerous and heterogeneous borrowers, such as loans to households and small and medium-sized entreprises (SMEs).

Second, bank intermediation offers an advantage over financial markets in sharing risks that cannot be diversified at a single point in time (Allen & Gale, 1997, 2000a). While financial markets are efficient at cross-sectional risk-sharing—by distributing across a large number of investors the risks that, at a given point in time, arise from a specific asset class or exposures to a particular economic sector—this diversification does not protect investors from macro-level shocks that could impact all asset classes at the same time. Banks, by contrast, can achieve what Allen and Gale call the *intertemporal smoothing* of such risks: building up reserves in good times and releasing those through bad times enables them to maintain a relatively constant level of payments to depositors and investors. This intertemporal smoothing however tends to unravel, Allen and Gale note, when banks must compete with financial markets for investors' money.

Finally, and most importantly, banks create liquidity, which they inject into the economy. At its core, banking is the activity of issuing loans to households, NFCs and other institutions, which banks fund by collecting savers' and investors' money in the form of on-demand deposits and the issuance of short-term debt securities. On the one hand, loans typically are long-term productive capital assets but they tend to be "illiquid", that is, selling them to acquire cash (central bank-issued notes) may entail a loss because the buyer is likely to ask for a risk premium in the form of a discount. On the other hand, deposits and short-term debt can easily be exchanged for central bank money. For depositors and short-term creditors, these assets are then almost as liquid as cash. Because of—or, rather, thanks to—this *liquidity mismatch* between banks' assets and their liabilities, banking then transforms illiquid assets into quasi-money which can be used for further transactions (Bhattacharya & Thakor, 1993; Hellwig, 1994). Banks then contribute to the money supply mechanism just as much as central banks (Berger & Bouwman, 2009; Brunnermeier & Sannikov, 2016; Rauch et al., 2009) and allow other economic actors (NFCs and households) to hedge their own liquidity risks more efficiently than by hoarding liquid assets (Buiter, 2007). These benefits notwithstanding, the structural features of banks as well as the nature of financial markets themselves generate risks, to which I turn in the next section.

3.1.2 Banking: An inherently unstable business?

If banking makes a valuable contribution to social welfare, why do we go through so much effort to regulate it? The short answer from the literature to that question is: because banking is inherently unstable. The literature highlights two main sources of instability. First, information asymmetries between bank managers and their creditors create micro-level incentives for the former to take on excessive risks—making the bank vulnerable to exogenous shocks—and for the latter to withdraw their funding at any sign of weakness on the sector. Second, at a macro-level, banking sectors are subject to cycles of booms and busts, characterised by the emergence of asset-price bubbles during booms, followed by market-wide corrections and the

materialisation of systemic risk.

Bank runs and the dangers of information asymmetries

At the micro-level, because of their structure—long-term assets, short-term liabilities—banks are vulnerable to withdrawal pressures or "runs", that is, depositors exchanging their on-demand deposits for cash and creditors refusing to roll-over their debt to the bank.

For Schwartz:

> A financial crisis is fuelled by fears that means of payment will be unobtainable at any price and, in a fractional reserve banking system, leads to a scramble for high powered money [...]. In a futile attempt to restore reserves, the banks may call in loans, refuse to roll over existing loans, or resort to selling assets (Schwartz, 1986).

Key to the dynamics of these runs are the information asymmetries that exist between bank managers and their creditors (Leland & Pyle, 1977). Creditors take the decision to entrust the bank with their money because they judge it safe, based on their assessment of the quality of its assets: if the bank lends money to creditworthy borrowers, then it is highly likely that these loans will be repaid and that the bank will earn the necessary income to repay creditors their capital and interest. But information about the creditworthiness of the borrowers remains with the bank and is very difficult for creditors to obtain and analyse, so the decision to deposit money in a bank rests on little information and a lot of trust. Given the limited liability of bank shareholders, this information asymmetry gives them—and the managers they employ—an incentive to increase leverage, thereby accumulating risk which is borne by creditors. Runs then occur when creditors lose their trust in the bank and decide that their wealth would be safer in their own hands.

Views on what factors can trigger such pressures can broadly be divided between proponents of a "contagion" or "panic" view, and those of a "fundamentalist" view (Calomiris, 2014). The panic view holds that withdrawal pressures can arise suddenly, unwarranted by the actual health of the banks, resulting from a sort of "mass hysteria" (see Kindleberger, 1978). Theory and empirical evidence suggest that, because every depositor knows of the first-come, first-served rule applied to withdrawals (known as the *sequential service constraint*) and the potential losses related to the rapid liquidation of most bank assets, banking systems do not have one but multiple possible equilibria, where panics can occur as soon as the belief spreads that a crisis is imminent (Allen & Gale, 2000b; Bryant, 1980; Diamond & Dybvig, 1983; Diamond & Rajan, 2005). When depositors believe banks will fail, as they want to avoid being last in line, the rational behaviour is to be the first to run to the counter. The fear of an imminent crisis then becomes a self-fulfilling prophecy. Empirical evidence has thus shown that in many past banking crises, depositors' imitation of other's behaviour have contributed to triggering systemic banking crises (Bruner & Carr, 2009; Ó Gráda & White, 2003). The "fundamentalist" view denies that banking crises simply result from "mass hysteria", but rather are related to the business cycle and fundamental economic indicators. It is when depositors observe an economic downturn that they anticipate a decreased value of banks' assets and ensuing difficulties to repay their commitments, and then try to withdraw their funds (Gorton, 1988; Jacklin & Bhattacharya, 1988).

In practice though, most systemic bank runs appear to be triggered by some information about an economic downturn inducing a panic which amplifies the original financial difficulties of those banks that did suffer a loss, and extend the crisis to healthy banks. A signal about disappointing future returns can thus be observed by a fraction of depositors—usually the smart financial markets creditors, rather than individual depositors (Caprio & Honohan, 2014)—while the rest of the population tries to deduce from the behaviour of those better informed depositors the content of the signal (Chari & Jagannathan, 1988).

Asymmetric information then plays a major role (Allen & Gale, 2009): when depositors perceive that an economic downturn may lead to difficulties in the financial sector but cannot observe whether their *own* bank is weak or strong and their deposits at stake, they may be not only risk-adverse but risk intolerant, at which point even a limited increase in insolvency risk across the sector may trigger a systemic banking crisis (Gorton & Metrick, 2012). That risk intolerance can result from either creditors' fear of reckless behaviour by weakened banks (Calomiris et al., 1995; Calomiris & Kahn, 1991) or from the reduced liquidity that bank deposits may offer when the bank is considered risky (Dang et al., 2012; Gorton & Pennacchi, 1990).

Furthermore, creditors' liquidity preferences—i.e., their preference for cash over less liquid assets—can change due to exogenous shocks, leading to a rapid increase in demand for cash; or the conditions at which banks acquire cash reserves can change—e.g. because of a monetary policy decision—leading to a new equilibrium between demand and supply of liquidity and banks struggling to maintain the level of their cash reserves (Calomiris, 2014).

These micro-level and purely financial concerns for the stability of individual banks can nevertheless have important macro-economic effects: rapid cash outflows tend to produce a contraction in bank lending to households and non-financial firms in order to reduce their risk exposure and restore their liquidity profile. Given the central role of bank loans for household consumption and corporate investment, such contraction can compound an economic downturn and spread financial distress across the whole economy, a phenomenon that is well-known since the Great Depression of the 1930s (Bernanke, 1983; Calomiris & Mason, 2003; Carlson & Rose, 2015).

Market reflexivity and the cyclical nature of finance

Besides the vulnerability of banking to exogenous shocks due to informational asymmetries and liquidity mismatches, banking sectors, at the macro-level, are also ex-

posed to endogenous systemic risk rooted in the reflexive nature of financial markets, which fuels a succession of credit booms and banking crises. The reflexive nature of financial markets refers to the feedback loop linking market participants' ideas and behaviours with the evolution of the market: as market participants observe the evolution of asset prices they modify their investment decisions accordingly, which influences the asset prices themselves. The result is that prices on financial markets are not rooted in economic fundamentals—that is, objective indicators of performance—but in market participants' assessments of these fundamentals (Mügge & Perry, 2014; Sinclair, 2010; Soros, 2008). Market reflexivity is the logical consequences of our incapacity to know what the future holds: investors have to make decisions today about which capital assets will yield the best return in the future. In order to do this, they only have at their disposal historical data about the performance of different asset classes and a set of assumptions about the future, which, if they are wrong, can lead them to misprice assets (Beckert, 2016). Furthermore, economic agents' "myopic tendency to extrapolate recent developments, especially when these have been good, into the longer term future" (Goodhart, 2009, p. 11) limits the amount of historical data that is used to generate risk assessment models. As a consequence, overoptimism can easily build upon slightly improved business prospects and generate an asset price bubble (Brunnermeier & Oehmke, 2012).

Keynes (1936/2016) already recognized the implications of reflexivity for systemic risk, which Minsky (1986/2008) later integrated in his *Financial Stability Hypothesis*, explaining how instability progressively emerges from within an initially robust financial system. As Caprio and Honohan (2014, p. 704) note, this "dynamic instability in widely held expectations about macroeconomic and business prospects generally" has dominated many of the larger episodes of systemic banking crisis.

In Minsky's theory, following a period of crisis, lenders' expectations about the future performance of capital assets (including loans) reflect their recent experience of the crisis, inducing them to restrain leverage and maintain "margins of liquidity"

in the form of cash reserves or quasi-money assets (e.g., government bonds).[1] In such an environment, the financial system is robust but only offers low yields: bankers then seek to exit these periods of "tranquillity" and look for new investment opportunities with higher returns. At some point, the introduction of an innovation—technological or financial—offers such an opportunity, promising increased profits for the entrepreneur and the investors who support the innovation. The diffusion of the successful innovation leads to a boom phase where credit expands to fuel the increase in investment, with asset prices increasing at an ever faster pace. Due to the reflexivity of risk assessment, the initial increase in profits and economic growth will spread a wave of optimism, which will in turn validate more lending decisions and push further the investment boom (Shiller, 2015). Furthermore,

> [b]ecause of the overoptimism, loan loss provisioning is lower than will prove necessary, and this for a time is justified by low delinquencies as the overall economic boom financed by credit expansion makes it easy for borrowers to service their debt (Caprio & Honohan, 2014).

In order to keep increasing their profits, banks will then, on the assets side, lend more and invest in riskier, less liquid (but higher-yielding) assets, which at that point look safe (Reinhart & Rogoff, 2011; Schularick & Taylor, 2012). On the liabilities side, to keep increasing lending without issuing new equity and while the growth of deposits does not keep pace, banks turn increasingly to debt financing, which can be supported by foreign capital inflows—as was the case in Mexico and East Asia in the 1990s, and in the US and Western Europe in the run up to the GFC—keeping the boom going. The increasing share of "non-core" liabilities in bank balance sheet thus rises (Hahm et al., 2012).

As banks keep increasing their leverage, they become increasingly fragile. As asset prices keep increasing, the return on each new investment decreases, thereby

[1] Note that for Minsky, any economic agent acts as a "banker". His use of the term in the context of his Financial Stability Hypothesis is not limited to credit institutions but applies to any agent with lending or investment capacity and/or borrowing needs: banks, financial market investors, individuals, etc.

reducing banks' income stream up to a point where it is not sufficient to cover their own payment commitments to their creditors. This is the situation that Minsky calls "Ponzi finance". As Brunnermeier and Oehmke note:

> At this point investors may be aware, or at least suspicious, that there may be a bubble, but they are confident that they can sell the asset to a greater fool in the future (Brunnermeier & Oehmke, 2012, p. 12).

A very small event can then trigger a panic. As seen above, the news that some investors are liquidating their exposures, or that banks may suffer losses on a particular class of assets, or an increase in interest rates may start a run. As Brunnermeier and Sannikov (2016) explain, endogenous risk then materializes in the form of two spirals. A "liquidity spiral", first, affects the value of banks' assets: as banks all sell assets to quickly obtain liquidities, asset prices plunge, in turn inducing more of these "fire sales", further depressing asset prices (see also Brunnermeier & Pedersen, 2009). A parallel "disinflationary spiral" affects bank balance sheets on the liabilities side: as they extend less loans after a shock, banks inject less money in the economy, which translates into less deposits and less available funding, making refinancing costlier. Ultimately, this double spiral results in a paradox: banks' individually rational move to reduce their exposure when hurt by a shock collectively amplifies the destabilisation of the financial system. For Brunnermeier and Sannikov this

> "Paradox of Prudence" arises when intermediaries shrink their balance sheet and households tilt their portfolio away from real investment towards the safe asset, money. Scaling back risky asset holding is micro-prudent, but makes the economy more risky, i.e. it is macro-imprudent (Brunnermeier & Sannikov, 2016, p. 3).

Banking activities thus give rise to several interrelated dynamics at the micro- and macro-level, creating risks that periodically explode in costly systemic crises.

3.1.3 The cost of banking crises

Estimates of macroeconomic costs of banking crises have flourished since the 2000s, in reaction to the apparent return of banking sector instability in the latest quarter of the twentieth century (Bordo et al., 2001; Reinhart & Rogoff, 2009). The estimates have to include not only the direct fiscal and quasi-fiscal costs of bank bail-outs by taxpayers, decreased tax revenues and increased social expenditure for automatic stabilizers as the economic downturn deepens (Amaglobeli et al., 2015), but also the losses in economic output (usually proxied by losses in a country's GDP).

Before the 2007-2009 crisis, Hoggarth et al. (2002) found that direct resolution costs to the government and the broader costs to the welfare of the economy averaged at 15 to 20% of annual GDP. Laeven and Valencia (2013), gathering data on banking crises from 1970 to 2011 find that output losses (proxied as deviations of actual GDP from its trend) in advanced economies amount on average 32.4% of GDP and direct fiscal costs 4.2% of GDP. Thus, despite active monetary policy responses to financial crises (Schularick & Taylor, 2012) and in some cases multilateral rescue programmes engineered by the International Monetary Fund (Barkbu et al., 2012), the overall social welfare cost of banking crises remains incredibly large, with substantial effect on income inequality (Honohan, 2005).

As Reinhart and Rogoff (2009) furthermore suggest, the dramatic increase in public debt that results from bail-outs and, more importantly, reduced tax revenues and increased social expenditure in automatic stabilizers due to the economic downturn has negative effects on long-term growth, which should also be taken into account in calculations of the impact of banking crises on social welfare. While their estimated average of an 86% increase in public debt in the three years following a crisis should be taken with caution (Laeven and Valencia only find an average increase of 23.6% for advanced economies since 1970), this suggests a very prolonged impact of banking crises on social welfare.

Finally, while most estimates measure output losses from the peak of a boom to

the deepest of the following recession, booms as well can be socially inefficient: by distorting asset prices, they distort agents' investment incentives and induce over-investment in the asset that is over-priced (Brunnermeier & Oehmke, 2012), e.g. real estate, as ghost cities of unfinished houses in Spain and elsewhere remind us. Cheap credit can thus lead to a substantial waste of resources (Admati & Hellwig, 2013; Caprio, 2013).

3.2 Banking Regulation: Costs and benefits

Banking regulation, as Schenk and Mourlon-Druol (2016, p. 395) note, "has developed unevenly from ad hoc foundations established in response to a series of crises during the nineteenth and twentieth centuries". As the literature reviewed in the previous section tells us, banking activities contribute significantly to social welfare, but also includes risks that can result in important losses for groups far beyond banks' shareholders or even clients. The main challenge for regulators then is to find an institutional design that enables banks to fulfil their socially beneficial functions while limiting excessive risk-taking and the threat it creates. How to best face this challenge has been the object of important theoretical debates about the capacity of public regulation to maximise social welfare (Section 3.2.1), shaping economists' prescriptions for prudential regulation (Section 3.2.2).

3.2.1 Public and private interests in theories of economic regulation

Although banking has existed at least since the early Renaissance, the idea that its activities should be subject to public regulation only emerged progressively:

> Early regulatory frameworks reflected the views of classical liberal economics that governments should have a minimal role in the operation of markets. But the systemic effects of bank failures and losses to depos-

> itors during the nineteenth century created incentives for more formal rules and supervision (Schenk & Mourlon-Druol, 2016, p. 397).

In the early twentieth century, Pigou's (1920/2013) works on market failures and the possibility to use taxes to internalise negative externalities into costs of production (so-called "pigouvian taxes") paved the way to a paradigmatic shift regarding the role of the state in the economy, epitomised by the New Deal in the US. Proponents of this *public interest theory of regulation* (Hantke-Domas, 2003) see public regulation as a costless solution to correct market failures and improve social welfare. In banking, this theoretical approach underpinned the tight post-war restrictions on banking groups and market structures, directed credit policies and interest rate ceilings. The theory however assumes regulatory authorities that are not only immune from the pressure of special interests, but are also perfectly informed and rational; in other words, it assumes a world where "infallible, omniscient, welfare-maximising regulatory authorities are concerned with public interest alone" (Harnay & Scialom, 2016, p. 403).

From the mid-1960s, however, critics of post-war banking regulations started asserting that the restrictive regulatory framework generated inefficiencies in the financial system, leading to welfare losses (Kaufman et al., 1984; Kreps, 1966; Meltzer, 1967) and associated public regulation with "financial repression" (McKinnon, 1973). The critique was only part of a wider reconsideration of the costs and benefits of the state's involvement in economic activities (Averch & Johnson, 1962; Caves, 1962; Hägg, 1997; Joskow & Noll, 1981; Meyer et al., 1959), which found its intellectual foundations in the *Chicago School* critique of the assumptions on which the public interest approach rested, most notably Coase's (1960) refutation of the pervasiveness of market failures, and his argument that courts of law, not taxation, offered an efficient way to compensate for negative externalities. The emergence of the *Efficient Market Hypothesis* (Fama, 1970) provided a theoretical backbone for the deregulation agenda in banking and financial services, arguing as it does that market prices

automatically reflect all available information and that market participants adapt their portfolios to any newly available information. Despite serious theoretical and empirical challenges (De Bondt & Thaler, 1985; Grossman & Stiglitz, 1980), Fama's theory rose to the status of conventional wisdom on financial regulation (Stiglitz, 2015).

In parallel, Stigler (1971) developed his theory of *regulatory capture*, which directly contradicted the assumption of public interest-focused regulators. Stigler considered the process to regulate economic activities usually captured by the very industry that is the object of the regulation, with incumbent firms using regulation to shield themselves from external competition by raising the cost of entry to the market. Regulation, then, would only rarely seek to serve public interest. Even in those cases, the argument goes, where regulators would be pressured by some organised consumer groups not to pursue the industry's interest, the former's lack of expertise would result in inefficient regulation and increased social costs. The GFC obviously led to a questioning of the pre-crisis deregulation and self-regulation agenda, and a reappraisal of the benefits of public regulation in financial activities.

3.2.2 The tools of prudential regulation

As we have seen in previous sections, containing banking crises is a public policy goal because of the negative externalities of banks' risk-taking and the burden it puts on the general population. Historically, the first policy response developed to contain the risk of banking crises was to assign a role of lender of last resort (LOLR) to central banks (Wood, 2003)—following Bagehot's (1873) exhortation to the Bank of England—and, later on, the diffusion of deposit insurance schemes, institutional protection schemes and ex-ante resolution funds (see Demirguc-Kunt et al., 2014; Eisenbeis & Kaufman, 2014). Together, LOLR and deposit insurance form an explicit government safety net to banking activities, removing incentives for bank runs, to which were added after World War II the banking sector restrictions

I have mentioned in the previous section. Furthermore, large banks benefit from an "implicit guarantee" from governments: Since the failure of a substantial part of the national banking sector would have dramatic economic, social and political consequences, it is virtually impossible for a government not to rescue a large bank on on verge of failure. Some banks then are TBTF and benefit from the implicit guarantee through clients and investors demanding lower risk premia.

The existence of these public guarantees however creates a moral hazard in the banking sector (Aghion et al., 2000; Allen et al., 2015): because creditors do not have to worry about losses, they relax their monitoring of banks' risk management practices. Empirical evidence thus suggests that banks tend to initiate riskier loans after the introduction of a deposit guarantee scheme (Ioannidou & Penas, 2010; Lambert et al., 2017), a negative effect which appears greater than the stabilization effect in crisis times (Anginer et al., 2012). The implicit guarantee of bailouts have a similar effect: as governments are more likely to intervene when virtually every bank is highly leveraged, the likelihood of bailouts generates a collective incentive to take on more risk (Dam & Koetter, 2012; Farhi & Tirole, 2012).

Government guarantees thus do not reduce the incentives problem of banking: instead of creditors, it is taxpayers who bear the burden of banks' excessive risk-taking. Cash reserve requirements, which force banks to invest a fraction of the deposits they accept as central bank reserves, historically were the first measure adopted to curb bank risk-taking behaviour (Feinman, 1993), and the ancestor of today's liquidity requirements. New economic perspectives on banking crises developed in the late 1970s and the 1980s (Diamond, 1984; Diamond & Dybvig, 1983; Leland & Pyle, 1977; Merton, 1977; Stiglitz & Weiss, 1981) brought to the fore the issue of bank capital (Kaufman et al., 1986), and risk-based minimum regulatory capital (MRC) requirements became the dominant paradigm of the newly created BCBS (Goodhart, 2011). With the GFC and the economists' rediscovery of the credit cycle, the procyclical character of minimum capital requirements became obvious, prompting calls for a macroprudential and dynamic approach to bank

regulation.

Liquidity requirements

Liquidity requirements, out of fashion from the 1980s, were rediscovered after the GFC, characterized as "a crisis of banks as liquidity providers" (Acharya & Mora, 2015). For Rochet (2004, 2008), liquidity regulation is warranted in order to deal with moral hazard at the individual bank level (information asymmetries between banks and their creditors) and at the aggregate level (bailout expectations). As Diamond and Kashyap (2016) note, the incompleteness of the information depositors have on banks' ability to survive shocks gives each individual bank an incentive to hold lower-than-optimal levels of liquidity (as in Diamond & Dybvig, 1983). Liquidity regulation then restores correct incentives: higher levels of risk-taking need to be matched with higher liquidity reserves, which imposes higher costs on shareholders (liquid assets have lower returns than productive but illiquid assets) but reduces the risk borne by creditors.

At the macro-level, market failure arises from the fact that banks set their liquidity buffers taking into account their own exposures to refinancing risk and the state of the interbank market but fail to take into account the systemic effect of each bank's individual decisions. This results in a level of aggregate investment in highly liquid assets that is sub-optimal for financial stability (Perotti & Suarez, 2011; Stein, 2013). Liquidity ratios can solve this issue: forcing each bank to invest more into high-quality liquid assets (HQLAs) leads in aggregate to more liquidity in the system, and reduces the risk of systemic liquidity crises. That is why Basel III reintroduced liquidity requirements in global banking regulation in the form of a short-term liquidity coverage ratio (LCR) and a long-term net stable funding ratio (NSFR) (see Chapter 4).

Liquidity requirements, because they mandate that banks invest a certain part of their funding into liquid but low-yielding assets, effectively limit the possibility for

banks to shift their asset portfolios towards increasingly riskier assets. By doing so, these requirements impose a sort of "pigouvian tax" on maturity transformation that internalizes its social costs in banks' cost-benefits calculations, but it also potentially limit the number of investment projects that can be funded.

Minimum regulatory capital

MRC requirements are concerned with banks' funding structure, what sort of liabilities they rely upon to fund their activities. Concretely, these rules define how much of a bank's assets must be funded through equity—money it receives from its shareholders, which gives them a claim on a share of profits—rather than borrowed money—deposits and, mostly, debt securities. The core difference between equity and debt—which is instrumental for prudential policy—is that while the latter involves a fixed commitment from the bank to repay, the former does not. The logical consequence is that in bad times, a higher capitalisation allows a bank to absorb more losses without having to sell illiquid assets in fire sales.

Representatives of the banking industry often argue—sometimes forcefully—that increasing MRC requirements is socially costly because it increases banks' overall funding cost and leads to a restriction of bank lending to the economy (Institute of International Finance [IIF], 2010). That assertion, Admati et al. (2013) argue, is fallacious, based on a confusion between private and social costs. First, higher capital ratios induce *private* costs for the shareholders but not social costs. The generally lower cost of debt funding is the result of a favourable tax treatment—which, from a public policy perspective represents a tax revenue loss—and implicit or underpriced public guarantees on banks' debt—which reduce the risk-premium investors ask of issuing banks, but represent a liability for taxpayers. These subsidies to debt thus represent a distortion of the normal pricing of debt securities relative to equity. Then,

> [r]equiring banks to have significantly more equity so as to lower the

> social cost associated with any implicit (or underpriced) guarantees and to reduce the inefficiency of high leverage is highly beneficial and corrects the distortions (Admati et al., 2013, p. 2).

Second, the relation between capital and bank lending is far from straightforward (for a review, see Bouwman, 2014). On a theoretical level, while some argue that the relation should be a negative correlation, others note that higher capital, because it increases total loss-absorption capacity, reduces the required risk premium and allows a bank to lend more (Allen & Gale, 2004; Allen & Santomero, 1997; Bhattacharya & Thakor, 1993; Hanson et al., 2011; Repullo, 2004). The empirical evidence is inconclusive on this question. In Europe the effect seems to vary greatly across bank types (Aiyar et al., 2012; Distinguin et al., 2013). Overall then, reducing banks' reliance on debt and increasing equity appears to have a negative effect on shareholders but a positive effect on creditors and taxpayers.

There are nevertheless two further issues with micro-level MRC requirements as they have been developed by the Basel Committee. The first is that the system leaves important room for regulatory arbitrage. The second is that MRC requirements have important procyclical effects. In the Basel system, the calculation of MRC is made with reference to RWA: the amount of each asset on a bank's balance sheet is multiplied by a factor—a risk-weight (RW)—representing the underlying risk of the asset. While under Basel I (BCBS, 1988a) banks were forced to use the assigned risk-weights, from Basel II (BCBS, 2004a) onwards, banks have been allowed to calculate their regulatory capital requirements based on their internal risk-assessment models. It has however been observed that the use of approaches relying on internal models led to a substantial increase in leverage as banks used model complexity and non-verifiable assumptions in their models to reduce their total RWA (Haldane & Madouros, 2012; Mariathasan & Merrouche, 2014). For Harnay and Scialom:

> By allowing banks to use their own models to assess the risks of their

> investments, regulators overlooked the discrepancy between the banks' interests in measuring and managing risks and the public interest in promoting a safe banking system (Harnay & Scialom, 2016, p. 414).

Indeed, this self-regulation enabled banks to define regulatory capital in a way that maximises market value for a given risk profile, and thus increase their profits. But the object of regulatory capital is not to ensure a good return for shareholders:

> [R]egulatory capital is a matter for the taxpayers. It is defined as the minimum capital required by the regulator to guarantee the stability of the financial system. It must therefore take into account endogenous spill-over effects between banks. Specifically, bank regulatory capital must integrate the negative externalities that the insolvency of an individual bank generates for the whole banking system (Harnay & Scialom, 2016, p. 413).

Despite this important shortcoming, internal model-based approaches were maintained in the latest version of the Basel standards (although with limitations, see Chapter 4), but regulators introduced a complementary *leverage ratio*. That tool is different from the classic equity requirements in that it is set against notional amounts of total exposures. It is thus praised as a more straightforward tool to monitor banks' leverage and the growth of their assets through time (Blum, 2008; D'Hulster, 2009; Hildebrand, 2012), despite the shortcomings of its implementation in Basel III (Blundell-Wignall & Atkinson, 2010; Kiema & Jokivuolle, 2010).

Macroprudential requirements

Microprudential rules on asset holdings and funding structures additionally do not successfully address the issue of recurring macro-level booms and busts:

> [A] problem of microprudential regulation is that it, semi-consciously, tends to force all banks to hold roughly similar portfolios; one aim of regulation always having been to bring all banks into line with the standards of the "best" banks. This is fine so long as the adverse shocks are "small". When, however, the adverse shocks are big enough to challenge the prior estimates of PD [probability of default] and valuation of previously supposedly safe assets, this can lead to even greater contagion and a more precipitate collapse (Goodhart, 2013, p. 246).

As we have seen in the previous section about banking crises, during booms market participants' overoptimism lead to a misappreciation of the risk attached to specific asset classes, and to large investments in these asset classes. As microprudential capital requirements give low-risk assets a premium in the form of lower required regulatory capital, they reinforce the investment boom. By contrast, when the bubble bursts and asset prices collapse, banks struggle to restore their capital position (Goodhart, 2009).

Proposals for countercyclical capital buffers, which would limit increases in leverage during booms, emerged as a reaction to this pro-cyclicality of minimum capital requirements even before the crisis (Borio & Drehmann, 2009; Borio & Lowe, 2002; Drehmann & Gambacorta, 2012; Griffith-Jones & Ocampo, 2009; Jiménez et al., 2017). The effectiveness of such a buffer however depends crucially on the balance between rules and discretion in setting its level, as well as on the choice of a "common reference point" for early warning signal. Pre-established binding rules offer the advantage of shielding supervisory authorities against pressures to let the investment boom develop longer, but mechanistic indicators of possible financial imbalances—such as deviations of the credit-to-GDP ratio from its historical average—necessarily need to be accompanied by a much more comprehensive evaluation of the risks by these supervisory authorities. Since said evaluation is likely to be influenced by past experiences, the longer the boom lasts, the more susceptible supervisors are to be

victims of the "this time is different" syndrome (Arnold et al., 2012, p. 3128).

Moreover, while the credit-to-GDP ratio has been accepted as a reliable early warning signal (Behn et al., 2013; Drehmann & Tsatsaronis, 2014), Repullo and Saurina Salas (2011) note that it would only point to the need for capital increases once GDP growth slows, that is, potentially too late in the financial cycle. Credit growth deviation from its historical trend is likely to provide earlier warning, giving more time for supervisors to take action (Ibáñez-Hernández et al., 2015).

Additional measures on lending standards are also advocated as a way to limit leverage by restraining the growth of assets: Claessens et al. (2013) thus find that setting maximum debt-to-income and loan-to-value ratios for individual borrowers and loans, as well and limits on individual banks' credit growth and foreign currency lending have a positive effect on reducing leverage during boom times, as well as the ratio between core and non-core liabilities. They also see a positive effect of measures which force banks to retain liquidity and limit profit distribution and constitute countercyclical buffers on leverage and asset growth, all measures also advocated by Admati et al. (2013), together with regular mandatory equity issuances.

3.3 Lessons for the study of lobbying on banking regulation

What lessons can we draw from this literature for a study of the influence of financial interest groups on the Basel III framework and its European transposition? In Section 3.1.1, we saw that banks provide services that are useful not only to their clients—solution to information asymmetries problems between lenders and borrowers, and intertemporal smoothing of risk— but to the whole economy—liquidity provision. However, banking is an inherently unstable business (Section 3.1.2). Because of the maturity transformation process that is the very core of banking, banks are vulnerable to creditors runs that can turn into systemic banking crises. More-

over, at the macroeconomic level, the reflexive nature of financial markets induces boom and bust dynamics characterized by phases of credit expansion and banking crises. Overall, banking crises impose costs on all economic agents (Section 3.1.3) not only through loss of the money these agents—depositors, creditors, investors—may have entrusted banks with, but also through reduced lending that impacts upon borrowers (who cannot fund their investments), the whole economy (through lower aggregate investment and consumption) and taxpayers, who have to foot the bill for bailouts and extra social expenditure.

Regulation offers potential solutions (Section 3.2). However, the capacity of regulatory processes to achieve an optimal institutional design, one that can maximise social welfare, is much more problematic than commentators and political advisors tend to acknowledge (Section 3.2.1), making a nuanced approach to economic regulation necessary to assess the array of regulatory tools available to address the risks of banking (Section 3.2.2).

This political economy perspective on banking and its regulation, first, lends support to the assumption that lobbying conflicts on bank capital requirements are largely unidimensional, an assumption on which several cross-sectional studies of interest group influence rely (Baumgartner et al., 2009, p. 7; Klüver, 2013b, p. 95). Although the ultimate goals that the various groups involved in the debate pursue may differ, in the context of the reform of capital requirements, these goals all lead to calls for either more or less stringent rules. The level of stringency of the future standards then should be expected to constitute the main dimension structuring the lobbying space on capital requirements. Furthermore, we can derive from the literature reviewed above an operational definition of the term 'stringency': in the context of capital requirements, 'stringent' rules are rules that force banks to (a) limit their exposures to risky assets, and (b) constitute safety cushions against potential losses (so that we avoid falling into the ghastly alternative of public bailouts vs. financial system meltdown). In concrete terms, this means more mandatory reserves of liquid assets, less fixed payment commitments—i.e., less reliance on debt financing—and

the anticipation of forthcoming downturns through dynamic provisioning.

Second, understanding in theoretical terms how the risks arising from banking activities are distributed across social groups, and the likely effects of prudential rules on different risks enables us to see better through the "mystique" of banking that characterizes financial interest groups' lobbying (Admati & Hellwig, 2013, p. 2) and to distinguish genuine arguments from framing strategies (Eising et al., 2015; Klüver & Mahoney, 2015). We can then derive expectations about the types of arguments that interest representatives are likely to use in their communication towards policy-makers, and how these relate to the structuring dimension of stringency. A "bank profitability" line of argumentation could be expected from representatives of the banking industry, of course, who are likely to criticise the extra costs that the new rules, including the extra reporting requirements, will impose on them. Non-bank financial interests may also develop an argumentation based on profitability concerns, highlighting for instance the restrictions on investment opportunities for asset managers. A framing strategy that can be expected to feature across several financial and non-financial groups' argumentations is one related to "access to finance" issues. Because bank credit remains the main source of funding for individuals and SMEs, but also a number of larger NFCs, and because banks are likely to react to higher capital requirements by either passing the cost onto their borrowing clients or by restricting lending, more stringent rules can be framed as denying funding to large parts of the real economy, in particular the most fragile ones, with, furthermore, effects on economic growth. Argumentations based on financial stability may be expected from both pro- and anti-regulation groups. Supporters of more stringent requirements are likely to remind policy-makers that the pre-crisis light-touch regulatory approach made possible the accumulation of risk in the financial system that led to the GFC and of the important costs that systemic banking crises impose on taxpayers and all economic actors. However, groups opposing intrusive regulation may also argue that some reform proposals—in particular the boldest ones—are misguided and could have the unintended effect of destabilising markets,

creating regulatory arbitrage opportunities between regulated and unregulated financial activities (*shadow banking*), as well as competitive disadvantages in relation to banks in other jurisdictions. Finally, we can already expect certain coalition patterns to emerge, such as between retail-oriented banks—savings and cooperative banks, universal banks—and SMEs on retail lending, or between large NFCs and large banks on market risk issues.

Chapter 4

Policy shifts in the reform of bank capital requirements

In the present chapter, I examine the Basel III reform process, seeking to identify on which of the policy issues pertaining to the broad policy area of bank capital requirements the BCBS and the EU institutions may have watered down—or, conversely, strengthened—their initial reform proposals, and where they did, to what extent. In other words, I analyse the evolution of the various segments of the Basel III framework to find whether we see evidence of a *policy shift* between, on the one hand, the initial proposals formulated by the BCBS and, on the other hand, the enacted Basel standards and their transposition in the EU. The aim of this chapter then is to answer the first of the three research sub-questions listed in the introduction, namely: *Have proposals for new bank capital requirements evolved towards more leniency or more stringency in the course of their elaboration by the BCBS (Basel III) and EU (CRD-CRR)?*

Answering this question, as was already mentioned in the introductory chapter, is a necessary starting point for my investigation of the conditions under which financial interest groups are influential in the area of banking regulation. Indeed, evidence of a policy shift is the first of three necessary conditions for *influence* to be considered present (see Section 1.1.2).

Several studies have analysed the international and European reform of the pru-

dential framework for banks adopted as a regulatory response to the GFC, as part of a broader political economy research agenda about international financial regulation and the forces that shape it (Helleiner, 2014). Previous findings about the Basel III and CRD-CRR highlighted the gap between the expectations of change triggered by the experience of the crisis and the reform that international and European policy-makers delivered. Indeed, "the key feature of the regulatory reform has been its incremental, non-paradigm-changing dynamic" (Moschella & Tsingou, 2013, p. 193), in contrast with the apparent "macroprudential ideational shift" (Baker, 2013b) triggered by the experience of policy failure. Explaining the stability of the prudential framework throughout the "window of opportunity for rapid and radical reform" (Moschella & Tsingou, 2013, p. 194) that the crisis opened has been an important issue for political economy and political science more broadly over the early post-GFC years (Baker, 2013a, 2013b; Buckley et al., 2012; Donnelly, 2014; Howarth & Quaglia, 2013; Quaglia, 2012, 2013; Underhill, 2015). Importantly, however they explain it, existing studies of the early years of the Basel III-CRD reforms generally observe that, while the reform did reinforce the prudential requirements imposed on banks, important concessions were made on a series of essential components of the framework. The reform process is now nearing completion—the international-level Basel III was finalised in 2017-2018 and the EC adopted in October 2021 a legislative proposal to complete its transposition in the CRD-CRR—and although the EU institutions still have to decide on the calibration of important parts of the framework, we can say that the dust has mostly settled, making possible a comparison between initial reform proposals and the standards to be implemented.

The remainder of this chapter proceeds as follows. I shall first provide a brief overview of the logic underpinning the Basel III framework (Section 4.1), intended to give readers who may be unfamiliar with bank capital requirements a basic understanding of the reform. I then move on to define in more detail the concept of *policy shift* that is central in the analysis here presented (Section 4.2). Follows a presentation of the methodological approach used to identify policy issues and as-

sess the direction and extent of policy shift on each of these issues (Section 4.3), and the results of that assessment (Section 4.4). A final section concludes the chapter (Section 4.5).

4.1 Logic of the Basel framework on banks' capital requirements

The Basel III framework on bank capital requirements is a comprehensive set of rules which seeks to cover every aspect of the banking business. Starting at the highest level, the Basel framework sets three broad types of requirements, gathered into three so-called "Pillars". Pillar 1 requirements are the rules defining minimum levels of regulatory capital and liquidity reserves that banks must have in order to be allowed to operate—that is, in order to obtain or retain their banking license—as well as requirements regarding internal policies and reporting, staffing and management, stress-testing and other internal controls. Pillar 2 requirements—also known as the Supervisory Review Process (SRP)—refer to the powers granted to bank supervisors to impose additional requirements on individual banks to address bank-specific circumstances. Finally, Pillar 3 requirements define the templates that banks must use to disclose information to the general public about their financial situation and regulatory capital calculations, with the aim to foster market discipline. In the context of the present study, I only examine Pillar 1 requirements. I exclude Pillar 3 chapters of the framework because they only consist in a set of templates for data collection and procedures for the communication of data to market participants, while the actual requirements that certain data must be disclosed are contained in Pillar 1. I also exclude Pillar 2 requirements which, I argue, are beyond the scope of the present assessment of a policy shift on *minimum* prudential requirements. Indeed, Pillar 2 rules refer not to the generally applicable regulatory framework but to the possibility to adopt *ad hoc* additional requirements justified by individual situations.

In the present study, I shall then focus on Pillar 1 requirements, which are themselves clustered into two main blocks. First, standards on minimum levels of regulatory capital define how much of a bank's assets must be funded with eligible capital instruments rather than by debt instruments with fixed payment commitments. Those eligible capital instruments are referred to as "regulatory capital", which includes common equity but also certain types of hybrid capital and convertible debt securities. Those are instruments that have the capacity to absorb losses incurred by the bank either during the course of its life ("going concern" situation) or in case of failure ("gone concern" situation). This definition of minimum levels of regulatory capital follows a general risk-based approach, supplemented by two backstops. Second, Pillar 1 contains rules on liquidity management, that is, how banks are to match their sources of liquidity with their expected liquidity needs to ensure that they will be able to obtain the cash needed to face their payment commitments even during a major crisis. I examine both blocks in turn.

4.1.1 Risk-based capital requirements

The risk-based capital requirements are defined in terms of ratios of regulatory capital to total amounts of RWA. Indeed, to account for the different types and levels of risk attached to particular assets, factors reflecting these risks—called RWs—are applied to the assets' nominal values. Higher RWs are applied to relatively riskier assets and lower RWs are applied to safer assets. The expected result is that banks with high-risk profiles have higher amounts of RWA, and must raise more capital—in the form of eligible capital instruments—from the market to meet their requirements than banks that invest primarily in safe assets. The Basel III framework mandates that, in order to obtain and retain its banking license, a bank shall always have a total amount of regulatory capital at least equal to 8% of its RWA, an amount of going-concern Tier 1 capital instruments equal to at least 6% of RWA and finally an amount of common equity Tier 1 (CET1) capital—the most loss-absorbing form of capital—covering at least 4.5% of RWA. To these MRC requirements—also called "solvency

ratios" and already present in Basel I and II—Basel III added "buffers above the regulatory minimum", taking the form of an additional "capital conservation buffer" of CET1 capital equivalent to 2.5% of RWA that a bank must have before it can freely distribute profits and dividends, plus potential extensions as a countercyclical capital buffer (CCyCB), and specific higher loss absorbency (HLA) requirements for G-SIBs and domestic systemically important banks (D-SIBs).

The risk-based framework then rests on two main elements: a method to determine a bank's amount of regulatory capital (the numerator of the solvency ratios and capital buffers), and a method to determine its total amounts of RWA (the denominator). For the former, the Basel framework lists the criteria that capital instruments must fulfil to be included in any of the three categories of regulatory capital: CET1, additional Tier 1 and Tier 2. The framework also mandates a series of deductions and "regulatory adjustments" to be made to the amounts of eligible instruments, to account for the risk that parts of this capital base may effectively become unavailable to absorb losses during times of stress.

The rules for calculating RWA amounts constitute the main part of the Basel framework and are clustered around three broad types of risk: credit risk, market risk and operational risk. Credit risk generally represents the risk that the borrower to which the bank has lent money or from which it has bought a debt security is unable to repay the borrowed amount. The general credit risk framework includes two approaches to credit RWA calculation: a standardised approach to credit risk (SA-CR), relying on parameters defined by the regulator, and an internal ratings-based (IRB) approach, which allows banks to use their own assessment of probability of default (PD), loss-given-default (LGD) and exposure at default (EAD) to define the RW to be applied to a specific asset. The credit risk section of the framework furthermore defines specific approaches for credit risk arising from exposures to securitisations—with a whole hierarchy of applicable approaches—and for the counterparty credit risk (CCR) arising from derivative contracts and securities financing transactions (SFTs). It also includes rules on the treatment of banks' equity

investments in funds and the capital treatment of unsettled transactions and failed trades.

The market risk framework captures risks of losses on trading book assets, that is, assets that the bank holds with the intent to sell them on the market. These risks arise from changes in the market value of assets, sensitive to a series of risk factors. Three approaches are available: a standardised approach to market risk (SA-MAR), an internal models approach (IMA) and a simplified standardised approach. Furthermore, the market risk framework includes approaches to capture risks of losses arising from credit valuation adjustments (CVAs), that is, the risk that an asset loses value because the estimated creditworthiness of the counterparty is reduced even though said counterparty has not defaulted. Finally, the operational risk framework captures the risks arising from human or technical errors, failed internal processes and systems, as well as external events. This part of the framework is simpler, with only one standardised approach to be applied by all banks.

The RWA amounts calculated for each of the abovementioned risk-types are then summed up to obtain a bank's total RWA amount, used as the denominator of the solvency ratios. However, a further requirement applies to banks using internal models-based approaches to calculate RWA: the "aggregate output floor". Indeed, to prevent potential abuses of internal models for capital gains and limit the variation of RWA across banks, the BCBS introduced a lower bound to internal models-based RWA, set at 72.5% of the RWA amounts calculated for the same portfolio but using only standardised approaches. This output floor effectively reduces banks' incentives to overstretch their internal models in the hope of reducing their capital requirements.

The general risk-based framework however has its shortcomings. One has been known for a long time and was already addressed by Basel II (BCBS, 2004a): relying as it does on the assumption that banks' portfolios are infinitely granular, it neglects "concentration risk", that is, the risk that a client (or group of connected clients)

to which the bank has very large exposures relative to its own capital base defaults, resulting in losses so large that they could lead to the bank's failure. In order to address this, the general risk-based framework is complemented with a "large exposures" regime, which sets limits to the amounts a bank can lend to a single client or group of connected clients.

The second shortcoming appeared clearly with the GFC: banks seeking a capital advantage may try to reduce their RWA amounts in various ways, exploiting the complexity of the RWA calculation system, which may result in extremely low MRC requirements relative to the actual size of banks' assets in nominal terms. To address this, the BCBS introduced in Basel III a risk-insensitive "leverage ratio", which defines MRC requirements as a percentage of *nominal* asset values rather than in relation to RWA amounts. Because banks' must satisfy both the risk-based MRC requirements and leverage-based MRC requirements, the latter effectively sets a limit to the capital advantage to be obtained by "gaming" the RWA calculation system.

4.1.2 Liquidity requirements

Aside from the rules defining how much of banks' assets regulatory capital must cover, the Basel III reform of capital requirements introduced two new policy instruments concerned with banks' management of their liquidity risk. Managing liquidity risk is, as we have seen in Chapter 3, a major aspect of the banking business and during the GFC, a number of initially solvent financial institutions failed because of their over-reliance on wholesale short-term funding, lacking the sufficient liquidity reserves and stable funding sources to withstand a market-wide crisis.

The newly introduced liquidity coverage ratio (LCR) standard, the first of the two new liquidity requirements, is intended to force banks to maintain buffers of high-quality liquid assets (HQLAs) sufficient to meet their expected outflows of cash during a period of one month of severe stress (similar to the events of September 2008). This instrument, simply put, requires that a bank's stock of HQLAs—that

is, assets that can be monetized immediately, without any loss or with very limited losses, even in the event of a major crisis—cover the full amount of the bank's expected net cash outflows. This definition rests on two main elements: (a) a definition of what assets can be considered as HQLAs and (b) a method to calculate the net cash outflows to be expected during a crisis. For the former, the LCR framework lists a number of asset classes that can be considered HQLAs and sets operational requirements to test the bank's ability to monetise them. As regards the latter, the LCR framework defines *run-off* rates for each class of liabilities and *drawdown* rates for each type of off-balance sheet (OBS) commitments, representing the extent to which the banks' creditors and clients are expected to withdraw funds in the event of a major crisis.

The net stable funding ratio (NSFR) standard takes a more structural view of banks' liquidity management, requiring that their amount of available stable funding—that is, the total amount of cash they can safely expect to receive over the next year—is sufficient to cover the full amount of stable funding required to meet their payment commitments for the next year. In other words, the NSFR requirement is that the ratio of a bank's available stable funding (ASF) to its required stable funding (RSF) is at least equal to 100%. This requirement crucially depends on the calculation of ASF and RSF amounts, which are computed by applying supervisory-defined ASF factors to sources of funding and RSF factors to payment commitments.

4.2 *Policy shift*: A definition

Now that we have a clearer idea of what the purpose of the Basel framework is, what its various policy instruments are and, generally, how they operate, we can start looking for evidence of policy shifts that may have occurred during the decision-making process that produced this framework. The first step in that process is to define in more precise terms the concept of *policy shift* used in this chapter,

and how it applies empirically to the case of the post-GFC reform of bank capital requirements.

The presence or absence of *policy change*, in general, features among the most common *explananda* in political science: change and stability in policies are the two possible outcomes of the political decision-making processes that scholars engaged in research on political economy (e.g., Baker, 2015; Ban, 2015; Clift, 2007; Hall, 1993; Howarth & Quaglia, 2016b; Saurugger & Terpan, 2016), legislative politics (e.g., Bozzini, 2017; Kamkhaji & Radaelli, 2017; Kingdon, 1984; Quaglia, 2012) and interest group influence (e.g., Baumgartner et al., 2009; Berkhout, 2016; Dür et al., 2019) observe, trying to find in those processes the *explanans* of that change or absence thereof.

The scope and nature of *change* under investigation however varies greatly from one study to another and such a profusion may lead to confusion:

> It really makes a substantial difference if policy change is defined in terms of the transformation of the definition of the issues in question, or as the structure and content of the policy agenda, or in terms of the content of the policy programme, or as the outcome of implementation of policy (Capano, 2009, p. 14).

Indeed, the change to be explained in a particular study may be one of broad policy goals (e.g., Baker, 2013a, 2015; Hall, 1993), change in institutional structures (e.g., Epstein & Rhodes, 2016; Hall & Thelen, 2009; Héritier & Moury, 2012; Howarth & Quaglia, 2016b), the evolutions of policy instruments induced by a reform or series of reforms (e.g., Bozzini, 2017; Citi & Justesen, 2014; Hsieh & Huisman, 2017; Zito et al., 2019) or, as it is often the case in studies of interest group influence, the evolution of legislative proposals between initial proposals and the final legislation enacted at the end of the decision-making process (e.g., Baumgartner et al., 2009; Chalmers, 2018; Dür et al., 2019; Klüver, 2009, 2013b). Considering the object of my research—identifying the conditions of financial interest groups' influence

on bank capital requirements—it is this last type of change that I analyse in the present chapter. To make clearer the distinction, rather than using the expression *policy change*, I refer to this type of change as a *policy shift* between policy inputs and policy outputs.

With reference to Hall's three orders of change, I should note that the present analysis focuses on the first and second orders, that is, on changes in the settings of existing policy instruments—e.g., recalibration of solvency ratios, recalibration of supervisory RWs—and the introduction or withdrawal of policy instruments—e.g., liquidity and leverage ratio requirements, buffers above the regulatory minimum—but does not analyse potential changes in the definition of the goals of bank capital requirements (third order change), which are beyond the scope of the present research (Hall, 1993). I build on the existing body of literature, in particular the studies cited in the introduction of this chapter, which show evidence that the GFC constituted a critical juncture for financial regulation, including bank capital requirements, and take that critical juncture as the starting point of my analysis. If we take the view that the crisis not only opened a window of opportunity to fundamentally change the way in which banks are regulated (Moschella & Tsingou, 2013), but also led to the emergence of a macroprudential paradigm (Baker, 2013b), then we can assume that the pre-crisis status quo—represented by the Basel II standards (BCBS, 2006a)—was lost. Instead, after the GFC and the experience of policy failure it represented, there was broad political support for a comprehensive review of bank capital requirements, with a strong mandate given to the BCBS to propose major reforms (G20, 2009a, 2009c). As a consequence, the lobbying battles that this research analyses are not waged so much *for* the preservation of Basel II as *against* the most radical of all possible reform options. The policy shift of interest here then is the shift between proposals put forward by the BCBS on the basis of its new, post-GFC mandate from the G20 and the Basel III standards finally enacted at Basel and transposed in the EU.

As the review of the literature on banking and its regulation has shown, the

evolution of bank capital requirements mostly relates to their degree of *stringency*. What I refer to as a *policy shift*, then, is a set of modifications that result in regulation being *more* or, conversely, *less* stringent than the standards proposed as policy input. The degree of *stringency* is here the key dimension, characterised as a continuum between *stringent* standards at one end, and *lax* standards at the other, on which policy inputs and outputs can be located. A difference between the observed stringency of inputs and outputs indicates a policy shift.

Stringent standards are here defined, following the Oxford English Dictionary, as "rigorous, strict, thoroughgoing; rigorously binding or coercive" ("Stringent, Adj.," n.d.). Applied to bank capital requirements, this definition should be understood as referring to standards that either increase the minimum required proportion of regulatory capital in their total liabilities, increase the required amount of liquidity reserves, but also impose more reporting and disclosures, more data quality checks, delete exceptions that established preferential treatments of particular assets or activities, etc. Generally, standards become *more stringent* when they impose higher costs on banks or limit the wiggle room they have to seek a reduction of their required amounts of regulatory capital. Conversely, standards that result in less regulatory capital being required, require less disclosures and reporting, create exemptions and preferential regimes that reduce the capital requirements arising from particular assets and activities and generally reduce the cost of regulation for banks compared to the original proposals can be considered *less stringent*—or *more lax*—than proposals. Across issues, we can then theoretically expect to observe three types of evolution between inputs and outputs: an evolution towards *more* stringent standards, an evolution towards *less* stringent standards, or an evolution that is *neutral* in terms of strigency. To this variation in terms of the *direction* of policy change, we should add that cases where the direction is not neutral may vary in terms of the *extent* to which modifications result in the final rules being more/less stringent than the proposals.

In the interest group literature, several approaches have been used to measure

policy shifts. Studies that rely on questionnaires or interview data to measure interest group preferences usually include in their surveys questions to locate policy inputs and policy outputs on the same scale as interest group preferences (e.g. Baumgartner et al., 2009; Dür et al., 2019). Concretely, interest representatives are asked to locate on a scale—for instance, 0 to 10, where 0 represents the least constraining policy option and 10 the most constraining option— both the status quo regulation or policy input, their own preferred option, and the outcome of the decision-making process. The advantage of such a data collection and measurement strategy is that it exploits interest representatives' knowledge of their own policy area and of policy-making activity in this area, minimizing the need for the researcher to delve into the substance of each of the policy issues they include in their studies. Then, adopting this type of strategy is particularly useful for large-N, cross-sectional interest group research. The drawback, however, is that the measure of any policy shift is highly dependent on interviewees' or survey respondents' assessment of that shift with the risk of bias that this dependency entails (Dür, 2008b, p. 566). Importantly, since they rely on individuals' assessments, two measures of the policy shift on a same policy issue may differ significantly.

Alternative approaches rely on the various documents produced by policy-making institutions throughout the policy process, as the present study does. In her studies of lobbying in the EU, Klüver (2009, 2013b) uses an unsupervised quantitative text analysis technique to define a policy space and locate interest groups' preferences on a variety of policy issues.[1] To identify a policy shift on each issue, she integrates in her text corpus the consultation documents issued by the EC and the explanatory memoranda of legislative proposals as policy inputs, and the recitals constituting the preamble of EU directives and regulations finally adopted as policy outputs. Based on the respective locations of these inputs and outputs in the policy space defined by interest groups' positions, she can observe whether and to what extent the

[1] In quantitative text analysis, scaling models are called *supervised* when the dimensions on which texts are to be located are defined by the researcher and *unsupervised* when the identification of the relevant dimensions is done through an algorithm based on the distribution of words in the texts.

EU institutions' positions evolved during the decision-making process, and towards which types of concerns they moved. Klüver's method presents the same advantages as the measurement based on interviews or survey answers, while being immune to the failings of human memory and psyche. As Bunea and Ibenskas (2015) noted, however, Klüver's approach violates one of the core requirements of unsupervised quantitative text analysis. Indeed, while extracting policy positions from texts requires that those texts be produced in similar contexts and for similar purposes (Laver et al., 2003), consultation documents, legislative proposals, regulations and directives are produced in contexts and for purposes that are very different from those of interest group position papers. Furthermore, while relying on preambles and recitals is sufficient to assess the general orientation or the main concerns that a given policy seeks to address, the display of political intentions in those text segments does not necessarily corresponds to the actual evolution of the legal provisions they precede. If, on balance, for large-N, cross sectional studies, the benefits of the two above-mentioned methods may offset their drawbacks, for smaller-scale studies that focus on a particular policy area—as I do here—the limited reliability of these methods to measure a policy shift on a particular issue would be a significant hurdle.

The third main approach—the one generally used in small-N studies that focus on a single, specific policy area—relies on a detailed documentary analysis, possibly supplemented with semi-structured interviews to identify the main policy issues that pertain to the policy area of interest, and the precise evolution of proposals through the policy process (Bozzini, 2017; Dür & De Bièvre, 2007; Feindt et al., 2020; Howarth & Quaglia, 2013, 2016a; Hsieh & Huisman, 2017; James & Quaglia, 2019a; Pircher, 2020). In most case-study research, this measurement of policy shifts is not formalised in terms of coding and measurement scales: when focusing on a very few policy issues, such formalisation is rarely necessary. When the number of analysed policy issues increases, however, formalising the measurement of policy shifts becomes necessary to ensure the comparability of measured values. And because "measuring regulatory policy outputs is a challenging tasks that requires making

several coding decisions" (Knill et al., 2012, p. 428), several strategies have been proposed to elaborate formal measures of change (Citi & Justesen, 2014; Howlett & Cashore, 2009; Knill et al., 2012). Although devised to assess the evolution of policy based on a comparison of policy outputs produced at different points over long time periods, these approaches inspire the strategy elaborated for the present chapter to assess the direction and extent of policy shifts between policy inputs and outputs on Basel III, which I detail in the next section.

4.3 Methodological approach

4.3.1 Sources and nature of the data

Taking into account the respective advantages and drawbacks of the methods reviewed in the previous section for assessing the direction and extent of policy shifts, I devise an approach based on a comparison of the documents issued by the BCBS and the EU institutions throughout the entire Basel III reform process to trace the evolution of policy instruments and their settings through international and EU-level decision-making.

Documents are divided into two categories: those representing policy outputs, that is, the finalised Basel standards and the legislative texts enacted by the EU institutions; and those constituting policy inputs, which are BCBS consultative documents and interim versions of the standards. As regards policy inputs, I used the consultation documents available on the BIS website, which has a very useful feature permitting to easily trace the history of a particular document: links are provided to every earlier or later versions (consultations or standards) of a given document. I then collected all the versions of any Basel III-related[2] consultation document or standard I could find and identified to which chapter in the finalised, consolidated Basel framework they related. For each of these streams of documents,

[2]That is, I limited this search and collection to documents issued since December 17, 2009 the date on which the first consultation document explicitly labelled "Basel III" was published.

the earliest document is considered as initial policy input within the Basel III reform. Appendix A, which details the changes observed on each policy issue also lists, for each issue, the documents considered as input and used to trace the evolution.

The choice to consider the earliest consultation documents as policy inputs is not optimal. Indeed, my analysis then is blind to any evolution that may have occurred *before* the publication of the first consultation document on a given issue, that is, when policy options were only being discussed internally by BIS staff members. It is indeed likely that the staff of the BIS, which operates the secretariat of the BCBS would have discarded the most radical policy options either because they lacked empirical evidence to assess their merits, or because they expected strong political opposition (Baker, 2013a). Despite the likelihood that such self-censorship did occur, I argue, first, that the decision-making process followed by the BCBS, where the final decisions about standards are taken by the GHoS rather than by elected politicians, limits the extent of this self-censorship. Second, proponents of a radical change of approach among the BIS staff could always refer to the G20 commitment to ensure financial stability as the highest possible mandate they had received to explore new policy options.

As for the policy outputs, I used the consolidated Basel framework, available on the BIS website,[3] as the relevant output of the Basel-level decision-making process. For the EU transposition, I compared the Basel framework with the provisions of the CRR (Regulation (EU) No 575/2013, 2013)—together with the amendments made to it in 2017 and 2019 (Regulation (EU) 2017/2401, 2017; Regulation (EU) 2019/876, 2019; Regulation (EU) 2019/877, 2019)—and with the provisions of the the CRD (Directive 2013/36/EU, 2013), as amended in 2019 (Directive (EU) 2019/878, 2019).[4]

[3]https://www.bis.org/basel_framework/index.htm. I set the "time traveller" feature on January 1, 2023 date on which most of the remaining grandfathering and transitional provisions will have expired, leaving only the final rules.

[4]Consolidated versions of the CRR and CRD are available on the EUR-Lex https://eur-lex.europa.eu.

In addition to standards and consultation documents, I searched the various quantitative impact studies (QISs) published by the BCBS and the EU. While providing valuable pieces of information on the economic and financial impact of the Basel III reform, in particular in comparison with the pre-crisis Basel II framework, these QISs could not be used as more than complementary evidence, supporting the conclusions derived from the comparison of draft and finalised standard texts, for several reasons. First, the QISs produced by the BCBS or the EC usually compare draft Basel III rules with the corresponding Basel II rules that they are supposed to replace but estimates of the effects of changes between initial proposals and final rules are exceedingly rare. Second, the BCBS did not systematically publish QIS results for all its initial proposals, nor for all its final standards; the information across the entire Basel III framework is then patchy. Third, QISs estimate the effect of reforms in terms of change in banks' MRC requirements only. Capital requirements are calculated for a sample of banks using the settings of the old framework and those of the proposed new framework. The difference in resulting capital requirements indicate the amount of additional regulatory capital that banks will have to raise to meet the new requirements (or, conversely, the amount that will be "freed"). However, important as it may be, the increase or decrease of MRC levels only is one aspect of the framework's stringency: changes related to methodologies, data quality, reporting and disclosure requirements, etc., which may result in an increase or decrease in operational costs, also needs to be taken into account in an assessment of changes in stringency.

4.3.2 Identification of policy issues

After defining what documents were available to trace the evolution of reform proposals, an important step was identifying the different policy issues that are contained within the Basel III framework. Existing studies alternatively rely on definitions of policy issues provided by interest representatives (e.g., Baumgartner et al., 2009), on the topics conveyed by the titles of public consultations (e.g. Dür et al., 2019;

Klüver, 2013b) or even on issues identified within a text corpus using topic classification modelling techniques (Lerner, 2017). Small-N qualitative studies focusing on a single, well defined policy area however usually deduct—explicitly or not—the main issues contained within their area of interest from the content of official documents and interest groups' position papers produced throughout the policy process. In the case of the early Basel III/CRD IV reform, for instance, several studies thus identify the definition of regulatory capital, prudential adjustments, the leverage ratio and the LCR as some of the key policy issues on which banks' and/or governments' preferences conflicted (see, e.g., Howarth & Quaglia, 2013, 2016a; Young, 2014). When examining specific, well-defined policy areas, researchers may use the particulars of the area and their pre-existing knowledge of it to identify policy issues. By contrast, identifications that are fully data-driven may miss or misinterpret relations between the issues that are identified through document titles, survey answers or using topic modelling techniques.

For the present study, I rely, on the one hand, on the structure of the documents that I used to trace the evolution of requirements—that is, the consolidated Basel framework as well as the various consultation documents and interim standards published by the BCBS—and, on the other hand, on the degree to which different sections of the Basel framework can be considered independent from each other, thereby constituting separate policy issues within the broad policy area of bank capital requirements. The structure of the BCBS and (to a lesser extent) EU documents makes relatively easy the identification of separate issues within the framework. First of all, the consolidated Basel framework published on the BIS website is divided into parts, themselves sub-divided into chapters, which in turn are structured into sections and sub-sections identifying the sets of paragraphs that together constitute a particular rule. Furthermore, where, within a particular part, several chapters relate to a same broad issue, the numbering of the chapters reflects this relation.[5] The same applies to the consolidated versions of the CRR and CRD,

[5]For instance, within the part "Calculation of RWA for credit risk" (CRE), the chapters consti-

which I used to compare the EU transposition to the Basel standards.

The delimitation of policy issues used in the present study relies primarily on this sectioning by the BCBS, but also takes into account the organisation of the BCBS's works into separate streams. Concretely, where the BCBS conducted a stand-alone consultation on a particular part of the framework, that part is likely to constitute a policy issue on its own. This explains why, for instance, even though the numbering places the chapter on the treatment of expected losses and provisions within the IRB for credit risk, I list it as a stand-alone issue, or why for CCR, I separate the standardised approach to counterparty credit risk (SA-CCR) and the internal models method (IMM), which were treated in different sets of consultations and the standards for which were adopted separately by the GHoS. Conversely, the various approaches to securitisations were always treated within a single work stream, an indication that they collectively constitute a single policy issue.

Beyond this structure-based approach, I could also get, comparing paragraph by paragraph the consolidated standards with consultation documents, a sense of the degree to which different sections of the framework are functionally independent from each other or, conversely, are interwoven. I call this aspect the degree of *functional interdependence* between policy issues. Naturally, all the policy issues that could be identified within the policy area of bank capital requirements (i.e., within the Basel framework), are, one way or another, interdependent inasmuch as they all contribute to shaping banks' risk-taking behaviour. However, beyond this general, high-level relation, some parts of the framework function in almost complete independence from the rest (e.g., margin requirements for non-centrally cleared derivatives, the leverage ratio). Others have a few links to each other—some cross-references—but still constitute independent policy instruments (e.g. the LCR and the NSFR). Others still are mostly independent from each other but all deliver amounts (of RWA, usually) that are aggregated and used as input in the calculation

tuting the securitisation framework are those numbered CRE40 to CRE46, while non-securitisation issues are assigned numbers with a different tens digit.

of another requirement, which is the case, for instance, of the different approaches to calculate RWA for credit risk, CCR, CVA, market risk and operational risk in relation to the solvency ratios and output floor. Finally, other parts constitute alternative methods available to banks to calculate their RWA amount for a specific category of risk. Conversely, some Basel chapters are closely interwoven, to a point that they should be considered as an integrated framework. Coming back to the example of the securitisation framework, considering the various approaches as a single issue makes sense because they are not alternative approaches that a bank *may choose* to use, but are integrated within a hierarchy of approaches, whereby general provisions mandate the use of a particular approach depending on the type of securitisation exposure to be assessed.

Rather than a mechanical reliance on document structures, I then integrate this functional interdependence dimension into my identification of policy issues to adjust the delimitations. The outcome of this process is a list of 29 policy issues. Table 4.1 details this list, and indicates the Basel framework chapters that cover each policy issue. Appendix A further details the BCBS documents identified as relating to each issue, as well as the corresponding CRR and CRD sections.

4.3.3 Identification and assessment of the direction and extent of change

Assessing the direction towards and the extent to which reform proposals have evolved constitutes the core of the analysis presented in this chapter. The first step is to systematically compare inputs and outputs for each identified issue, paragraph by paragraph. Concretely, for each paragraph of the consolidated Basel framework, I searched in the initial input document the corresponding paragraph and noted whether any difference could be observed between the two versions. Consultative documents usually contain a draft version of the standards as well as a memorandum explaining the rationale for the proposals and, sometimes, an explanation of

Table 4.1: Identified policy issues within the Basel III framework

ID	Decription	Basel III chapters
IS01	Definition of eligible capital	CAP10
IS02	Regulatory adjustments	CAP30
IS03	Calculation of minimum risk-based capital requirements	RBC20
IS04	Capital buffers above the regulatory minimum	RBC30
IS05	G-SIBs and D-SIBs identification and buffers	SCO40; SCO50; RBC40
IS06	Individual exposures in the standardised approach to credit risk	CRE20
IS07	Use of external ratings in the SA-CR	CRE21
IS08	Credit risk mitigation	CRE22
IS09	Internal ratings-based approach to credit risk	CRE30; CRE31; CRE32; CRE33; CRE34; CRE36
IS10	Treatment of expected losses and provisions under IRB	CRE35
IS11	Securitisation framework	CRE40; CRE 41; CRE42; CRE43; CRE44; CRE45
IS12	Standardised approach to CCR	CRE52
IS13	Internal Models Method for CCR	CRE53
IS14	Bank exposures to CCPs	CRE54
IS15	CCR in the trading book	CRE55
IS16	Minimum haircut floors for SFTs	CRE56
IS17	Equity investments in funds	CRE60
IS18	Capital treatment of unsettled transactions and failed trades	CRE70
IS19	Boundary between the banking book and the trading book	RBC25
IS20	Definition of trading desk	MAR12
IS21	Standardised approach to market risk	MAR21; MAR22; MAR23; MAR40
IS22	IMA to market risk	MAR30; MAR31; MAR32, MAR33
IS23	Credit Valuation Adjustments	MAR50
IS24	Operational risk framework	OPE10; OPE25
IS25	Leverage ratio framework	LEV10, LEV20, LEV30, LEV40
IS26	Liquidity Coverage Ratio	LCR30; LCR31; LCR40
IS27	Net Stable Funding Ratio	NSF10; NSF20; NSF30
IS28	Large exposures	LEX10; LEX20; LEX30; LEX40
IS29	Margin requirements for non-centrally cleared derivatives	MGN10; MGN20

the changes made compared to an earlier version. Initial policy inputs sometimes do not include a draft rules text, in which case I compare the Basel output with the first available draft rules text (usually provided in a second consultation) *and*, to the extent possible, with the policy proposals set out in the first consultation. In most cases, apart from precise calibrations and very specific settings, the information available in first consultations is sufficient to identify changes.

Types of observed changes

The paragraph-by-paragraph comparison results in a list of observed modifications. Among these observed changes, many are purely presentational or add guidance and examples on how to understand an otherwise unchanged paragraph. Such changes, which do not modify the substance of the standard, are annotated as irrelevant in terms of stringency.

The remaining observed modifications—those affecting the substance of standards—are of three types. First, we find modifications that directly affect banks' capital planning by increasing or reducing the amount of regulatory capital that a bank needs to raise to meet its risk-based or leverage-based capital requirements, the amounts of HQLAs it needs to reach the required LCR, or the amount of stable funding it must obtain to satisfy the NSFR requirement. Those I call *capital and liquidity management changes*, and I include in this category increases or reductions of RWs—a reduced RW on credit exposures to banks, for instance, as we can see in the evolution of the revised SA-CR (see Appendix A) contributes to a reduced total amounts of RWA, which in turn means lower aggregate risk-based capital requirements—increased or reduced credit conversion factors (CCFs)—which determine the value for which OBS items contribute to the total exposure measure of banks in both risk-based and leverage-based capital requirements—increased or reduced *run off*, *draw-down* rates, ASF and RSF factors—important parameters for the calculation of banks liquidity requirements—as well as changes in the scope of

allowed netting between assets and liabilities or long and short positions, correlation parameters for the recognition of diversification benefits, etc. In this category also fall changes made on the mathematical formulas used to calculate aggregated RWA—e.g., on operational risk, one term in the final formula is applied a 0.8 exponent, which reduces operational risk RWA for some banks; or the various changes made in the formulas to calculate the CVA capital charge—which affect the output of RWA calculations. The identification of these changes is sometimes very straightforward—e.g., the evolution of RWs for individual exposures in the SA-CR can be traced by comparing two tables and the SA-CR aggregation formula is a simple sum of risk-weighted values for individual exposures—but often required to trace cumulative effects across the various successive paragraphs explaining the process to calculate a capital charge.

Second, we see modifications that, without affecting the amounts of required regulatory capital, HQLAs or available stable funding, have an incidence on the operational costs likely to arise from implementing the standards. Those changes, which I call *operational cost changes*, mainly relate to management requirements, input data requirements and to reporting and public disclosures. In terms of management requirements, the Basel framework in several instances requires banks to set up internal policies with internal and external audits, regular checks and internal stress-tests to ensure their preparedness in case of crisis, e.g., on trading desks, liquidity management, etc. In terms of input data, final rules may require the use of longer times series or higher-quality data where it serves as input for the elaboration of internal models, or set a higher bar of model performance for the validation of an internal model. Conversely, these requirements have sometimes been relaxed. It may also be that—as occurred in the case of the sensitivities-based method (SbM) for the standardised approach to market risk— the BCBS decided to change its methodological approach because its original proposals required banks to collect new data and was considered too burdensome (BCBS, 2014f, pp. 6–7). Furthermore, where banks are required to communicate a certain number of data

points to their supervisors and the public, changes were often made to the number of data points to report or disclose, or to the frequency at which these should be communicated.

Third, modifications may affect the stringency of standards by creating new exemptions and preferential treatments for specific classes of assets, actors or activities that were not foreseen in initial proposals, or by expanding the scope of existing preferential treatments. Conversely, modifications may delete originally proposed preferential regimes, reduce their scope or tighten the eligibility criteria to use them, thereby making the framework more stringent. Exceptional regimes can take the form of lower risk parameters being applied—e.g. lower RWs on covered bonds in credit risk, and on instruments denominated in a specified list of international currencies in market risk—but can also take the form of a "simplified" calculation method, like the simplified standardised approach for market risk. Table 4.2 summarises this stylised typology of the modifications observed between policy inputs to the Basel III reform process and policy outputs.

Assessment of individual changes

Assessing the direction and importance of *capital and liquidity management changes* essentially requires comparing rates—supervisory risk parameters such as RWs, CCFs and correlation parameters in standardised approaches; parameter floors and ceilings in internal models approaches—and comparing amounts of RWA resulting from two different versions of a same formula—in order to observe the effect that the addition of a scalar, an exponent, etc., may have, *ceteris paribus*. These comparisons of parameters across versions of the standard enable me to identify the changes that result only in minor adjustments and those that result in major reductions of increases of RWA. Defining an absolute threshold below which a modification should be considered as a minor adjustment would be illusory, but as a general rule, I consider any increase or decrease of parameters or formula outputs by more than 20%

Table 4.2: Typology of modifications made between policy inputs and outputs

	More stringent	**Less stringent**
Capital and liquidity management changes	The modification results, directly or indirectly: • in increasing the amount of regulatory capital that a bank needs to obtain to meet its risk-based or leverage MRC requirements; • in increasing the amount of liquid assets or stable funding that a bank needs to obtain to meets its liquidity requirements.	The modification results, directly or indirectly: • in lowering the amount of regulatory capital that a bank needs to obtain to meet its risk-based or leverage MRC requirements; • in lowering the amount of liquid assets or stable funding that a bank needs to obtain to meets its liquidity requirements.
Operational cost changes	The modification increases the operational costs arising from regulation by: • increasing the scope and/or frequency of a reporting or disclosure requirement; • enhancing the qualitative checks that a bank must conduct before it is allowed to use a particular approach or option; • adding to the amount of data that a bank needs to compute its capital requirements.	The modification reduces the operational costs arising from regulation by: • reducing the scope and/or frequency of a reporting or disclosure requirement; • reducing the qualitative checks that a bank must conduct before it is allowed to use a particular approach or option; • reduces the amount of data that a bank needs to compute its capital requirements.
Exceptional regime changes	The modification either: • deletes or reduces the scope of a preferential treatment initially proposed for a specific asset class or activity; • creates a stricter exceptional regime targeting a specific asset class or activity.	The modification either: • creates or expands the scope of a preferential treatment for a specific asset class or activity; • deletes a stricter exceptional regime initially proposed for a specific asset class or activity.

as significant.

Assessing the effects of *operational cost changes* is more hazardous, since they largely depend on the particular internal organisation of each bank: while some may already have in place the policies and IT systems needed to satisfy enhanced management requirements, input data requirements, etc., some may need to make important investments and reorganisations. As a general rule, I consider the number of detailed items being added or withdrawn from the requirement to set up an internal policy or to make reports and disclosures as an indication of the likely extent to which the revised proposal would be more or less burdensome for banks' daily operations. Changes in required frequencies for computations, policy updates, reporting or disclosure also constitute an indicator of operational cost: less frequent reporting or policy updates are less burdensome on firms.

Finally, to assess the importance of *exceptional regime changes*, I look at two aspects defining the exceptional regime: (a) the extent to which the revisions increase or decrease the distance to the normal treatment (looking at the evolution of specific risk parameters and operational requirements being applied under the exception); and (b) the extent to which the revisions opened or, conversely, restricted access to the preferential regime, in terms of the categories of banks or assets being eligible.

Assessment at the policy issue level

Moving forward, to assess evolutions at the level of policy issues, I trace how modifications made on a particular paragraph or set of paragraphs combine with other amendments to the proposals for the policy issue. Changes may either supplement each other and move the standard into one particular direction—more or less stringent—or at least partly offset each other. I proceed with this step by first summarising the significant changes that could be observed in the evolution of each policy issue at the Basel level and, where it already occurred, in the EU transposition. The result of this summarising is presented in Appendix A.

Second, I use these summaries to assign each policy issue a value in four variables. Values in two *direction* variables (*BCBS direction* and *EU direction*) indicate whether, at each of the two stages, the policy instruments and settings corresponding to the policy issue became *more stringent*, *less stringent*, or whether the evolution was *neutral* in terms of stringency. Values in two *extent* variables (*BCBS extent* and *EU extent*) indicate whether the evolution towards more/less stringency at each stage was *limited*, *significant*, *important* or *very important*. Where the *direction* is *neutral*, the value on *extent* is, logically, *null*.

This is where the literature on banking and its regulation, and a solid understanding of the logic underpinning the Basel framework is particularly necessary. Concretely, to assess whether the multiple individual modifications made to policy instruments and their settings pertaining to a policy issue made the Basel framework on that issue more/less stringent to a limited extent, significant extent, etc., I rely on the one hand on logic and common sense, and on information extracted from QIS plus own calculations on the other. I thus argue that if on a given issue we see important reductions in all or a majority of supervisory risk parameters, plus modified formulas that significantly reduce resulting amounts of capital requirements and RWA, plus relaxed management requirements and, the creation/extension of a preferential regime, we can consider that the modifications, in aggregate, made the Basel framework on that issue less stringent to an important or even very important extent. If, by contrast, the evolution of a given issue is characterised by only slightly lower risk parameters for a minority of asset classes and a couple of relaxed disclosure requirements, then we can say that the framework became less stringent, but only to a limited extent. This assessment method does not offer the precision of a quantitative measure of the impact of modifications, but is sufficient on most issues to identify which of the four above-defined values on the *extent* variable best describes the policy issue. Where effects are less immediately visible, I sought indications of the direction and importance of changes in the various QISs published either by the BCBS or the EBA. Where such indication was not available, I com-

puted capital requirements and RWA amounts based on simple hypothetical bank portfolios—on operational risk, CVA and bank exposures to central counterparties (CCPs), for instance. For each policy issue, the summaries in Appendix A details the reasoning used to determine *direction* and *extent* values.

The final methodological step is to aggregate those four variables—*BCBS direction*, *BCBS extent*, *EU direction* and *EU extent*—into one *policy shift indicator* for each issue. The policy shift indicator takes numeric values between –4 and +4. The sign of the indicator represents the direction of the policy shift: a "+" indicates that outputs on this issue are *more* stringent than the inputs and a "–" indicates an outcome *less* stringent than the inputs. The digit indicates the extent of the aggregate changes in the direction represented by the sign: a score of "1" indicates *limited* changes, a "2" indicates *significant* changes, a "3" indicates *important* changes, and a "4" indicates *very important* changes.

The aggregation between Basel and EU levels is straightforward for those issues where the EU either has not transposed the Basel standards yet (9 out of the 29 issues) or where its transposition is neutral in terms of stringency (12 issues). For the remaining 8 issues, I had to elaborate aggregation rules, represented by Tables 4.3 and 4.4. Where the *direction* of change is the same at Basel and EU level (Table 4.3), the changes made by the EU at the transposition stage further the changes already made by the BCBS in its transposition. However, it is important to note that the measure of policy shift used here is a categorical one, not a continuous one, and it would be wrong to simply sum up numeric values. Instead, I argue that, where *BCBS extent* was limited in the first place (first column), the extent of change overall is mostly driven by changes made in the EU transposition (e.g. "important" changes at the EU level following "limited" changes by the BCBS result in "important" changes overall). At the other extreme, where the changes made by the BCBS were already "very important" (last column), the extent of additional changes made by the EU does not matter qualitatively: changes overall remain "very important".

Table 4.3: Aggregation of *extent* values where *direction* values have the same sign

		BCBS extent			
		Limited	*Significant*	*Important*	*Very important*
EU extent	*Limited*	Limited	Significant	Important	Very important
	Significant	Significant	Important	Very important	Very important
	Important	Important	Very important	Very important	Very important
	Very important	Very important	Very important	Very important	Very important

Table 4.4: Aggregation of *extent* values where *direction* values have opposite signs

		BCBS extent			
		Limited	*Significant*	*Important*	*Very important*
EU extent	*Limited*	Neutral	Significant	Important	Very important
	Significant	Significant	Neutral	Significant	Important
	Important	Important	Significant	Neutral	Significant
	Very important	Very important	Important	Significant	Neutral

Conversely, where the *direction* of the changes made at Basel and at the EU level is opposite, those changes at least partly offset each other (Table 4.4). Then, if changes made by the BCBS on its proposals meet changes of a same extent but opposite direction made by the EU when transposing the standard into the CRR-CRD, then the overall evolution of the policy issue from initial BCBS inputs to final EU output can be considered "neutral" in terms of overall stringency (top-left to bottom-right diagonal). "Limited" changes made at one level, if they meet opposite changes of an extent greater than limited do not contribute much to changing the overall evolution of the policy issue (first line and first column). In any other situation, changes made by the EU in the opposite direction reduce the extent of the BCBS changes.

4.4 Results

Table 4.5 below presents the results of the methodological steps described in the previous section, indicating for each of the 29 identified policy issues the associated values on the variables *BCBS direction*, *BCBS extent*, *EU direction*, *EU extent* and,

finally, the *policy shift indicator*.

The summary count of issues assigned to each value of the policy shift indicator in Table 4.6 reveals that proposals evolved towards *less* stringency in a small majority of the identified issues (17 out of 29). Modifications on those issues made final standards less stringent than initial proposals to an important or very important extent in 10 issues, to a significant extent in only 2 cases and to a limited extent in 5. Changes made standards *more* stringent than initial proposals in only two cases: the calculation of minimum risk-based capital requirements (IS03), where the introduction of an aggregate output floor on internal model-based RWA results in increased MRC requirements for banks using internal models; and the SA-CCR (IS12), where the changes made to parameters and formulas result in importantly higher RWA amounts in the final version. The extent of these changes in stringency is significant on the former, and important on the latter. Finally, it must be noticed that on 10 of the 29 issues, the evolution of the proposed standards was *neutral* in terms of stringency.

Interestingly, while several scholars have highlighted the important push from the EU and its member states to "water down" the early Basel III reforms (Howarth & Quaglia, 2013; Young, 2014), the analysis reveals that the EU transposition is equivalent to the Basel final standards, in terms of stringency, for 12 out of the 20 issues on which the EU has already transposed the Basel III rules. Changes made by the EU affect the degree of stringency to an important or major extent in only 2 cases: the NSFR and the large exposures framework. The large exposures framework is also the only issue where EU amendments reduce the stringency of the framework more than the changes made at Basel. On the other issues where the EU transpositions are less stringent than the Basel rules (8 out of 20), changes made by the EU were limited in 5 cases and significant but not important in 1 case only.

Of course, no definitive conclusion as to the EU's behaviour regarding the transposition of Basel III can be made before it transposes the remaining 9 issues into the

Table 4.5: Measured policy shifts in the Basel III reform

ID	Description	BCBS direction	BCBS extent	EU direction	EU extent	Policy shift indicator
IS01	Definition of eligible capital	Less str.	Important	Less str.	Limited	-3
IS02	Regulatory adjustments	Less str.	Significant	Less str.	Limited	-2
IS03	Calculation of minimum risk-based capital requirements	More str.	Significant	NA	NA	2
IS04	Capital buffers above the regulatory minimum	Neutral	Null	Neutral	Null	0
IS05	G-SIBs and D-SIBs identification and buffers	Less str.	Limited	Neutral	Null	-1
IS06	Individual exposures in the standardised approach to credit risk	Less str.	Very important	NA	NA	-4
IS07	Use of external ratings in the SA-CR	Neutral	Null	Neutral	Null	0
IS08	Credit risk mitigation	Less str.	Limited	NA	NA	-1
IS09	Internal ratings-based approach to credit risk	Less str.	Significant	NA	NA	-2
IS10	Treatment of expected losses and provisions under IRB	Neutral	Null	Neutral	Null	0
IS11	Securitisation framework	Less str.	Important	Neutral	Null	-3
IS12	Standardised approach to CCR	More str.	Important	Neutral	Null	3
IS13	Internal Models Method for CCR	Neutral	Null	Neutral	Null	0
IS14	Bank exposures to CCPs	Neutral	Null	Neutral	Null	0
IS15	CCR in the trading book	Neutral	Null	NA	NA	0
IS16	Minimum haircut floors for SFTs	Neutral	Null	NA	NA	0
IS17	Equity investments in funds	Neutral	Null	Neutral	Null	0
IS18	Capital treatment of unsettled transactions and failed trades	Neutral	Null	Neutral	Null	0
IS19	Boundary between the banking book and the trading book	Less str.	Limited	Less str.	Limited	-1
IS20	Definition of trading desk	Neutral	Null	Neutral	Null	0
IS21	Standardised approach to market risk	Less str.	Very important	Less str.	Limited	-4
IS22	IMA to market risk	Less str.	Very important	Neutral	Null	-4
IS23	Credit Valuation Adjustments	Less str.	Very important	NA	NA	-4
IS24	Operational risk framework	Less str.	Very important	NA	NA	-4
IS25	Leverage ratio framework	Less str.	Limited	Less str.	Limited	-1
IS26	Liquidity Coverage Ratio	Less str.	Important	Less str.	Significant	-4
IS27	Net Stable Funding Ratio	Less str.	Important	Less str.	Important	-4
IS28	Large exposures	Less str.	Significant	Less str.	Important	-4
IS29	Margin requirements for non-centrally cleared derivatives	Less str.	Limited	NA	NA	-1

Table 4.6: Distribution of policy issues across direction and extent values

Extent/Direction	**More stringent**	**Less stringent**	**Neutral**
All	2	17	10
Limited	*0*	*5*	–
Som. significant	*1*	*2*	–
Important	*1*	*2*	–
Very important	*0*	*8*	–

CRR-CRD legislation. These issues notably include the SA-CR and IRB for credit risk, the operational risk framework, the CVA framework, which all constitute crucial parts of the Basel III machinery. It also includes the output floor to be used in the calculation of minimum capital requirements, on which France and Germany are, according to reports, pushing back (Fleming & Arnold, 2021). The legislative proposal adopted by the EC in October 2021 could unfortunately not be analysed in detail for the purpose of the present study, and does not, in any case, presume of the amendments that could be made by the EP and the Council before its adoption into EU law.

This birds-eye view of the results would seem to indicate that a significant "watering down" of initial proposals only occurred for a minority of policy issues. However, not all policy issues are of equal importance in terms of their impact on banks' aggregate capital requirements and operational costs, which calls for a closer examination of *which* issues have seen the greatest policy shifts.

Among the issues with the greatest values on the *less stringent* side of the spectrum (policy shift indicator values of -3 or -4, see Table 4.7), we find some core elements of the Basel framework, chapters that constitute the largest drivers of bank's aggregate capital and liquidity requirements and the implementation of which may be the most burdensome because they apply to wide arrays of assets and liabilities. These issues notably include the three standardised approaches for credit risk (SA-CR), market risk (SA-MAR) and operational risk, as well as the IMA for market risk, the securitisation framework and the CVA framework. These are approaches to be used by all banks to calculate RWA amounts for the lion's share of their business

Table 4.7: Issues per *policy shift indicator* values

Indicator	**Issues**	**ID**
-4	Individual exposures in the standardised approach to credit risk	IS06
	Standardised approach to market risk	IS21
	IMA to market risk	IS22
	Credit Valuation Adjustments	IS23
	Operational risk framework	IS24
	Liquidity Coverage Ratio	IS26
	Net Stable Funding Ratio	IS27
	Large exposures	IS28
-3	Definition of eligible capital	IS01
	Securitisation framework	IS11
-2	Regulatory adjustments	IS02
	Internal ratings-based approach to credit risk	IS09
-1	G-SIBs and D-SIBs identification and buffers	IS05
	Credit risk mitigation	IS08
	Boundary between the banking book and the trading book	IS19
	Leverage ratio framework	IS25
	Margin requirements for non-centrally cleared derivatives	IS29
0	Capital buffers above the regulatory minimum	IS04
	Use of external ratings in the SA-CR	IS07
	Treatment of expected losses and provisions under IRB	IS10
	Internal Models Method for CCR	IS13
	Bank exposures to CCPs	IS14
	CCR in the trading book	IS15
	Minimum haircut floors for SFTs	IS16
	Equity investments in funds	IS17
	Capital treatment of unsettled transactions and failed trades	IS18
	Definition of trading desk	IS20
2	Calculation of minimum risk-based capital requirements	IS03
3	Standardised approach to CCR	IS12

(see Table 4.8).

Table 4.8: Share of selected risk types in banks' MRC[1]

Risk type	**Group 1 banks**[2]	**Group 2 banks**[2]
Credit risk	79.0%	83.6%
of which: Securitisation	*1.4%*	*0.5%*
Market risk	3.7%	2.6%
CVA risk	1.3%	1.0%
Operational risk	13.2%	9.4%

[1] Figures based on the minimum ratio of total regulatory capital (8% of RWA) and indicate the share of banks' amounts of MRC arising from exposures to each risk type.
[2] In its quantitative studies, the BCBS distinguishes "Group 1" banks (large, internationally active banks) from "Group 2" banks (all other banks) in its sample.
Source: BCBS (2020a, p. 51)

Similarly, on the two liquidity standards—the LCR and the NSFR, which largely define banks' liquidity management strategies—the stringency of the rules has been reduced to a very important extent. Finally, we find in this category the rules on the definition of eligible capital instruments, which are of crucial importance since they define what capital instruments can contribute to the numerator of solvency ratios. Given the stakes, we can expect that a high degree of interest group mobilisation (financial and non-financial) *against* stricter standards characterised the discussion of reform proposals on such issues. The presence of a large coalition sharing an actor's opposition to stricter rules may theoretically be expected to play an enabling role in that actor being successful in its lobbying.

If we now look at those issues where the extent of changes in terms of stringency has been, conversely, limited or null, we observe that many of these issues either (a) regard the calculation of RWA for only very specific, limited classes of exposure (e.g., equity investments in funds, unsettled transactions and failed trades,

CCR in the trading book, exposures to CCPs); (b) set requirements that only affect internal management policies with a tenuous impact on regulatory capital requirements or operational costs (e.g., the boundary between banking and trading book, the regulatory definition of trading desks) or (c) were the object of only limited reform proposals in the first place (e.g., use of external ratings, credit risk mitigation, treatment of expected losses and provisions under IRB). It is indeed unlikely that such policy issues were the object of a large mobilisation by interest groups in general, or that financial interest groups were particularly vocal in their opposition. Such small-scope or low-impact elements of the capital requirements framework were more likely to attract technical comments from a smaller number of organisations. However, The expectation that an important mobilisation enables success is however contradicted by the absence of an important shift towards leniency on several "high stake" issues, such as calculation of minimum risk-based capital requirements or the leverage ratio. While we can expect the presence of a large coalition and of a strong collective preference from financial interest groups to be part of a causal mechanism enabling success, we should then expect that either this mechanism was on some issues prevented from producing its effects, resulting in the absence of *successful lobbying*, or that the causal mechanism includes more necessary conditions.

Whether the policy issue is characterised by regulatory novelty may constitute such an additional condition relevant for success. The capital conservation buffer, the CCyCB, G-SIB/D-SIB assessment methodologies and HLA requirements and the leverage ratio have in common—beyond the limited or null extent of changes made to initial proposals—that they constitute policy instruments newly introduced in Basel III. It is not clear, from a theoretical point of view, how regulatory novelty would contribute to *successful lobbying* for anti-stringent interest groups. Where reform proposals are characterised by a high degree of novelty, we may expect on the one hand that the policy-making institution that is making the innovative reform proposal feels unsecure about it because of the lack of data and experience (Lindblom, 1959). But by the same token, if the proposed policy instruments are

genuinely novel—in the sense that there is no precedent to their use, either in regulatory frameworks, industry standards or even market practice—then financial interest groups may also lack empirical evidence to support their opposition to the proposal.

Whether the Basel standards for a particular policy issue are simple or complex may constitute a further condition. Indeed, the close analysis of the Basel III framework and its EU transposition also revealed that the twenty-nine policy issues differ importantly in terms of the degree of complexity of the rules. While some elements of the framework are only a couple of pages long and set few requirements in a very straightforward language, others—e.g., the SA-CR, the securitisation framework or the standardised approach (SA) and IMA for market risk are spread over several chapters, with a large number of detailed provisions and a significant number of complex mathematical formulas. We can already observe that the above mentioned examples of complex frameworks all show evidence of significantly reduced stringency, while more straightforward components such as the capital buffers above the regulatory minimum or the G-SIB requirements do not. Here again, however, we can find important exceptions to the relation: the leverage ratio framework or the SA-CCR constitute complex sets of rules, yet enacted standards for the former are less stringent than original proposals to a limited extent only, and for the latter the policy outcome is *more* stringent than the initial proposals to an important extent. As discussed in Chapter 2, the existing literature supports the expectation that regulatory complexity increases chances of lobbying success for business interests, notably financial interests, by magnifying information asymmetries between regulators and representatives of the regulated industry. We can then expect that the significant degree of complexity observed on some of the components of Basel III is relevant for the occurrence of *successful lobbying*.

As I have noted earlier, the identified policy issues were discussed at different points in time. These temporal differences across issues imply that policy-making took place in a changing context, particularly as regards the level of attention from the general public to the policy area of financial regulation in general and the regula-

tion of banks in particular. The existing literature highlights how the sudden public salience of financial regulation affected policy-making in this area in the immediate aftermaths of the GFC (Quaglia, 2012; Woll, 2013). Looking at the periods during which each policy issue was discussed and standards adopted by the BCBS and the EU (reported for each issue in Appendix A), we can observe that issues which were discussed longer after the GFC tend to exhibit more important policy shifts towards less stringency. The relation however is imperfect: early issues such as the definition of capital or the LCR also witnessed important policy shifts towards less stringent standards.

Finally, we find among these issues where little or no changes were made, but also where changes resulted in *more* stringent standards, the IMM for CCR, the calculation of minimum risk-based requirements—which includes the new output floor—and the SA-CCR, the new margin requirements for non-centrally cleared derivatives and the minimum haircut floors for SFTs. If we try to find what these issues have in common, we should note that this group includes standards that are related to areas of financial activity that G20 leaders identified as key contributors to the excessive build-up of risk before the crisis, and that they repeatedly committed to regulate more strictly (G20, 2008, 2009a, 2009b, 2010). The G20 thus repeatedly called for a regulation of derivatives, which implied, in the area of bank capital requirements, strengthening the treatment of CCR, appropriately capitalising banks' exposures to CCPs where derivatives were to be moved to central clearing as well as setting margin requirements and haircut floors for the remaining non-centrally cleared derivatives. On these issues, where policy shifts occurred, they were either towards more stringency or reduced the stringency of the proposals to a limited extent only. Since the whole Basel III reform was mandated by the G20, we may expect that, where its members had explicitly called for stricter regulation, or publicly stated their commitment to implement the proposals issued by the BCBS, such commitment frustrated financial interest groups' lobbying efforts in favour of leniency.

Wrapping up the observations made in the previous paragraphs, we can then

expect that several issue-specific conditions are causally relevant for the occurrence of the outcome successful lobbying for European financial interest groups:

1. The presence of a large coalition of actors sharing a financial interest group's opposition to stricter standards can be expected to contribute to the presence of successful lobbying.

2. A high degree of complexity can be expected to be part of a causal mechanism sufficient for successful lobbying to occur.

3. Conversely, where the standards were discussed in a context of high salience of financial regulation issues, we may expect this high salience to contribute to the *absence* of successful lobbying.

4. Similarly, the presence of a commitment by political leaders to adopt and implement stricter standards should be expected to contribute to the *absence* of successful lobbying.

5. Finally, there seems to be a relation between regulatory novelty in the proposed standards for a policy issue and the absence of important shifts towards less stringency, although with important exceptions.

I shall return to these intuitions in Chapter 6, where I will further refine them as candidate conditions, conceptualise them in more detail and introduce the indicators used to assess whether they are present in each case.

4.5 Conclusions: Lowered ambitions?

In the present chapter, I have analysed how modifications made during the elaboration of bank capital requirements between the initial post-GFC proposals—formulated by the BCBS—and finally enacted standards—as consolidated Basel framework and EU law—affected the degree of stringency of the post-crisis reforms.

Across the policy issues identified within the Basel III framework, I observed contrasted reform trajectories, with the distance between policy inputs and policy outputs varying greatly both in terms of the direction and the extent of the observed policy shifts. Overall, both in terms of amounts of regulatory capital and in terms of risk management requirements, Basel III is more demanding on banks than Basel II (BCBS, 2017b; European Banking Authority [EBA], 2019). But the results presented above testify of generally reduced ambitions and even though the Basel III reforms, when fully implemented, will equip the banking sector with greater safety cushions that existed before the GFC, these cushions will be thinner than they would have been under the initial proposals.

The analysis here presented of policy shifts during the Basel III reform process naturally suffers from limitations, which I mentioned when detailing my methodological approach (Section 4.3), notably the fact that my results do not cover changes that potentially occurred before the publication of initial proposals and that they are less fine-grained than would have been possible had a quantitative measure of the impact of amendments on banks' costs been systematically available. Despite these shortcomings, I believe that the information mobilised and the method used to analyse it do result in a valid and reliable measure of policy shifts that is sufficiently detailed to establish a qualitative distinction between cases of major change and cases of limited change. In the context of my research on financial interest groups' influence on bank capital requirements, that qualitative distinction is of crucial importance to establish in what cases financial interest groups' lobbying was successful (see Section 1.1.2).

Based on a preliminary observation of cross-case regularities in the results, I have suggested in the previous section a series of candidate conditions that may be expected to be causally relevant, explaining in part the observed contrasted reform trajectories: large supporting coalition, regulatory novelty, salience, complexity and political commitment to stricter regulation. I should here clarify the status of the interpretation advanced in the preceding paragraphs: at this stage of the present

research, this interpretation of the contrasted trajectories of reforms on each of the identified issues within Basel III does not constitute more than conjectures, but conjectures from which I derive a set of candidate conditions that I expect to constitute elements of causal mechanisms producing either successful lobbying or its absence in the context of the post-GFC reform of bank capital requirements.

In the next chapter, I will turn to the analysis of interest groups' positions. Bringing together the measure of policy shifts resulting from the analysis in the present chapter and the measure of the direction and intensity of interest groups positions, I will determine whether groups were successful or unsuccessful in their lobbying on each of the identified policy issues. I will return to the suggested issue-related explanatory factors in Chapter 6, when I analyse conditions of lobbying success.

Chapter 5

Interest group preferences on capital requirements: A quantitative text analysis

After analysing in the previous chapter the evolution of the policy proposals for the GFC reform of bank capital requirements, I now move to the second step of my study: identifying which actors expressed preferences on one or more of the twenty-nine policy issues identified as the main components of the Basel III framework, and what the directions of said preferences were. This analysis of expressed preferences is crucial to the present research for several reasons. First, as per the concept of interest group established in Section 1.1.2, an organisation can be considered an interest group in the context of the present research if and only if it has articulated and conveyed to policy-makers an interest on one or several policy issues pertaining to the area of bank capital requirements. For the purpose of case selection, a method must then be devised to identify which organisations meet this criterion. Second, as per the definition of *successful lobbying* cases in Chapter 1, the direction of the observed policy shift must be the same as the direction of the actor's expressed preference for a case of lobbying to be considered a case of lobbying success. Obtaining an indication of European financial interest groups' expressed preferences on each of the policy issues that they targeted is then a necessary step to determine in which cases the outcome of interest in this study—successful lobbying—was present, and

in which cases it was absent. Third, analysing the preferences expressed by the broader set of organisations that are either not European or not financial provides a wealth of information about the structure of conflict—in particular as regards the size and composition of lobbying coalitions supporting or, conversely, opposing an actor's advocacy—which is to be used in Chapter 6 as indicators for the presence or absence of a series of coalition-specific conditions.

The analysis of interest groups' preferences developed in the present chapter relies on a text-as-data approach, examining a corpus of written comments submitted by interest organisations, public authorities and individuals to BCBS and EC public consultations on Basel III and the CRD-CRR from 2008 to 2020.[1] In exploiting responses to public consultations to investigate interest groups' policy preferences, I follow the example set by a growing body of scholarship, which adopts a variety of text-as-data approaches to answer questions about interest groups' activities, notably in North-American and European contexts (Bunea, 2014; Bunea & Thomson, 2015; Klüver, 2009, 2012; Rasmussen, 2015a; Yackee & Yackee, 2006). Researchers have used responses to consultations to explore interest group mobilisation and coalition patterns (Chalmers, 2018; Pagliari & Young, 2014, 2016; Rasmussen, 2015a; Young & Pagliari, 2017), to identify the use of frames in interest group communications (Boräng et al., 2014; Klüver & Mahoney, 2015; Klüver et al., 2015), trace information flows and informal coordination networks among interest groups (James et al., 2021; Pagliari & Young, 2020), or identify interest groups' policy preferences and whether these preferences are attained (Klüver, 2009, 2013b).

Using these documents to extract data about interest groups' mobilisation and preferences regarding particular policy issues notably enables researchers to overcome some of the disadvantages associated with alternative methods, mainly surveys and interviews. Beyond being labour intensive, surveys and interviews also often suffer from reliability issues due to low response rates, the limited capacity of inter-

[1]The corpus and code used in the present chapter are available at https://orbilu.uni.lu/handle/10993/51524.

viewees or survey respondents to recall long-past events, or the loss of organisational memory associated with staff turnover (Holyoke, 2009). By contrast, responses to consultations are increasingly made publicly available online for long periods of time[2] and can be used to extract data that are not affected by potential post-hoc "corrections" of positions by surveyed or interviewed interest representatives (Ingold et al., 2019).

The quantitative text analysis deployed here proceeds in two steps. First, I map organisations' comments to the policy issues they address, using a topic classification algorithm. Second, I conduct a sentiment analysis of written comments to determine, for each case—i.e., each interest group's comments on each policy issue—where comments can be found, whether these comments express a preference for a lenient approach to bank capital requirements or, conversely, advocate the adoption of strict standards. In Section 5.1 of this chapter, I will detail the data used and methodological approach followed for the analysis of interest groups' preferences. I first detail how the corpus of written comments was constituted and demographic information attached to the collected documents. I then document the preprocessing steps applied to the texts ahead of the topic classification and sentiment analysis. I finally present in two additional subsections the techniques used for topic classification and for sentiment analysis. Section 5.2 then presents the results of these two analytic steps, including the number of lobbying cases identified and their distribution across policy issues, interest organisations, and economic sectors of the respondents, as well as the relative strength of pro- and anti-stringency lobbying coalitions on each policy issue. In Section 5.3, the resulting quantitative data about each interest group's comments on each policy issue are then calibrated to obtain cases' membership scores into the set of *successful lobbying* and additional candidate conditions of success are identified. A final section concludes the chapter (Section 5.4).

[2]Although the EC withdraws its consultations and associated documents after ten years, documents associated with BCBS consultations are available on the website of the BIS even for consultations that took place before the GFC.

5.1 Data and methods: Analysing consultation responses on bank capital requirements

5.1.1 Corpus and demographic information

The present analysis relies on a novel data set of 2788 responses made by private and public organisations as well as individuals to 52 public consultations by the BCBS and EC between 2008 and 2020 on the reform of the Basel framework and the CRD-CRR.[3] Tables 5.1 and 5.2 list, for each year, the BCBS and EC consultations for which responses are included in the corpus, with the number of submitted documents and the average, maximum and minimum length of each document.

Table 5.1: BCBS consultations for which responses are included in the corpus

Consultation	**Nb. of submissions**	**Av. length (sentences)**
2009		
Strengthening the resilience of the banking sector / International framework for liquidity risk measurement, standards and monitoring	237	218.40
2010		
Countercyclical buffer proposal	74	73.42
Proposal to ensure the loss absorbency of regulatory capital at the point of non-viability	72	115.75
Principles for the sound management of operational risk	18	68.78
Capitalisation of bank exposures to central counterparties	33	66.15
2011		
Global systemically important banks: assessment methodology and the additional loss absorbency requirement	43	99.70

[3]Co-signed comment letters have been duplicated so that each of the co-signatories have its own document in the corpus. This is necessary to obtain a measure of expressed preference for each of the co-signatories. When an organisation submitted several documents to a same consultation, e.g., one co-signed and one alone, these have been merged into a single document.
Responses to BCBS consultations were collected from the website of the BIS, which operates the secretariat of the Committee; responses to EC consultations were collected from the europa.eu portal. It should be noted that the EC withdraws information relative to public consultations after a period of ten years; the oldest of the EC consultation responses in the corpus are then not available online anymore but are available upon request.

Table 5.1: BCBS consultations for which responses are included in the corpus *(continued)*

Consultation	**Nb. of submissions**	**Av. length (sentences)**
Capitalisation of bank exposures to central counterparties	33	68.09
Application of own credit risk adjustments to derivatives	14	36.93
2012		
Fundamental review of the trading book	56	167.66
A framework for dealing with domestic systemically important banks	40	47.80
Margin requirements for non-centrally-cleared derivatives	114	166.87
Revisions to the Basel securitisation framework	58	214.00
2013		
Margin requirements for non-centrally cleared derivatives second consultative document	101	90.76
Recognising the cost of credit protection purchased	21	91.14
Supervisory framework for measuring and controlling large exposures	60	162.07
Revised Basel III leverage ratio framework and disclosure requirements	64	150.95
Capital treatment of bank exposures to central counterparties	26	92.31
The non-internal model method for capitalising counterparty credit risk exposures	30	130.93
Capital requirements for banks' equity investments in funds	8	95.62
Fundamental review of the trading book	49	172.71
Revisions to the securitisation framework	35	231.66
2014		
Basel III: the net stable funding ratio	53	206.11
Operational risk - Revisions to the simpler approaches	46	84.91
Fundamental review of the trading book: outstanding issues	28	172.00
Capital floors: The design of a framework based on standardised approaches	52	105.87
Revisions to the Standardised Approach for Credit Risk	131	150.11
2015		
Review of the Credit Valuation Adjustment Risk Framework	29	75.45
Haircut floors for non-centrally cleared securities financing transactions	12	43.67
TLAC holdings	27	81.30
Capital treatment for simple, transparent and comparable securitisations	35	148.34
Revisions to the Standardised Approach for Credit Risk	49	135.84
2016		
Standardised Measurement Approach for operational risk	81	73.68

Table 5.1: BCBS consultations for which responses are included in the corpus *(continued)*

Consultation	**Nb. of submissions**	**Av. length (sentences)**
Reducing variation in credit risk-weighted assets: constraints on the use of internal model approaches	83	154.24
Revisions to the Basel III leverage ratio framework	63	117.41
Regulatory treatment of accounting provisions - interim approach and transitional arrangements	36	93.42
2017		
Global systemically important banks - revised assessment framework	18	87.39
Simplified alternative to the standardised approach to market risk capital requirements	25	53.88
Capital treatment for simple, transparent and comparable short-term securitisations	15	114.00
The regulatory treatment of sovereign exposures	44	85.05
2018		
Revisions to the minimum capital requirements for market risk	45	160.09
Leverage ratio treatment of client cleared derivatives	21	59.90
2020		
BCBS20 Capital treatment of securitisations of non-performing loans	9	88.78

Table 5.2: EC consultations for which responses are included in the corpus

Consultation	Nb. of submissions	Av. length (sentences)
2008		
CRD Potential changes	132	89.11
Incentives in the originate-to-distribute business model	52	40.04
2009		
Potential further changes to the Capital Requirements Directive	64	93.03
2010		
Possible further changes to the Capital Requirements Directive	162	236.25
Countercyclical capital buffer	58	81.28
2011		
Capitalisation of banks exposures to central counterparties and treatment of incurred valuation adjustments	37	136.68
2016		
Further considerations for the implementation of the NSFR in Europe	40	124.97
Review of the EU Macro-prudential Policy Framework	75	96.39

Table 5.2: EC consultations for which responses are included in the corpus *(continued)*

Consultation	Nb. of submissions	Av. length (sentences)
2017		
Statutory prudential backstops addressing insufficient provisioning for newly originated loans that turn non-performing	31	60.29
2018		
Finalisation of Basel III	49	119.53

Each organisation was assigned a unique identifier, composed of the acronym or an abbreviated version of its name together with the three letter ISO code of its country.[4] The use of unique identifiers enables me to consider together responses made by an organisation despite potential changes in its name over the period. By contrast, when organisations merged over the period (e.g., UK Finance being the merger of several British financial trade associations), identifiers were kept separate to reflect the original independence of the organisations. The organisation counts presented in the following tables are based on those unique identifiers, not on organisation names. A complete list of organisations and their corresponding identifiers is presented in Appendix B.1.

Demographic information about the respondents was attached to corpus documents. Indication of geographic location was assigned based on the country where the organisation is headquartered—for firms as well as national-level organisations and institutions—or where the individual lives/works (based on the information communicated in their responses). For supranational-level trade associations, the information retained is the geographic area of activity, as stated either in organisations' responses or on their website (e.g., the European Banking Federation is labelled as "European", the Institute of International Finance is labelled as "international"). Table 5.3 lists the countries and geographical areas of respondents, with,

[4] "EUR" for European, "INT" for international, "LATAM" for Latin American, and "ASIA" for Asian organisations. For individuals whose geographical location could not be determined, the identifier ends with "XXX".

for each area, the number of organisations and the number of submitted documents.

Beyond the geographical location, and keeping with my definition of *European* interest groups as interest groups registered in the EU's Transparency Register, I searched the Register for the names of the organisations included in my corpus. The search was conducted on all publicly available compilations of the register, from the earliest version still available online (June 2016) to the latest version compiled at the time of the analysis (June 2021)[5]. Table 5.3 details for each area the number of registered respondents and the number of responses from registered respondents.

Table 5.3: Distribution of responding organisations and submitted responses per country.

Country	**Nb. of organisations**		**Nb. of submissions**	
	Total	**EU-registered**	**Total**	**EU-registered**
Supranational				
European Union	58	*46*	292	*271*
International	34	*24*	269	*223*
Asia	3	*1*	4	*2*
Latin America	1	–	5	–
National - Americas				
United States	144	*51*	370	*205*
Canada	19	*2*	68	*2*
Brazil	1	–	2	–
Argentina	1	–	1	–
Bermuda	1	–	1	–
Colombia	1	–	1	–
Peru	1	–	1	–
National - Asia				
Japan	25	*4*	93	*15*
China	12	–	28	–
South Korea	9	–	21	–
India	7	–	17	–
Singapore	6	*1*	26	*4*
Thailand	5	–	16	–
Russia	4	–	13	–
Hong Kong SAR China	1	–	30	–
Pakistan	1	–	2	–
Bangladesh	1	–	1	–
Malaysia	1	–	1	–
Taiwan	1	–	1	–
National - Europe				
United Kingdom	96	*42*	297	*211*
Germany	66	*38*	239	*185*
Austria	43	*7*	110	*45*

[5]The past versions of the Register were downloaded from https://data.europa.eu/data/datasets/transparency-register?locale=en on August 30, 2021

Table 5.3: Distribution of responding organisations and submitted responses per country. *(continued)*

Country	Nb. of organisations		Nb. of submissions	
	Total	**EU-registered**	**Total**	**EU-registered**
France	39	*23*	147	*115*
Netherlands	23	*15*	72	*58*
Italy	20	*12*	76	*64*
Spain	16	*8*	45	*31*
Denmark	13	*5*	68	*31*
Sweden	13	*6*	47	*26*
Switzerland	11	*3*	44	*36*
Belgium	11	*6*	23	*18*
Luxembourg	8	*4*	12	*8*
Ireland	7	–	11	–
Poland	6	*1*	36	*16*
Finland	6	*2*	35	*9*
Portugal	6	*1*	7	*1*
Norway	5	*1*	40	*6*
Hungary	5	*1*	20	*2*
Czechia	5	*2*	18	*6*
Estonia	3	–	8	–
Greece	3	–	4	–
Bulgaria	2	–	4	–
Slovakia	2	–	4	–
Slovenia	2	–	3	–
Cyprus	2	–	2	–
Malta	2	–	2	–
Isle of Man	1	–	1	–
Jersey	1	–	1	–
Latvia	1	–	1	–
Romania	1	–	1	–
National - Rest of the world				
Australia	14	*1*	48	*3*
South Africa	8	*2*	33	*14*
Bahrain	5	–	6	–
Turkey	3	–	3	–
Lebanon	2	–	2	–
Saudi Arabia	1	–	17	–
United Arab Emirates	1	–	7	–
New Zealand	1	–	2	–
Egypt	1	–	1	–
Kuwait	1	–	1	–
NA				
NA	24	–	27	–

I then manually coded, for each respondent, the type of the actor and its sector of activity. Actor types consider the organisations first in terms of their organisational structures: a first level of coding classifies respondents as “associations”, “firms”, “individuals” and “institutions”. Each of these categories is then subdivided to

Table 5.4: Distribution of responding organisations and submitted responses per type of actor.

Type of actor	Nb. of organisations		Nb. of submissions	
	Total	**EU-registered**	**Total**	**EU-registered**
Associations				
Public interest organisation	6	*3*	14	*7*
Special interest organisation	255	*150*	1389	*967*
Supervisor	1	–	6	–
Trade union	3	*3*	6	*6*
Firms				
Firm	352	*144*	906	*606*
Individuals				
Academic	38	–	45	–
Private citizen	47	–	60	–
Institutions				
Academic institution	7	*1*	13	*1*
Central bank	31	–	111	–
Government	27	–	90	–
International organisation	3	–	8	–
Other	2	–	4	–
Public sector financial institution	16	*8*	34	*20*
Supervisor	29	–	102	–

refine the classification.[6] Table 5.4 presents the count of responding organisations and submissions for each of these categories.

Finally, using the self-introduction provided by respondents in the documents themselves and/or surveying their websites, I coded respondents' sector of activity. For this coding, I used as coding book a modified version of the GICS classification, established by S&P Dow Jones and MSCI (MSCI, n.d.).

As can be seen in Table 5.5, the corpus is predominantly composed of responses from firms and business associations. This seems to confirm in this particular case the "business bias" found by a number of studies in online public consultations, notably in the EU context (Rasmussen & Carroll, 2014). Beyond business in general, we can see that responses from financial interest groups constitute the lion's share of the corpus (57.6% of responding organisations and 72.8% of submitted responses).

[6]More information about the process used to code demographic information is presented in Appendix B.2.

Table 5.5: Distribution of responding organisations and submitted responses per sector of activity.

Sector	Nb. of organisations		Nb. of submissions	
	Total	**EU-registered**	**Total**	**EU-registered**
Financials	471	*217*	2031	*1394*
Public sector	112	*11*	377	*42*
Other non-business	102	*7*	139	*14*
Industrials	52	*25*	87	*52*
Other business	21	*14*	53	*40*
Real estate	21	*10*	35	*19*
Consumer discretionary	17	*15*	33	*31*
Information technology	7	*2*	11	*3*
Utilities	6	*4*	7	*5*
Consumer staples	4	*1*	6	*2*
Materials	2	*1*	6	*2*
Communication services	1	*1*	1	*1*
Energy	1	*1*	2	*2*

Table 5.6 details the number of responding organisations from the financial sector and the number of comment letters they submitted. This "over-crowding" of financial responses has important consequences for the analysis of the corpus, in particular for the extraction of preference indicators (see below Section 5.1.4).

5.1.2 Preprocessing: Preparing the texts for analysis

Preprocessing is a crucial step for quantitative text analysis techniques and can heavily influence the results of topic classification and sentiment analysis tasks (Denny & Spirling, 2018). The main objective of preprocessing is removing *noise* from the corpus. Noise, in the context of quantitative text analysis, generally refers to text segments—sentences, sentence fragments, multi- or uni-character tokens[7] that negatively impact the performance of classifiers and scaling algorithms. After transforming the downloaded documents—usually in *.pdf* format—into a machine-readable *.txt* format, these were split into sentences. At the sentence level, I eliminated from the corpus sentences that could be identified as boilerplate language (e.g., courtesy

[7]The term *token* in quantitative text analysis applications refers to a group of characters separated from other groups by a blank space or punctuation mark. Tokens in a corpus include all the words, but also numbers and any group of symbols.

Table 5.6: Responding organisations and submitted responses from the financial sector.

Sub-industry	Nb. of organisations		Nb. of submissions	
	Total	**EU-registered**	**Total**	**EU-registered**
Banks				
Diversified banks	130	*54*	936	*607*
Regional banks	72	*15*	178	*94*
Mortgage finance	9	*4*	50	*42*
Diversified financials				
Asset management & custody banks	68	*40*	149	*101*
Financial exchanges & data	53	*28*	175	*127*
Investment banking & brokerage	40	*21*	176	*142*
Specialised finance	20	*11*	63	*51*
Securitisation	19	*9*	52	*22*
Diversified capital markets	11	*8*	88	*79*
Multi-sector holdings	11	*9*	87	*80*
Consumer finance	8	*4*	21	*14*
Other diversified financial services	1	–	1	–
Insurance				
Multi-line insurance	12	*9*	31	*28*
Property & casualty insurance	8	*2*	11	*3*
Life & health insurance	5	*1*	9	*2*
Insurance brokers	2	*1*	2	*1*
Reinsurance	2	*1*	2	*1*

formulas) or segments of a presentation of the respondents. The splitting into sentences also produced "noisy" sentence fragments (e.g., section numbers) which were also removed.[8] In total, 7 706 of the 389 449 sentences are identified as noisy and removed from the corpus to conduct both text analysis tasks. I also annotated in the data set those sentences that are part of documents submitted as responses but actually are questions copied from the BCBS or EC consultation documents. These questions were kept in the corpus for topic classification—where they do give additional information about the topic addressed—but removed for sentiment analysis, so that words used by the consulting organisation would not affect the sentiment

[8]I labelled each sentence as "noisy" or "not noisy", using for that the *diagnosys* function of the *LSX* package in R (Watanabe, 2021b), which assigns to each sentence a score of noisiness based on the ratio of numbers, punctuation marks and other symbols to the total length of the sentence. All the sentences longer than three tokens that were assigned noisiness scores above 0.8 were either parts of reference lists or footnotes, tables of contents or statistical tables and graphs. Among the "sentences" of three or less tokens, I manually sorted those segments that are informative (either in terms of topic addressed or opinion expressed) and assigned the "noisy" label to all the others (for the most part, those were section numbers and question numbers separated from the text by a full stop, signatures and titles of respondents, etc.).

scores obtained for the responding organisation's positions.

Next, I divided the sentences into tokens—that is, into their individual groups of characters—corrected most common typos and harmonised the different spellings of particular words or expressions that are relevant for the analysis. I then searched for all multi-word expressions of two to four words that occur more than ten times in the corpus through contiguous co-occurrence analysis and manually selected those expressions that are relevant for the analysis—either financial multi-word expressions, e.g., "leverage ratio" or "non-centrally-cleared otc derivatives" or groups of words expressing an opinion (e.g., "too restrictive", "overly conservative", "excessive risk-taking")—. I further added longer expressions that may be expected to discriminate between topics (e.g., "denominator of the leverage ratio" clearly indicates a discussion of the leverage ratio framework). In total, 11 680 multi-word expressions are compounded into single tokens. I finally removed all remaining symbols and numbers. All these successive operations were conducted using the *quanteda* package for R (Benoit et al., 2018).

5.1.3 Topic classification: Mapping text segments to policy issues

The first analytic step in order to extract a measure of lobbying success from the corpus is to map the comments submitted by each interest group to the policy issues those comments address within the area of bank capital requirements. Several methods have been developed to conduct such *topic classification* tasks. Dictionary-based topic classifications identify the topic of text segments based on counts of keywords previously assigned to predefined categories. They are usually considered as a robust, theory-driven method to classify texts into topics because keywords are manually selected by researchers who can thereby ensure the validity of the association between selected words and topic definition. However, developing a dictionary for quantitative text analysis can be an overwhelming task: after carefully defining the topics themselves, it is potentially thousands of words that need to be

manually collected and assigned to the relevant category, a task that humans are often found to perform very poorly (King et al., 2017). Pre-constructed dictionaries may save a lot time and effort, but is likely to produce inaccurate classifications due to the strong context dependency of keyword dictionaries (Grimmer & Stewart, 2013). For instance, the categories in the Lexicoder Topic Dictionary (Albugh et al., 2013) were developed based on the Comparative Agenda Project's coding scheme and may be wholly invalid to identify topics in texts of a different nature to that of the texts collected for the project.

Unsupervised topic models constitute the second main type of topic classification methods. Latent Dirichlet Allocation (Blei et al., 2003), correlated topic models (Blei & Lafferty, 2007), Bayesian hierarchical topic models (Grimmer, 2010) or structural topic models (Roberts et al., 2016) are some of the most prominent of such unsupervised approaches, which determine topics based on the co-occurrence patterns of words within a corpus. These methods are very efficient in terms of time and effort since the only input to be provided usually is the number of topics to be identified; a cluster of frequently co-occurring words is then considered to constitute a topic. A known issue with such approaches is that the topics they identify, being data-driven instead of theory-driven, may be difficult to interpret for researchers and to reconcile with theory-defined categories (for an illustration of this issue, see Watanabe & Zhou, 2020, pp. 3–4).

An array of semi-supervised classification techniques have been developed that seek to refine unsupervised approaches by exploiting either small sets of labelled documents or external data to classify a larger set of unlabelled documents (Blum & Mitchell, 1998; Zelikovitz & Hirsh, 2000). In the past decade, semi-supervised models based on the provision of seed words as human inputs have been developed, which exploits researchers prior knowledge of the language, such as seeded LDA (Lu et al., 2011), or Newsmap (Watanabe, 2018b), which I use here.

The seeded semi-supervised Newsmap algorithm, developed by Watanabe (2018b)

and implemented in R's *newsmap* package (Watanabe, 2018a), is a variant of a naive Bayes classifier—originally developed for geographical news classification but since implemented for topic classification (Watanabe & Zhou, 2020). It takes as human input a limited set of seed words assigned to predefined topics, instead of a full list of all possible keywords. As Watanabe explains:

> Newsmap calculates association scores of words solely based on co-occurrences of words, […]. Firstly, the system searches individual documents for keywords in the seed dictionary (simple keyword matching) and gives them class labels [topics]; secondly, the system aggregates the frequency of words according to the class labels to create contingency tables. (Watanabe, 2018b, p. 6)

Based on these contingency tables, a score of association between the word and each class label is calculated. Then "Newsmap predicts […][topics] most strongly associated with documents in the classification stage simply by finding the […][topic] that yields the largest total score […] weighted by the normalized frequency of [the] word in documents." (Watanabe, 2018b, p. 6)

Here, the predefined topics are the twenty-nine policy issues identified in the previous chapter. I constructed a seed word dictionary by attaching to each category a set of keywords in the form of regular expressions.[9] The seed words were selected primarily from words used in the Basel III framework and the CRD-CRR sections corresponding to each policy issue. Then the seed word sets for each category were augmented with additional words and expressions frequently found in consultation responses associated with the initial seed words in order to improve classifier performance. The selected seed words for each policy issue are presented

[9]Regular expressions are text strings that correspond to a search pattern, combining regular character with a set of special characters to refine the search. The use of regular expressions for the dictionary enables me to match several closely related words with a single expression, e.g. different spelling of a same expression, or tokens where the target expression is combined with another word. Each regular expression in the dictionary was tested individually to ensure that the returned tokens indeed correspond to the category.

in Table C.1 in Appendix C. Contrarily to Watanabe and Zhou's study, which only provided a limited number of seed words to classify United Nation speeches, for the present study I use a great number of seed words: in total, my dictionary includes 1 148 entries. This was necessary to increase the performance of the classifier: many words and expressions in the corpus are indeed used across several or even all of the policy issues, either because they are widely-used financial terms (think of words like "derivatives" or "risk-weighted assets") or because two policy issues may affect a same activity, leading respondents to use similar terms in their comments on both issues. Additional seed words or longer multi-word expressions then constitute further human input for the classifier, increasing the number of sentences that can be used to train the model and calculate scores of association between surrounding words and topics.

After fitting the initial Newsmap model and predicting the topic of each sentence, a contextual smoothing is applied—using a kernel smoother on the resulting matrix of predicted scores—in order to reclassify sentences taking into account the topics of the surrounding sentences.[10] Taking into account the context in which sentences are embedded permits addressing two issues. Firstly, after the initial classification, some sentences may still lack any clear indicator of topic but are likely to address the same topic as the sentences immediately preceding and immediately following. Secondly, respondents may include in their comments on a particular issue a reference to another issue, which is to be expected here considering that all issues pertain to a same policy area; in that case as well, taking into consideration the surrounding context partially reduces the risk of misclassification.

The performance of the Newsmap classifier for identifying the policy issue addressed by each sentence was assessed against a manual coding of policy issues for a subset of the corpus. The manual coding was done at the sentence level for the consultation documents issued by the BCBS, hence any issue on which the Committee

[10]The contextual smoothing used here extends to six sentences before and six sentences after the target sentence.

made at least one comment or question in one of its consultation documents has at least one sentence manually coded in the corpus. Furthermore, responses to consultations were coded at the document level based on the topic of the consultation they were submitted to whenever the consultation only addressed one particular policy issue—e.g., all the responses submitted to the 2013 consultation on the leverage ratio were coded "IS25", the issue ID for the leverage ratio (BCBS, 2013i). Table C.1 shows performance statistics of the classifier for twenty-eight out of the twenty-nine identified policy issues.[11]

Precision, *recall* and *F1* are three classic measures to assess the performance of classifiers in machine learning applications, on a scale of 0 (low performance) to 1 (perfect classification). *Precision* represents the proportion of true positives (sentences where the topic is correctly identified) among all the sentences identified as positives by the model, that is, true positives plus false positives (sentences incorrectly assigned to the topic). *Recall* for a category measures the ratio of true positives to the sum of true positives plus false negatives (sentences that were manually coded with that category but were not recognised by the classifier). Precision and recall are complementary: a low precision means that the model assigns the label to too many sentences; a low recall implies that the model misses many sentences. *F1* is the harmonic mean of precision and recall. A low F1 score for a given category means that the classifier is underperforming for either precision or recall, or both. The overall performance of the classifier is measured by computing micro-precision, micro-recall and micro-F1 for the entire corpus, which are presented in the last row of the table.

The numbers in Table 5.7 generally reflect a good performance of the classifier—F1 is above 0.8 for 19 out of 28 topics, and even above 0.9 for 11 of them— with a number of exceptions, which deserves explaining. The issues on which the performance indicators are low are, first, issues for which there are fewer coded sentences

[11]Since there was no consultation on IS18, there was no manually coded sentence to assess the performance of the classifier on that issue.

Table 5.7: Topic classification performance by policy issue.

Policy issue (ID)	**Nb. of coded sentences**	**Precision**	**Recall**	**F1 score**
IS01	8 463	0.95	0.76	0.84
IS02	2 962	0.89	0.93	0.91
IS03	5 639	0.92	0.81	0.86
IS04	10 725	0.94	0.97	0.95
IS05	2 274	0.99	0.92	0.95
IS06	1 057	0.57	0.87	0.69
IS07	165	1.00	0.19	0.32
IS08	2 595	0.72	0.90	0.80
IS09	204	0.46	0.91	0.61
IS10	3 526	0.98	0.95	0.97
IS11	31 587	0.96	0.97	0.96
IS12	4 338	0.95	0.87	0.91
IS13	373	0.39	0.79	0.52
IS14	7 361	0.71	0.98	0.82
IS15	13	–	0.00	–
IS16	651	1.00	0.09	0.17
IS17	917	1.00	0.24	0.38
IS19	464	1.00	0.81	0.90
IS20	47	–	0.00	–
IS21	3 052	0.94	0.89	0.92
IS22	1 801	0.83	0.95	0.89
IS23	2 639	0.93	0.93	0.93
IS24	11 334	0.89	1.00	0.94
IS25	11 286	0.94	0.76	0.84
IS26	246	0.12	0.97	0.22
IS27	16 197	0.96	0.94	0.95
IS28	10 156	0.90	0.85	0.87
IS29	28 331	0.98	0.95	0.97
Overall performance	–	**0.91**	**0.91**	**0.91**

in the corpus—compare for instance the 13 sentences for IS15 (CCR in the trading book) with the 28 331 sentences for IS29—leading to any single misclassification having a greater impact on statistical performance indicators. Furthermore, the contextual smoothing, although absolutely necessary, may lead to situations where smaller issues are being "canibalised" by bigger issues surrounding them in the texts. IS07 or IS15 are telling examples of this: the former was only briefly addressed in the 2009 BCBS consultation which dealt with several issues, including the definition of capital, CCR, the leverage ratio, etc. (BCBS, 2009c), and the latter was the object of a very short discussion in the fundamental review of the trading book (FRTB) consultations that also dealt with, *inter alia*, the different approaches to market risk. Because the contextual smoothing takes into account the topics identified for the surrounding sentences, an issue that is only addressed in a couple of sentences in a broader document is likely to see proportionally more misclassified sentences than an issue dealt with at length. Disparities in numbers of coded sentences are unavoidable—there is no reason to assume that each issue would attract a same amount of comments even if all sentences were coded—but are exacerbated by the process used for manual coding: when an issue was never consulted on in isolation, the only coded sentences are those included in BCBS consultative documents.

Second, the performance of the classifier appears to be significantly impacted by the degree of functional interdependence between two issues: where one part of the framework borrows from another part, then comments on that part are likely to use terms associated with the other part, possibly misleading the classifier. Examples include the IRB for credit risk (IS09), parts of which serve as input for the securitisation and CCR frameworks (IS11 and IS13), or the standardised approach for CCR (IS12), which plays an important role in the leverage ratio (IS25) and large exposures (IS28) calculations.

The poor performance on classifying sentences on minimum haircuts for SFTs (IS16) and equity investments in funds (IS17) results in very few isolated sentences being correctly identified, and, consequently, cases of actual lobbying disappearing

from the data. However, since these issues were the object of isolated, single-topic consultations, all interest group responses were actually manually coded as IS16 and IS17 respectively (which is not the case of the other policy issues on which classifier performance is low), meaning that for responses on those two issues, a more reliable indicator of topic does exist. For IS16 and IS17 I then replace the likely inaccurate automated topic classification with the manual coding. Similarly, there is significant confusion between leverage ratio and exposures to CCPs for the responses to the 2018 consultation on the leverage ratio treatment of client cleared derivatives (approximately two thirds of the sentences were inaccurately classified). Here again, since the actual topic of the consultation was unambiguously pre-identified, I suggest to use the manual coding of these documents instead of the Newsmap classification.

Having obtained for each sentence an indication of the policy issue it most likely addresses, I can then assemble the sentences submitted by each particular respondent on each policy issue to determine cases of lobbying. Comments (at least one sentence) were found in 3 907 interest group-policy issue pairs only out the 23 693 theoretically possible cases. In many of the identified cases of lobbying, however, the comments are very short and often result from misclassification of topic. As I could appreciate when manually coding a subset of comments to validate the results of sentiment analysis (see next section), where less than 15 sentences are identified for an interest group-policy issue pair or where the sentences represent less than 2% of the organisation's total comments, these are as likely to be isolated sentences erroneously detached from the organisation's comment on another issue (either because they do not include any marker and the topic could not be inferred from context, or because they use a word that is strongly associated with another topic).

In order to limit the risk of measurement error arising from this particular source of randomness, I chose to disregard all cases for which less than 15 sentences are identified, or where the identified sentences represent less than 2% of the organisation's total number of sentences, reducing the number of cases to 2 438. This exclusion of the "shortest" cases furthermore makes sense from a conceptual point

of view: we can consider that where an organisation submitted less than 15 sentences or dedicated less than 2% of all its comments on Basel III to that issue, it is unlikely that the organisation was *actively* lobbying on that issue.

5.1.4 Sentiment analysis: Extracting the preferences expressed by interest groups

Having mapped each sentence in the corpus to the policy issue it most likely addresses, I need to extract from these sentences their author's preference regarding the degree of stringency of policy outputs on the addressed issue.

Sentiment analysis—also known as "opinion mining"—of textual data in general has been booming since the early 2000s, driven by the increasing amount of textual data available, be these social media posts, political party manifestos, or interest group position papers. Scholars have put forward a wide array of techniques to conduct such sentiment analysis tasks. Manual coding remains, to date, the gold standard for sentiment analysis but requires time and extensive resources (van Atteveldt et al., 2021). Several pre-constructed dictionaries, composed of sentiment-labelled keywords, have been developed since the late 1990s to generate measures of the sentiments expressed by text authors. However, just as for topic classification, pre-constructed dictionaries are usually context dependent. The Linguistic Inquiry and Word Count (LIWC) dictionary was thus developed in the field of psychological studies (Pennebaker & Francis, 1996; Tausczik & Pennebaker, 2010), the Bing lexicon is originally intended for analysing opinions in customer reviews (Hu & Liu, 2004), the Lexicoder Sentiment Dictionary (LSD) was developed for coding news articles (Young & Soroka, 2012), and Nielsen (2011) developed the AFINN dictionary for mining microblog posts (e.g., tweets). Using one of these for the analysis of a particular corpus of political texts, with a highly specialised vocabulary, and to extract the location of authors on a very specific continuum—like I set out to do in the present study—would most assuredly result in important measurement errors.

A variety of machine-learning algorithms have been developed as an alternative, which may offer efficient solutions to extract opinions from specialised vocabularies. Machine learning models for scaling documents on one or several dimensions generally rely on the distribution of words across the corpus, either considering words in isolation and their frequency within the document ("bag-of-words" approaches) or analysing co-occurrence patterns between words across a corpus ("word embeddings"). Bag-of-words models such as Laver et al.'s (2003) *Wordscore* algorithm or Slapin and Proksch's (2008) *Wordfish* have thus been developed to locate political party manifestos on a left-right scale of ideology and have also been applied to interest groups' position papers (Klüver, 2009, 2013b). The main difference between the two models rests in the input they need to classify texts. *Wordscore* needs the researcher to manually identify a small set of documents located at each extreme of the dimension of interest in order to extract the words statistically associated with each extreme and scale the rest of the corpus based on the detection of these words in unlabelled documents. By contrast, *Wordfish* is a fully unsupervised model which automatically infers from the statistical distribution of words the most prominent scaling dimension. A similar modelling technique, correspondence analysis (Greenacre, 1984), has also been suggested as a potential technique to automatically scale interest group documents on several dimensions of conflict (Klüver, 2015). Scholars have come to question the validity of the resulting measures for both party manifestos and interest group papers (Bruinsma & Gemenis, 2019; Bunea & Ibenskas, 2015).

For the task at hand here, the use of the abovementioned techniques would pose a number of challenges. First, in order to use *Wordscores* or a similar supervised technique, one would need to have two sets of pre-labelled documents that can be considered with certainty as representing respectively the most pro-stringency and the most anti-stringency positions expressed in the corpus. While prior knowledge would enable to make educated guesses about the likely position of most respondents in the corpus, this would be insufficient for a reliable classification. Second,

unsupervised sentiment analysis techniques, like *Wordfish* or correspondence analysis, suffer from the same default affecting unsupervised topic models: the scaling dimensions they produce, being fully data-driven, are often difficult to interpret and reconcile with theory (Watanabe, 2021a, p. 85).

Semi-supervised scaling techniques have emerged as a promising way to scale large corpora on theory-driven dimensions (Rice & Zorn, 2021; Turney & Littman, 2003; Watanabe, 2021a). These rely on word embeddings coupled with small sets of seed words provided by the researcher to define the poles of the continuum on which documents should be scaled. Word embeddings are used to identify words used in a context similar to that of the seed words and are assigned weights based on this semantic proximity. These "dictionary expansion" algorithms show promising results while requiring minimal supervision. However, attempts to apply two of these techniques to the corpus that I analyse here have delivered unsatisfactory results, which I believe can be attributed to the particular composition of the corpus and the language used. Indeed, the dominance of financial organisations' responses in the corpus, coupled with the highly technical nature of the language leads the dictionary expansion part of the model to weight as strongly pro-stringency or strongly anti-stringency a large number of technical words and expressions that actually do not indicate a preference.

Considering the pros and cons of each method in the context of the present study, and the particular features of my corpus, I chose to develop a human-coded dictionary specifically for this project, whereby I manually select features from the corpus and assign them into one of two categories: "pro-stringency" and "anti-stringency". To build the dictionary, I proceed as follows. I first extract the list of all the unique words present in the corpus. While the human ability to *recall* keywords when asked to list all words related to a given concept is known to be limited, we humans perform well when asked to *recognize* these keywords from a list (King et al., 2017). Relying on this human strength for recognition and a knowledge of the language used by interest groups and policy-makers in debates about banking

regulation through personal experience and a review of the literature the result of which was presented in Chapter 3, I manually select those words and expressions that appeared to reveal any preference.

3 300 candidate words and expressions are retained through this first selection; they are not yet assigned any label. In order to determine whether a word or expression is indicative of a preference for a more stringent regulatory framework, a less stringent one, or is actually not indicative of a preference, I examine the context in which each word is used within the corpus in the form of a ten-word window before and after the word itself. Based on this contextual information, words are assigned the "anti-stringency" label when the contexts in which they are used reveal a preference for a regulatory framework that limits the constraints imposed on banks' conduct of business and cautions against the likely effects increased capital and liquidity requirements may have on banking institutions themselves, the broader financial sector and the economy as a whole in terms of limited economic growth, etc. Words predominantly used in contexts that reveal authors' preference for a tighter regulatory framework—one that requires banks to constitute higher margins of safety against potential losses, with the ultimate goal of reducing the likelihood of banking and financial crises and the costs they impose on non-financial actors—were assigned the "pro-stringency" label. Words for which the contextual information does not allow a firm conclusion as to their valence are rejected. Among these words are words that were erroneously selected in the first place and were actually technical words not expressing any opinion and words the valence of which cannot be ascertained with a satisfactory degree of certainty because it is too context dependent, then the word or expression in itself is not a sufficient market of preference (e.g., "negative impacts").

Examining the context around words in the corpus, I further identified additional preference-revealing expressions, which I added to the dictionary.[12] The resulting

[12]These expressions did not appear in the original list of words and expressions because they were not compounded in the text preprocessing phase.

dictionary includes 636 words and expressions labelled as pro-stringency and 1868 labelled as anti-stringency. The two main categories—"pro-stringency" and "anti-stringency"—are then subdivided into three sub-categories corresponding to the intensity of the preference conveyed by each word or expression: "strong", "medium" or "weak". Words and expressions are assigned to sub-categories based on prior knowledge of the vocabulary used in interest group documents. The list of words for each category is presented in Table C.2 in Appendix C.

The opinion polarity of each document—that is, each organisation's sentences addressing a given policy issue—is then calculated as follows. First, the occurrences of keywords for each of the six dictionary categories are counted. Second, these counts are weighted to reflect differences in intensity: "strong" keywords are weighted 5, "medium" keywords are weighted 2, and "weak" keywords are weighted 1. Third, I calculate the sum of weighted counts for pro-stringency keywords and the sum for anti-stringency keywords. Finally, the weighted sum of anti-stringency keywords is subtracted from the weighted sum of pro-stringency keywords.

This results in an indication of the predominant sentiment in the document: where a preference for tighter regulation dominates the organisation's comments, the "pro-stringency" keywords outweigh the "anti-stringency" keywords and the polarity is positive. Conversely, an anti-stringency stance will result in a greater count of "anti-stringency" keywords, yielding a negative polarity. Cases for which the polarity is zero should then be interpreted as neutral in terms of their preference regarding the stringency of the framework: either they did not contain any preference-revealing word or expression, or their preferences for specific items within the policy issue balance each other, resulting in an overall neutral preference.

This raw indicator is then divided by the logarithm of the total number of words in the document in order to partially correct the effect of varying document length on polarity estimates. Indeed, it is likely that in a longer answer I will find more occurrences of either pro-stringency or anti-stringency words than in shorter ones

simply because the author of a longer answer develops its position in more details than the author of a short one. However, short documents can also express very strong positions for or against stringent standards in only a few words. Taking simple counts results in a measure that is systematically further away from 0 for longer documents than for shorter ones and potentially underestimates the intensity of positions expressed in shorter documents. Conversely, normalising polarities by the total word count unduly compresses the scores of very long documents, which include long segments of technical sentences to explain and illustrate their positions. While these segments are not identified in the dictionary analysis as expressing a preference, their are not neutral either: they develop a technical argument in support of a preference. Using the logarithmic function to modulate document word counts in the formula offers a trade-off: the logarithm of the word count for a short document is smaller than for a long document, providing a degree of correction for size, but its does not increase proportionally with the word count and indeed its marginal increase becomes asymptotic to zero passed a certain level. This slower increase then constitutes an acknowledgement of the non-neutrality of words surrounding labelled words in a document.

The approach is validated by comparing the obtained results with a manual coding of comments for a random sample of two hundred and sixty-seven cases. Documents were classified in parallel by two trained coders into one of five categories corresponding to the degree of support or opposition for more stringent standards expressed by the interest group (Krippendorf's alpha measure of intercorder agreement: 0.781). The five categories were the following: "pro-stringency (strongly)", "pro-stringency (moderately)", "neutral", "anti-stringency (moderately)", "anti-stringency (strongly)"; Table C.3 in Appendix C presents coding instructions. Cases were coders disagreed were treated through a "negotiated agreement" approach to produce the final manual coding (Campbell et al., 2013, p. 305).

The accuracy of the automated sentiment analysis against this manual coding is first assessed in a binary manner: the analysis is deemed accurate whenever the

numerical values obtained from automated and manual coding have the same sign. Measured in this way, the results of the automated coding are accurate in 86.89% of cases, leaving 35 cases inaccurately coded. However, the manual coding revealed that the shortest of documents (those including less than 15 sentences or that represent less than 2% of an organisation's total comments) are usually the result of errors in topic classification and are irrelevant in terms of assessing preferences. Once these short documents are withdrawn, the manually coded sample is reduced to 201 documents and accuracy increases to 92.54%, with only 15 cases inaccurately classified. The misclassified cases appear not to be representative of the overall population. First, they are generally shorter than the average of the coded documents (1 177 tokens and 39.9 sentences vs. 4 036 tokens and 136 sentences). Second, the set of misclassified cases is dominated by actors that are not members of the banking sector: it includes only two representatives of the banking sector and three representatives of the private non-bank financial sector but three governments, two central banks, one multilateral development bank, one non-financial business representative, three representatives from academia, and one private citizen. The short length and particular nature make such cases particularly difficult to accurately classify through automated sentiment analysis because they are likely to use particular preference-revealing expressions that did not appear in the construction of the dictionary.

The validity of the computed polarity scores is then assessed against the five-value scale of the manual coding. Figure 5.1 on page 156 depicts the distribution of polarities for each of the five values of manual coding. We can see in the graph that the computed polarity imperfectly matches the manually coded degrees of intensity: even though the two measures globally show a positive correlation, there are significant overlaps between the ranges of computed polarities between documents coded as expressing "moderate" and "strong" preferences. On the anti-stringency side (left of the graph) we can see that most documents coded as strongly anti-stringency receive a polarity with a much greater absolute value than documents coded as moderately

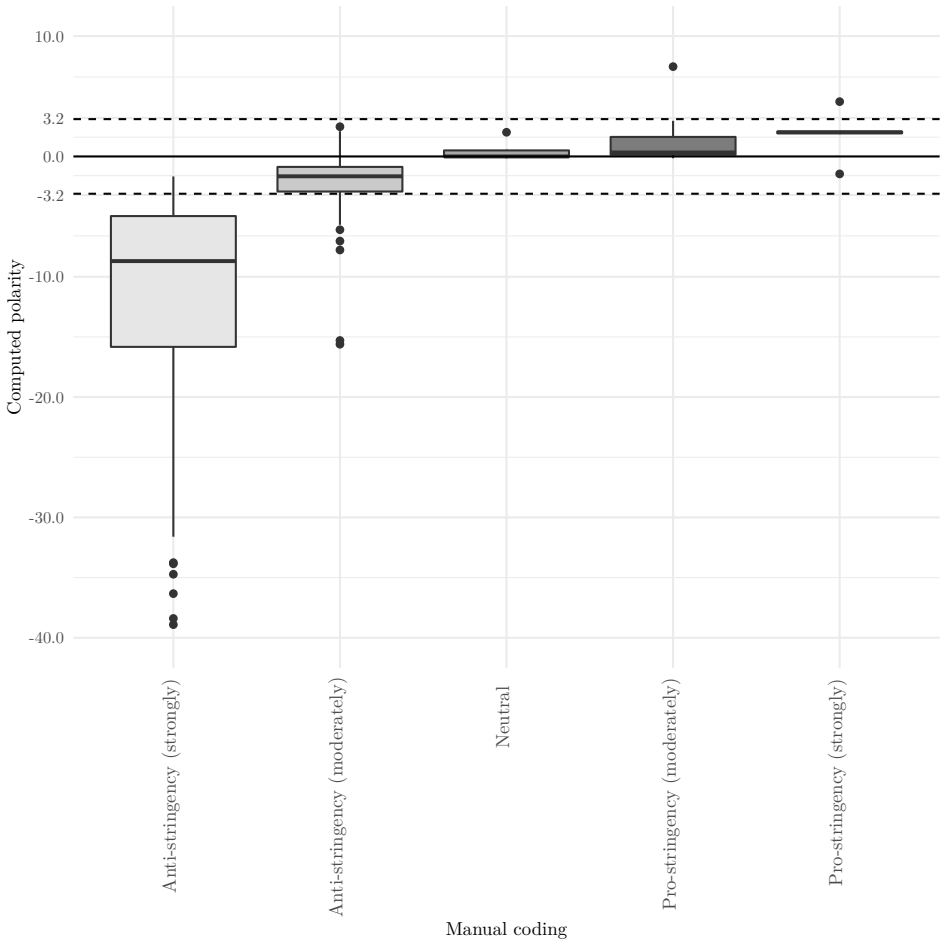

Figure 5.1: Computed polarities of manually coded cases

anti-stringency. However, there is a significant degree of overlap: the most "moderate" of the strongly anti-stringency documents are found to have polarities within the interquartile range for moderately anti-stringency. On the pro-stringency side (right of the graph), the differentiation of moderately and strongly pro-stringency positions, in terms of computed polarity is even less clear. Except for two outliers (one of which actually has the wrong polarity), all documents coded as "strongly pro-stringency" receive polarities that are only slightly above the upper bound of the interquartile range for those coded as "moderately pro-stringency". If we try to establish a tentative threshold to distinguish strong preferences from moderate ones, an absolute value of 3.1 would appear as the best compromise, minimising the misclassification with regard to the manual coding: only 9 of the 108 documents

coded as strongly anti-stringency received a polarity with an absolute value below that level, while 17 out of the 85 documents coded as moderate received a polarity either above 3.1 or below -3.1. Testing alternative values from 2.5 to 3.5 by increments of 0.1, I find that the 3.1 threshold indeed offers the best compromise. In view of the above, it would be hazardous to consider the computed polarity as a reliable indicator of the intensity of *individual* expressed preferences, but information about the intensity of preferences may still be used in aggregates where the impact of individual measurement errors is reduced; for instance to assess the *average* intensity of the preferences expressed by a subset of the population of interest groups.

5.2 Results of the quantitative text analysis

The first objective of the quantitative text analysis was to identify, among all theoretically possible pairs of interest group and policy issue, those for which the interest group articulated an interest in the form of a significant amount of comments conveyed to the BCBS and/or EC. The topic classification mapped 349 068 sentences to the twenty-nine policy issues identified as components of the bank capital requirements framework, finding 3 907 interest group-policy issue pairs for which at least one sentence could be identified and 19 786 to which no sentence could be attributed. After observing that cases with less than 15 sentences and those that represent less than 2% of the total comments of an organisation have a higher probability of being the results of errors of topic classification, I filter these cases out, reducing the count to 2 438 cases where comments are identified. The cases where comments are identified but found not to express a preference regarding the degree of stringency of the standards on the policy issue must also be withdrawn, further reducing the number of cases of lobbying to 2 372. Figure 5.2 provides a visualisation of the distribution of cases in the "lobbying" and "no lobbying" categories before and after filtering.

As we can see, cases of no-lobbying dominate by far the universe of theoretically possible cases, both before and after re-qualifying the shortest and neutral docu-

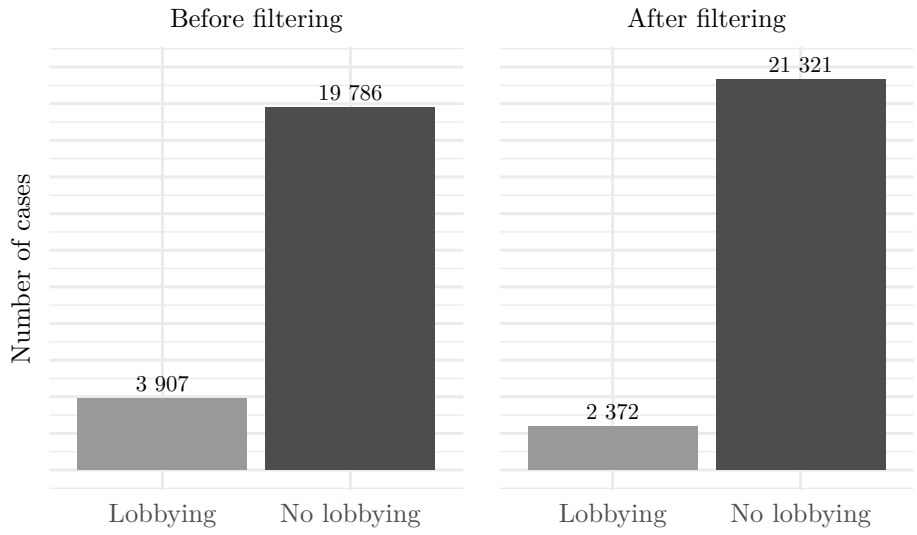

Figure 5.2: Number of cases of lobbying and non-lobbying

ments. We can already deduct from this disparity that most organisations in the corpus focused their comments on a few policy issues or even a single one. Figure 5.3 provides a visualisation of this distribution, which confirms that a very large share of all organisations who submitted comments indeed did so on a very few of the twenty-nine issues—the highest counts of organisations are found in the leftmost side of the graph, that is, for 1 to 3 cases—while few organisations only submitted comments on more than 10 policy issues. This particular distribution is common to financial and non-financial interest groups: 238 of the 421 financial interest groups—more than half of them—only commented on one or two issues. However, with one exception, only financial interest groups have commented on 10 policy issues or more. We then find significant disparities in terms of financial interest groups' degree of involvement in the policy debate about bank capital requirements in the post-GFC period.

Mirroring the disparities in term of the actors' degree of involvement in the debate, the results of the quantitative text analysis show great disparities across the twenty-nine policy issues in terms of how many cases of lobbying targeted them, as we can see in Figure 5.4. Indeed, no substantial comments could be identified

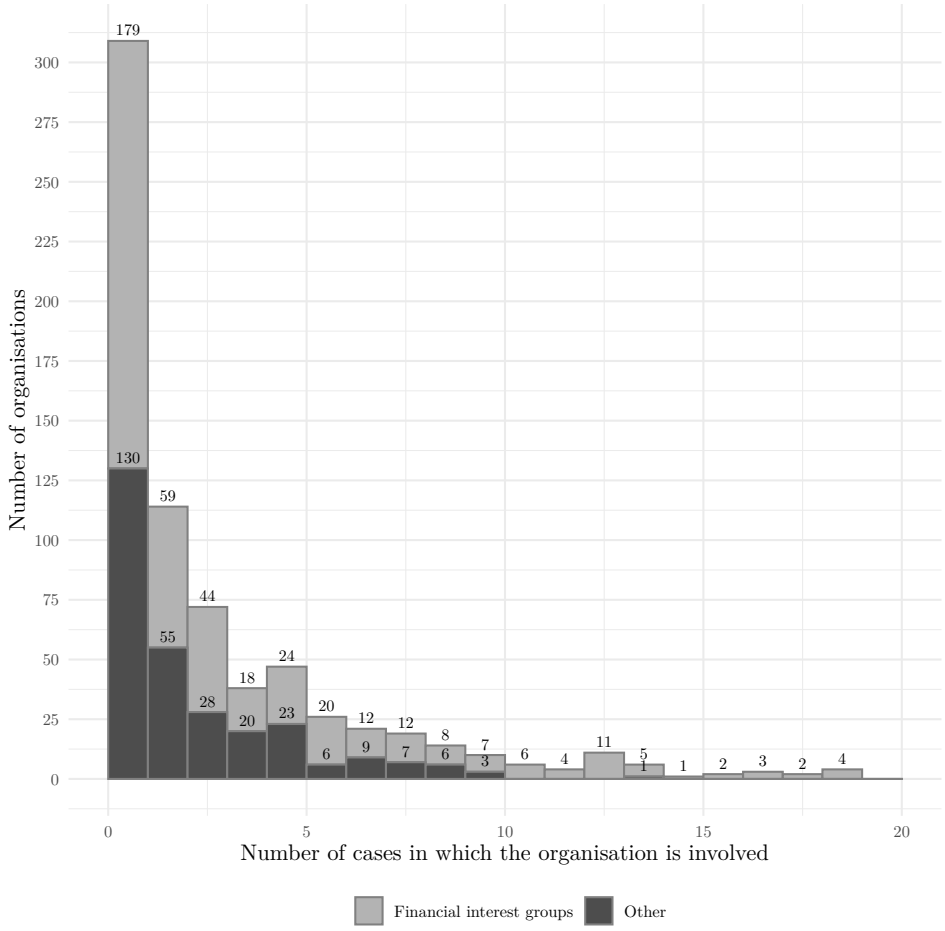

Figure 5.3: Number of lobbying cases per organisation

on CCR in the trading book (IS15), the capital treatment of unsettled transactions and failed trades (IS18) and the definition of trading desks (IS20), and very few cases targeted the use of external ratings in the SA-CR (IS07), haircut floors for SFTs (IS16) and the new rules on equity investments in funds (IS17). By contrast, 198 cases were found discussing the LCR and 260 the capital buffers. This confirms our expectation that policy issues with a more direct and larger impact on banks' costs of doing business tend to attract comments from a larger set of actors (see Section 4.4): seeking to maximise the utility of their lobbying spending, individual interest representatives focus their efforts on issues that have the largest direct impact on their activity and rely on trade associations at the national, European and

international level for other issues.[13] As noted earlier, we can theoretically expect that the presence of a large coalition sharing an actor's preference on a particularly issue contributes to the actor's lobbying being successful on that issue (Klüver, 2013b); I then suggest to include the condition *large supporting coalition* in the analysis of conditions necessary and sufficient for successful lobbying in Chapter 6.

Looking at the economic sectors of respondents (indicated by fill gradients in Figure 5.4), we can also observe a varying involvement of all three types of non-financial actors (public authorities, non-business private actors and non-financial business actors) across issues. After the group of financial interests—which represents the majority of the cases on all issues—public authorities are the organisations that provided the most comments, an involvement that peaked on capital buffers above the regulatory minimum (IS04), but is also notable on the definition of capital (IS01), the G-SIB and D-SIB framework (IS05), the SA-CR (IS06), as well as the two liquidity ratios (IS26 and IS27) and also the large exposures framework (IS28). By contrast, relatively few public authorities commented on issues pertaining to the market risk and operational risk frameworks (IS21 to IS24), or on the calculation of minimum capital requirements (IS03), issues on which they represent only a small part of total cases.

[13] In the words of one interest representative interviewed for this dissertation "Not even the richest firm in the world can lobby on everything, at some point you must choose what to focus on" (Brussels, September 8, 2021).

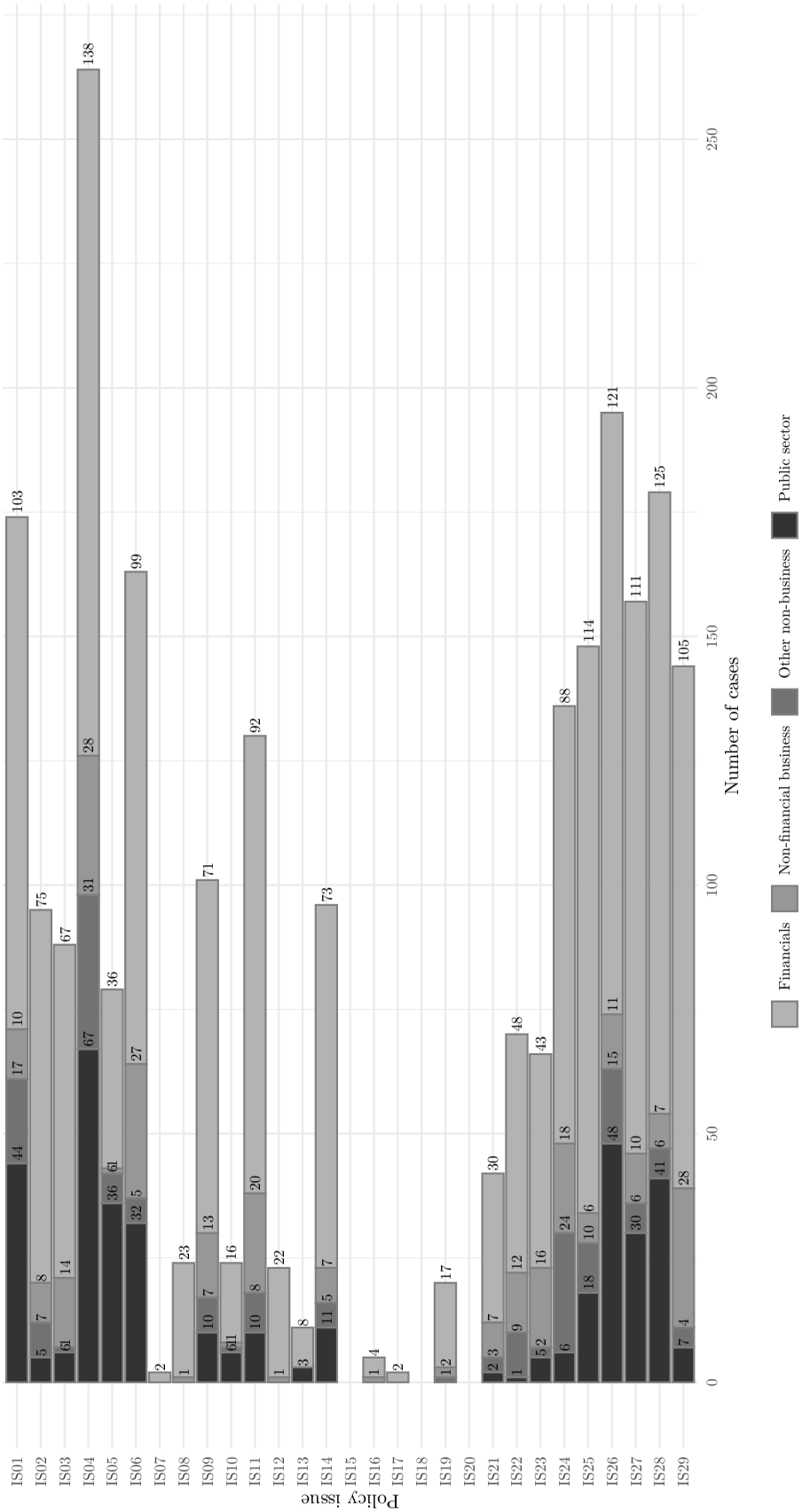

Figure 5.4: Lobbying cases identified per policy issue

The involvement of NFCs and their representative organisations was generally more limited, although particularly notable on three issues: the SA-CR (IS06), the securitisation framework (IS11), and margin requirements for SFTs (IS29). We should note that these are three components of the Basel III framework that directly affect banks' corporate clients: the SA-CR defines the RWs to be applied to different loans and other credit and liquidity facilities that banks offer to corporates; securitisation is a financial technique widely used to finance specialised lending (auto loans, lending for the acquisition of machinery, construction and infrastructure projects, etc.); and SFTs are widely used by large corporates to hedge the risks of financial loss related to their non-financial activities. Support from non-financial business to financial industry positions was shown to increase chances of lobbying success (Pagliari & Young, 2014); and intuitively, we can see how this support and that of public authorities may be part of a causal mechanism contributing to successful lobbying by increasing the representativeness of the industry's claims.

If we now consider the relative strength of lobbying coalitions, seen as the collection of actors sharing a common preference regarding outcomes of the decision-making process on a particular issue, we find that, unsurprisingly, a large majority of cases are characterised by a preference for less stringent standards. As we can see in Figure 5.5, which shows for each issue the number of cases of "anti-stringency" and "pro-stringency" cases, for all issues, the number of actors arguing *against* a tightening of bank capital requirements is superior—generally by far—to the number of actors arguing *for* stricter rules. Indeed, financial interests, and in particular banking sector representatives, provided a large majority of comments analysed here, and those actors, as we have seen in Chapter 3, could be expected to denounce the extra regulatory cost arising from stricter capital requirements. It is thus even less surprising to find that in 1043 out of the 1051 cases involving European financial interest groups, said groups argued in favour of a light touch approach to capital requirements. This predominantly anti-stringency orientation of financial interest group lobbying can be further observed in Figure 5.6, which shows the distribution

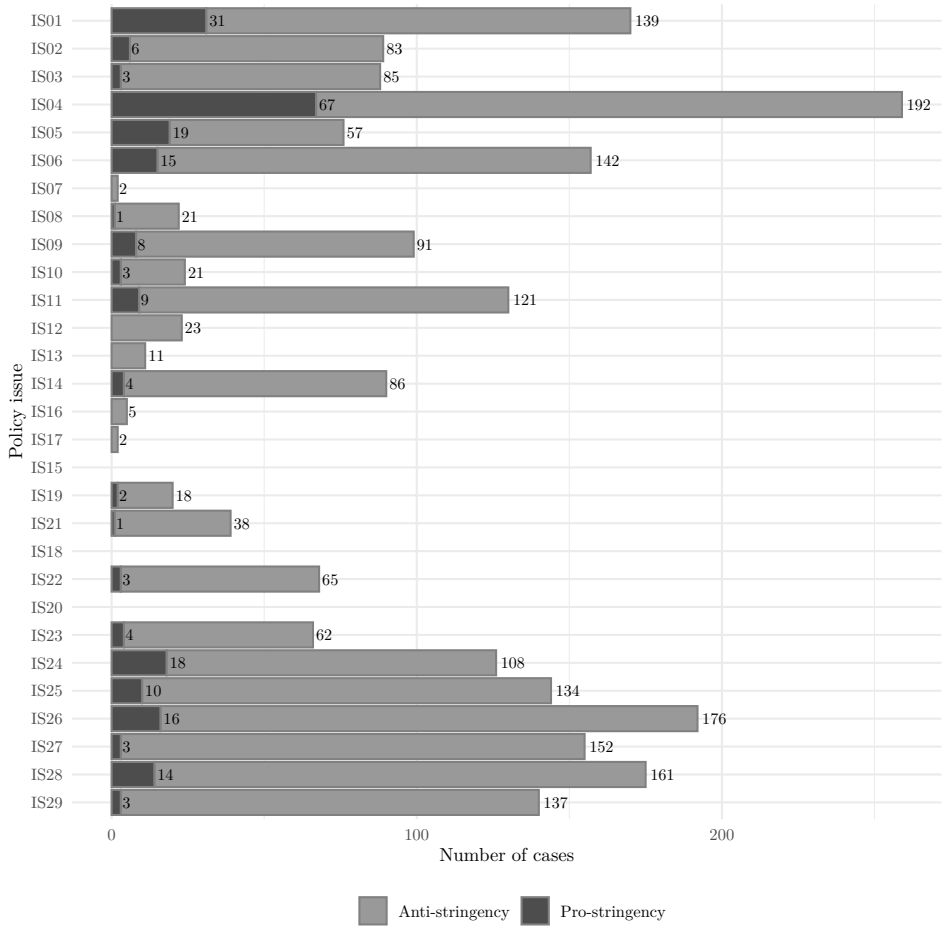

Figure 5.5: Pro- and anti-stringency cases per issue

of computed polarities across types of policy actors.

Considering the polarities computed for cases involving banks, other financial interests, non-financial business interests, public sector institutions and other non-business actors (Figure 5.6), we can see a general pattern which corresponds to our expectations about the general preference of these groups of actors. Banks and other financial interests are the two groups that tend to oppose stringent regulation most forcefully; most non-financial business interests have a clear but nonetheless more moderate position; the majority of public authorities moderately support a lenient approach and; other non-business private actors—a group that includes academia, NGOs and private citizens—is split, with some of its component actors arguing for (much) stronger regulation while others are found arguing in favour of leniency.

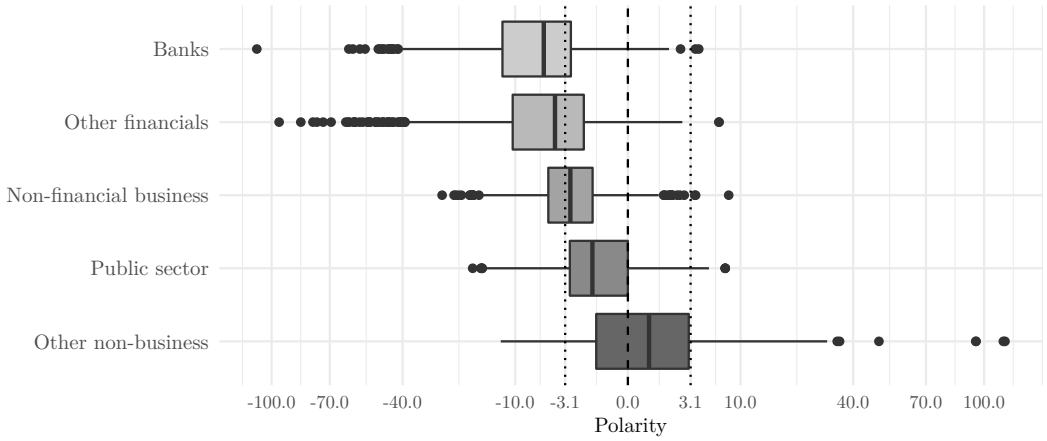

Figure 5.6: Polarities per sector of the respondent

Beyond this general trend, we however see that each group includes cases of anti-stringency and of pro-stringency lobbying, from which we can infer that the pro-stringency coalitions observed on several issues in Figure 5.5 are diverse in their composition.

Finally, at the level of individual cases, we can observe a great variation in the length of comments found for each case. As can be seen in Figure 5.7, most cases include short comments: the median value is only 63 sentences. By contrast, in a few cases, respondents provided long and even very long comments. If we assume that long written comments convey more technical knowledge and empirical data than short answers and take the number of sentences as a proxy for the display of expertise, then we can say that there is a great degree of variation across cases in terms of the amount of expertise displayed by interest groups in their lobbying on bank capital requirements.

As this section made clear, we can draw from the data obtained through the quantitative text analysis developed here a number of observations that echo with theoretical expectations derived from the existing literature regarding lobbying success. In the next section, I will use these data to set the boundaries of the set of *successful lobbying* cases, the outcome of interest in my study, and to identify conditions that may plausibly be considered as causally relevant to produce the presence

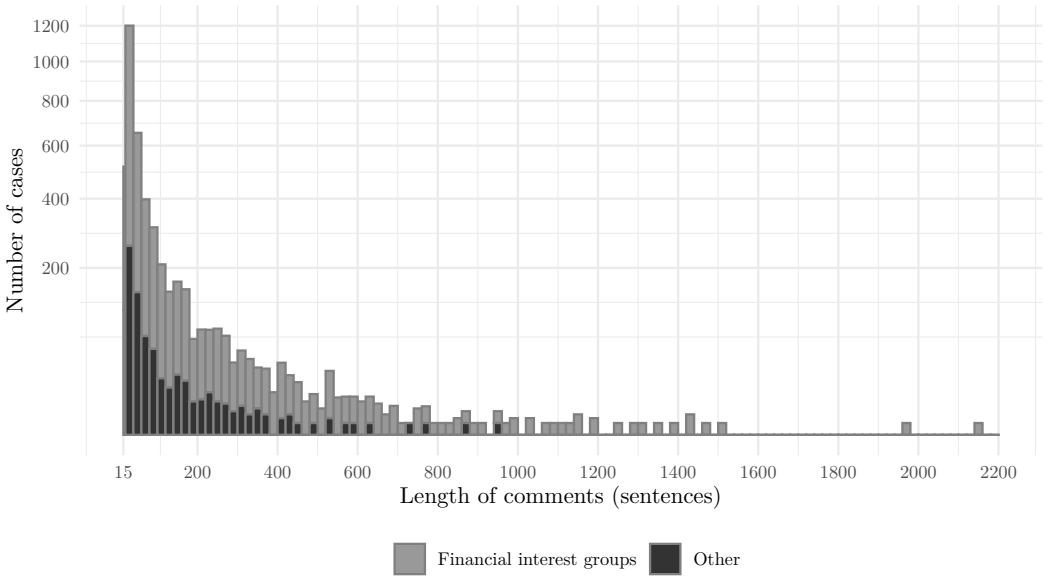

Figure 5.7: Distribution of cases across length of comments

or absence of that outcome.

5.3 From data to conditions: Defining membership in the outcome set SUCCESS and identifying candidate conditions

In the previous sections, I have mapped the comments submitted by interest groups to the twenty-nine policy issues identified as the main components of the bank capital requirements framework. I have then extracted from these comments an indicator of the preference—in favour of a stringent or, conversely, lenient approach to capital requirements—expressed by each respondent's comments. I have also highlighted several patterns that could be identified in the data in terms, notably, of lobbying coalitions.

In this section, I now use the data resulting from the quantitative analysis to identify conditions that may play a role in determining when successful lobbying occurs, and those potentially relevant to explain the absence of success. I start

with the definition of the outcome set SUCCESS, using the "policy shift indicator" developed in the previous chapter, and the indication of interest groups' preference obtained in the present chapter. I then interpret the quantitative data obtained through the quantitative text analysis to identify plausible candidate conditions to be analysed in Chapter 6.

5.3.1 Cases of *successful lobbying*: Calibrating the set SUCCESS

In order to determine which of the identified cases of lobbying are cases of *successful lobbying*, I return to the set-theoretic definition of the term developed in Section 1.1.2. I submitted that, to be considered a case of successful lobbying, a case must meet the following criteria: (a) the direction of the policy shift must be the same as the direction advocated by the interest group; and (b) the policy shift in the direction of the actor's preferences must affect the degree of stringency of the resulting standards at least to a significant extent. Expressed in terms of set relations, then, the set of cases of *successful lobbying* (SUCCESS) constitutes the intersection of the set of cases where a policy shift in the direction advocated by the actor occurred (SAMEDIR) and the set of cases where a significant policy shift occurred (SIGSHIF). In other words:

$$SUCCESS \longleftrightarrow SAMEDIR * SIGSHIF \tag{5.1}$$

Cases must then be assigned a membership score in each of the sets SAMEDIR and SIGSHIF. Membership in SAMEDIR is strictly dichotomous since the direction of the policy shift and the preferred direction can only be identical or opposite. The case is assigned a 1 in the former case (fully in) and a 0 in the latter (fully out). I chose a fuzzy-set approach to calibrate cases' membership scores in the set SIGSHIF and used the recoding method described in Oana et al. (2021, pp. 38–42). Based on the definition of the policy shift indicator scale that I established in the previous chapter, I consider that cases where the absolute value of the indicator is equal or

superior to 2 are members of the set SIGSHIF. However, only cases where a *major* policy shift (+4 or −4) are *fully* in, being assigned a score of 1. Cases of *important* policy shift (+3 or −3) and those of *significant* policy shift (+2 or −2) are more in than out, but not fully in, and are assigned scores of 0.9 and 0.8, respectively, reflecting the difference in degree between them. Similarly, a difference is made between cases where a policy shift occurred which was only limited but present (+1 or −1) and those where no policy shift could be identified (0). Although all are to be considered non-members of the set of cases where an significant policy shift occurred, cases of limited shifts have a partial membership in SIGSHIF, even though not sufficient to be considered members: I suggest to assign these cases membership scores of 0.2. By contrast, cases where no policy shift could be identified have no partial membership in SIGSHIF, they are fully non members and should be assigned a score of 0. The membership scores of each lobbying case in the set SUCCESS is computed applying the rules of Boolean algebra in Equation (5.1) above. The logical operator $*$ (*AND*) implies that the score of a case in SUCCESS is the minimum of its scores in SAMEDIR and SIGSHIF, therefore where SAMEDIR is false (0) the case is fully out of SUCCESS (0), and if SAMEDIR is true (1), the membership of the case in SUCCESS equals its membership in SIGSHIF.

The resulting set is balanced: if we consider all the 2 372 cases of lobbying, 56.41% of cases are in the set (set membership > 0.5). The proportion is slightly higher when we only consider the 1 051 cases involving European financial interest groups: 59.85% are members of the set. Figure 5.8 shows the distribution of cases across degrees of membership in SUCCESS for EU financial interest groups, non-EU financial interest groups and, finally, other interest groups. The dashed line in the middle represent the 0.5 cross-over point, i.e., the threshold separating members from non-members of SUCCESS. We can first observe in the graph that, across all three populations, we find cases where *successful lobbying* was present (SUCCESS) and cases where it was absent (~SUCCESS) in approximately equal proportions. In particular, the number of ~SUCCESS cases among those involving financial interest

groups confirms our intuition that finance did indeed loose a significant number of its lobbying battles on capital requirements.

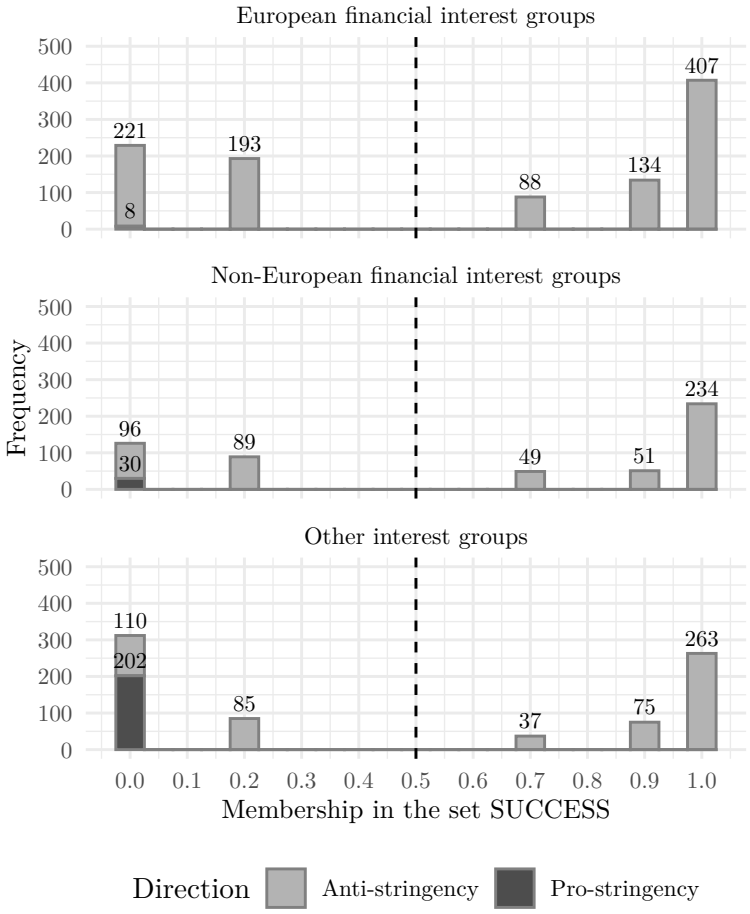

Figure 5.8: Distribution of membership scores in SUCCESS

Third, observing the location of those cases in which the interest group expressed a preference for *more* stringent standards (depicted in dark grey in Figure 5.8), we see that those are all found fully unsuccessful in their attempts to steer policy proposals towards more stringency. This may in part result from the conceptualisation and the operationalisation of the concept of lobbying success. Indeed, by construct, for any case of lobbying where the target policy issue did not witness any policy shift, the condition *same direction* is considered absent, then, as per Equation (5.1), the case receives a score of 0 in SUCCESS. But we could also consider that, since the general thrust of the Basel III reform was to make the whole framework more stringent,

for pro-stringency interest groups, the absence of a policy shift would already be a victory. Indeed, we may expect that those interest groups promoting a hard stance on banks and calling for a drastic increase of capital requirements would have seen the initial proposals by the BCBS as insufficient, but such positions were rare and the pro-stringency side features many more cases in which the call for more stringent rules was expressed in moderate terms. We can in turn expect that these interest groups considered cases in which the BCBS proposals were adopted unchanged as successes. This is clearly a limitation of the present approach, which would deserve closer examination. However, my focus here is on the lobbying success of European financial interest groups and this subset of the population actually features, as could be expected, very few cases of pro-stringency lobbying—only 8 out of 1 051 cases—which, I believe, makes this limitation inconsequential for the next steps of the analysis. Indeed, considering the very few pro-stringency cases in the set of cases involving European financial interest groups, I will limit the analysis of conditions of success to the 1 043 cases in which groups called for *less* stringent standards.

Table 5.8 further details the distribution of cases of lobbying by non-financial actors. We can observe that non-financial business interests, like financial interests, obtained major successes and limited success or failure in broadly equal proportions. By contrast, in general for representatives of public sector organisations and other non-business actors the absence of success was significantly more frequent than its presence, which is partly due to the over-representation of such actors among cases of pro-stringency lobbying. For the few cases involving EU registered public sector representatives (27 cases), however, success was significantly more often present than absent.

5.3.2 Identifying candidate conditions of SUCCESS and ~SUCCESS

What relevant candidate conditions might be considered based on the results of the text analysis developed in the present chapter? Whether or not a particular actor

Table 5.8: Lobbying success and absence of success across economic sectors

Sector	**All organisations**			**European interest groups**		
	Cases	SUCCESS	~SUCCESS	Cases	SUCCESS	~SUCCESS
Financials	1600	826	774	1051	541	510
Non-financial business	246	128	118	157	76	81
Public sector	367	165	202	27	18	9
Other non-business	159	45	114	18	1	17

was highly active in the policy debate, in the sense of submitting comments on a significant number of policy issues, is unlikely to play a major part in any causal mechanism producing successful lobbying or its absence. If we can see how a high degree of individual activity may lead an actor to be seen as a sort of "partner" of policy-making, leading the BCBS or the EC to grant them greater access to the decision-making process (Bouwen, 2004a), it is hard to imagine how less active interest groups expressing similar preferences would not benefit of the more active organisations' efforts. The outcome would then occur for both cases regardless of the presence of the condition. At the collective level, by contrast, the presence or absence of a large coalition supporting a European financial interest group's call for less stringent rule can be expected to contribute to successful lobbying. I already mentionned this expectation in the previous chapter (Section 4.4), which seems confirmed by the observation of lobbying coalitions in Figure 5.5: many of the issues where we can see an important anti-stringency mobilisation are also issues on which European financial interest groups obtained important successes. One exception however already stand out: on the capital buffers above the minimum (IS04), the issue on which I find the largest anti-stringency coalition, there was no policy shift at all. The leverage ratio constitutes a second counter-example. The presence of a large coalition then is unlikely to be found sufficient alone for successful lobbying.

Besides this *large supporting coalition* condition, we may expect that on issues where the actor's preference for less stringency was supported by a significant number of public authorities and/or representatives of non-financial business, this support

from non-financial actors increases the representativeness of the actor's arguments in the eyes of the BCBS and the EC. By showing that opposition to significantly increased capital requirements is not limited to financial interests, this support from public authorities and non-financial business can then theoretically be expected to contribute to the presence of the outcome *successful lobbying*. Empirically, we have already observed in Figure 5.5 that the degree of involvement of public sector and non-financial business representatives varied greatly across policy issues; and we have seen in Figure 5.6 that these two categories of actors expressed a preference for less stringency in a large majority of the cases. We may then expect that a significant support from public sector and non-financial business representatives was part of the causal mechanism producing success on issues such as the definition of capital (IS01), the SA-CR (IS06), the securitisation framework (IS11), the two liquidity standards (IS26 and IS27), or the large exposures framework (IS28). Here again, we nonetheless find examples indicating the insufficiency of the condition: financial interests were not successful on the capital buffers (IS04) and the G-SIB framework (IS05) despite the significant involvement of public authorities and non-financial business. Either on those issues such actors actually argued for more stringency, not less—in which case the condition *significant support from public authorities and non-financial business* would be absent—or another condition also had to be present (or absent), for this support to produce success on the other issues.

We have also seen that on several policy issues, a significant number of actors voiced their preference for a *more* stringent capital requirements framework; by contrast, on other issues, anti-stringency lobbying faced virtually no opposition. Theoretically, we could expect that the weakness of the opposition contributes to the successful lobbying of European financial interest groups, while a significant opposition contributes to failure or limited success only. Cases such as those targeting the capital buffers above the regulatory minimum (IS04) or the G-SIB framework would appear to meet this expectation: a significant opposition existed, and the resulting policy shift is null or limited. Cases targeting the NSFR (IS27) also seem

to confirm the expectation, only reversed: weak opposition, major policy shift towards less stringent standards. Nevertheless, the relation does not seem to hold for other issues: first, we can see policy issues on which anti-stringency lobbying faced a significant opposition and on which important policy shifts occurred, such as the definition of capital or the CVA framework (IS01 and IS24); second, we can also see that many of the issues on which no policy shift occurred, or where it made the standards more stringent saw little or no pro-stringency lobbying, e.g., the calculation of minimum capital requirements (IS03) or the two approaches to CCR (IS12 and IS13). We may then expect that a condition *weak opposition* if found causally relevant for SUCCESS or ~SUCCESS would be so only in very specific configurations, applying to a limited number of cases. It may then be more interesting to test its relevance as a "confounding condition" rather than integrating it in the QCA truth table analysis and logical minimisation (Rutten, 2020, p. 23; Goertz, 2017, p. 107).

Finally, we have observed a great degree of variation across cases in terms the amount of expertise displayed by the interest group. Considering what we know of the collective nature of lobbying success (Klüver, 2013a), it would be surprising that the presence or absence of an actor-specific *high display of expertise* condition could be found to be causally relevant for the presence or absence of success. However, we may expect that the *collective* provision of expert knowledge, by a lobbying coalition, may be relevant. Indeed, if the members of an even relatively small anti-stringency lobbying coalition provide detailed comments, supported with empirical data, to show that the proposed reform would have disastrous effects, this expert knowledge may contribute to the members of the coalition being successful in the end, instead of obtaining only limited concessions.

5.4 Conclusions: Lobbying success on bank capital requirements

This chapter constituted the second empirical step in my analysis of the lobbying success obtained by European financial interest groups in the post-GFC of capital requirements. In this chapter, I have analysed, using a text-as-data approach, a corpus constituted of the written comments submitted in response to BCBS and EC public consultations by a diverse array of actors: European and non-European, financial and non-financial interest representatives, private and public sector, organisations and individuals. First, I sought to identify *cases of lobbying*, that is, cases in which an interest group expressed a preference on one of the twenty-nine previously identified policy issues composing the Basel III framework regarding the degree of stringency that the reformed standards should attain. After identifying on which issues each respondent provided comments to the BCBS and EC and mapping the sentences of their responses to the relevant policy issue, I conducted a sentiment analysis of the resulting text segments to obtain an indicator of the polarity of that preference: in favour of *more* or, conversely, *less* stringency. This sentiment analysis was based on a dictionary, developed for the purpose of the study, of terms and expressions identified as conveying the preference of their author.

The data resulting from this quantitative text analysis were used to determine in which cases of lobbying did the policy shift observed on the target policy issue moved the policy outcome in the direction advocated by the actor; that is, in what observed cases the condition *same direction*—a necessary condition for a case to be considered a case of successful lobbying—was present. Based on that, I could identify 1 043 cases in which a European financial interest group called for a more lenient approach. A look at the aggregate numbers revealed that business in general and financial interests in particular have been more often successful than unsuccessful in their lobbying on post-GFC capital requirements, yet instances of lobbying failures or limited success have been many. This finding confirms our initial expectation

that financial interests were indeed not systematically able to obtain their preferred policy in the post-GFC reform of bank capital requirements. It also adds to the existing studies showing empirical evidence of the conditional nature of business power (e.g., Dür et al., 2019): financial interests do often lose their lobbying battles.

Besides the identification of cases in which European financial interest groups were successful in their lobbying on capital requirements, the analysis presented in this chapter produced data that inform the analysis of the *conditions* under which lobbying is successful, and those under which it is not. As I have shown in the previous section, some of the conditions that could be derived from the data are unlikely to be relevant causal conditions for the occurrence of successful lobbying (highly active interest group, individual display of expertise, weakness of the opposition). Conversely, the data revealed interesting patterns indicating that a large lobbying coalition sharing an actor's preference could be part of a causal mechanism producing success. We may also expect that a significant support from public authorities and non-financial business interests also contribute to success. Finally, two more potential conditions remain to be explored: first, whether a particularly strong opposition from financial interests, independently of the size of the coalition, may play a role in producing success and; second, whether or not when the anti-stringency coalition collectively displays a high amount of expert knowledge this collective display of expertise contributes to financial interest groups' success.

The approach proposed here suffers from a number of limitations. First, extracting data about lobbying activity from the submission of written comments neglects the possibility that organisations may be active through trade associations or federations and let such organisations speak on their behalf while seldom appearing directly (Chalmers, 2018). However, I could observe both through my own past professional experience and by going through the documents collected for this dissertation that when an issue is of particular importance for an organisation, this organisation will tend to be both active through its representative associations and federations, but also respond on its own to consultations, if only to signal to policy-makers its sup-

port to the positions taken by others. That assumption was confirmed by several of the interest representatives interviewed in the elaboration of this dissertation (see Chapter 6).

Second, extracting numeric data through quantitative text analysis entails a risk of measurement error that is not negligible. Although I tailored the keyword dictionaries used here in order to maximise performance, there are still sentences assigned to the wrong policy issue and preference polarity scores that misrepresent actors' positions. I nevertheless believe that the approach adopted here delivers results that are robust enough to serve as a basis for causal inference using a case-based approach such as QCA. In the next chapter of this dissertation, I will turn to the final analytic step of my investigation of lobbying success by analysing the combinations of conditions under which European financial interest groups have reached lobbying success in the reform of bank capital requirements.

Chapter 6

Conditions of success: A Qualitative Comparative Analysis

The present chapter constitutes the final empirical step of my study of the lobbying success obtained by European financial interest groups in the post-GFC reform of capital requirements. In Chapter 4, I identified those component parts of the bank capital requirements frameworks for which a policy shift occurred during the decision-making process, resulting in the enacted standards being in some cases more stringent than the original proposals, and in some cases less stringent. In Chapter 5, I analysed the written comments submitted by a diverse array of interest groups to the BCBS and EC in response to the public consultations that these institutions conducted to inform and refine their reform proposals. With this analysis, I was able to determine on which issues of within the policy area of bank capital requirements European financial interest groups articulated an interest, and the direction of those expressed preferences. I could thus confirm the expectation that a very large majority of European financial interest groups favoured a lenient approach to bank capital requirements. Confronting this indication of actors' preferences with the previously obtained indication of the direction and extent of policy shifts, I was able to determine which of the observed cases of lobbying constitute cases of *successful lobbying* for European financial interest groups, and which are cases of failure

or limited success only. Finally, based on the data resulting from the analysis developed in the two previous chapters, I have suggested a series of conditions that may be expected to be part of causal mechanisms leading to the occurrence of highly successful lobbying or, alternatively, to its absence.

In this final empirical chapter of my dissertation I seek to identify the causal mechanisms that enabled European financial interest groups to obtain important lobbying successes in the post-GFC reform of bank capital requirements, and those causal mechanisms that produced the absence of such important lobbying successes. Causal mechanisms cannot be observed directly; their existence can only be inferred from the observation of phenomena that can be interpreted as empirical evidence that such mechanisms are at work (Bennett & Checkel, 2015; Goertz & Mahoney, 2012). The goal of this final empirical chapter is to search for such empirical manifestations of causal mechanisms. I do so by examining regularities across cases using *fs*QCA, a configurational approach that implements Mill's (1843/2011) *method of agreement* and *method of difference* to identify relations of necessity and sufficiency between an outcome and multiple complex configurations of conditions using truth table analysis to identify sufficient configurations and logical minimisation to eliminate redundant causes (Thiem, 2014; Schneider & Wagemann, 2012, pp. 8–13).

I apply *fs*QCA to a data set consisting of the 1 043 cases of lobbying on bank capital requirements involving a European financial interest group.[1] Each entry in this data set is an individual case, to which are attached set membership scores indicating, in this particular case, the presence or absence of a selected set of conditions—including the candidate conditions identified in the two previous chapters—and whether the case is one of successful lobbying.

However, as I have already noted, the 1 043 individual cases are clustered into only 26 anti-stringency coalitions, and the membership scores of individual cases into the set SUCCESS—cases of successful lobbying—is the same for all the members of

[1]The data set and code used in the present chapter are available at https://orbilu.uni.lu/handle/10993/51524.

a coalition. The cross-case comparisons from which I intend to deduce the presence of causal mechanisms are then not made across 1 043 interest group-policy issue pairs, but across 26 lobbying coalition-policy issue pairs

These 26 share important similarities—a same broad policy area and a same institutional context—but also important differences which, I expect, are causally relevant to explain why the outcome of interest in this study—successful lobbying—is present in certain cases while absent in others. In sum, the analysis developed in the present chapter uses a small-*N*, MSDO research design, the type of design QCA—the family of approaches to which *fs*QCA belongs—is best equipped for (Berg-Schlosser & De Meur, 2009).

QCA enables researchers to systematise cross-case comparisons and identify which conditions are *necessary* for the outcome to occur (i.e., the outcome never occurs in the absence of the condition) and which conditions or conjunctions of conditions are *sufficient* to produce the outcome (i.e., the outcome always occurs when the conjunction of conditions is present). Where a particular conjunction of conditions is found consistently sufficient for the outcome to occur, this conjunction is taken as indicative of the existence of an underlying causal mechanism between causes—the configuration of conditions—and effect—the outcome of interest.

Applying the QCA protocol to my data set, I will then be able to identify configurations of conditions that are sufficient for the presence (absence) of highly successful lobbying and assess the strength of those sufficiency relations. The observed relations of sufficiency however are not causal mechanisms *per se* but are indicative of causal mechanisms: the final step of the present analysis will then be to give a substantive interpretation to the QCA results, one that will enable me to answer the third and final intermediate research questions of this dissertation: *What causal mechanisms explain cases of highly successful lobbying on post-crisis bank capital requirements and what mechanisms explain cases of failure or limited success?*

The remainder of this chapter proceeds as follows. I will first provide the reader

with a more detailed presentation of QCA as a research approach and of the *fs*QCA protocol as a research technique, including the particular parameters of fit and robustness tests that are used in QCA studies (Section 6.1). I will then introduce the full list of candidate conditions considered in this study and detail, for each of these conditions, how it is defined, what data is used as indicator of its presence in cases, and the criteria retained to define the boundaries of the sets (Section 6.2). This is followed by the "analytic moment" of my *fs*QCA: the analysis of set relations in terms of necessary and sufficient conditions for the outcome *successful lobbying* on the one hand, and for the absence of such success on the other, and the interpretation of these results into plausible causal mechanisms (Section 6.3). A final section will summarise and discuss the results (Section 6.4).

6.1 QCA: Approach and method

Despite the ever growing number of studies applying QCA in its various forms (Marx et al., 2014), a number of controversies still surround this approach, which, QCA methodologists often argue, arise from fundamental misunderstandings about the theoretical underpinnings of the methodology (Baumgartner & Thiem, 2017; Thiem et al., 2016). Misunderstandings between QCA researchers and scholars using other types of analysis techniques, notably regression analysis, are further compounded by disagreement among QCA methodologists themselves about the foundations of the approach, with important consequences for how QCA should be applied in empirical studies (Schneider, 2018a; Schneider & Wagemann, 2016; Thiem & Baumgartner, 2016).

Indeed, QCA is as much a research approach as a data analysis techniques: understanding how QCA defines the former is crucial to understand and assess the validity and reliability of the latter. Before going further into our analysis of the conditions under which European financial interest groups were successful in bank capital requirements, I then provide in the present section a brief overview of the

key elements necessary to understand set-theoretic approaches to causality, as well as the different approaches adopted by QCA researchers to infer causality.

6.1.1 Necessity, sufficiency, causality

QCA is a case-based approach that uses set-theory to characterise individual cases through their simultaneous membership in various sets the boundaries of which are defined by the presence or absence of a particular condition, and making causal inferences based on the relations between these sets. Concretely, all cases where a given condition is present constitute a set. Members of that set may or may not be members of another set constituted by the cases where another, different condition is present. Finally, the presence of the outcome of interest defines the membership of cases in the outcome set.

Sets and set relations

It is important to note the essential difference between *sets* in set-theoretic approaches and the notion of *variables*, in terms of their relation to concepts. Variables reflect the extent to which cases possess an empirical property of which the concept is our mental representation, but set membership scores "define whether a case can be described by a concept or not" (Schneider & Wagemann, 2012, p. 24): a membership score below 0.5 in the set SUCCESS indicates that the case cannot be described by the concept of "successful lobbying", it is not a measure of the extent to which the case possess the empirical property "lobbying success".

Two main types of sets are used in QCA: "crisp" sets where membership is binary (fully in or fully out), and "fuzzy" sets where cases are allowed to have partial membership in the set (and correspondingly, partial membership in its negation). Fuzzy sets then provide a mathematical representation of differences in degrees among cases in terms of the extent to which they are accurately represented by the concept

of the set. *Crisp-set* Qualitative Comparative Analysis (*cs*QCA) is, as the name suggests, the QCA variant that uses only crisp sets, while the *fs*QCA variant can use both types of sets, since crisp sets can be considered as a special form of fuzzy sets (Schneider & Wagemann, 2012, pp. 24–25).

Both types of sets require researchers to define a cross-over point, that is, a threshold above which the condition can be considered as present in the case. Fuzzy sets furthermore require the definition of an exclusion and an inclusion thresholds, which distinguish cases that have full membership from those having only partial membership. In fuzzy sets, all cases have membership scores between 0 and 1; the exclusion threshold, cross-over point and inclusion threshold—collectively known as the "qualitative anchors" of a set—are respectively represented by scores of 0, 0.5 and 1. Cases with scores above 0.5 and below 1 are considered "more in than out" of the set, and cases with scores below 0.5 but above 1 are considered as "more out than in".[2]

The respective sizes of and overlaps between condition sets and outcome set can be analysed in terms of set relations between condition sets and the outcome set: where the outcome set is fully included in a condition set, that condition set is a *superset* of the outcome set; conversely, where a condition set is smaller and fully included in the outcome set, it constitutes a *subset* of the outcome set. With QCA, researchers look for such set relations between conditions—or, more often, configurations of conditions—and outcome by analysing cross-case regularities. A condition set that is a consistent superset of the outcome set means that the condition is always present when the outcome is present, we may then infer that this condition is *necessary* for the outcome to occur (Schneider & Wagemann, 2012, pp. 52–54). Conversely, a condition set that is a consistent subset of the outcome set means that the outcome always occur in the presence of the condition, from which we infer that the condition might be *sufficient* for the outcome to occur.

[2]Note that, for cases with partial membership, the distance of the score to 1 corresponds to the membership of the case in the negation of the set.

A relation of necessity does not imply sufficiency, nor vice versa. A condition set may in theory exactly match the outcome set, in which case the condition is both necessary and sufficient, however that scenario is rather exceptional in empirical research designs. In general, a necessary condition will also be present in cases where the outcome does not occur—hence it is not sufficient to produce the outcome—and sufficient conditions more often than not do not cover all cases where the outcome is present.

While regression analysis methods are useful to measure the effects of particular causes, QCA is particularly effective at handling causes-of-effects type of questions, where we seek to identify the sets of factors that produce an outcome of interest (Mahoney & Goertz, 2006). From the start, the method developed by Ragin (1987/ 2014) indeed offered researchers ways to handle several key aspects of causal complexity. A key element of causal complexity, *conjunctural causation* is approached in QCA by using Boolean algebra to compose complex sets intersections (or "conjunctions") of simpler sets. Conjunctural causation refers to the assumption that while a particular condition may not be causally relevant on its own for producing the outcome of interest, it may become so when another condition is also present: it is the joint presence of the two conditions which is sufficient for the occurrence of the outcome. In terms of set relations, such a scenario implies a relation where none of the condition sets are subsets of the outcome set, but their intersection is. In this scenario, each individual condition constitutes an insufficient but necessary condition of an unnecessary but sufficient conjunction (INUS) (Mackie, 1965). Boolean algebra uses the logical operator *AND* ($*$) to define such intersections: a case is a member of the intersection if it is a member of both sets (i.e., if both conditions are present).

A second key element of causal complexity—*equifinality*—is symmetrically handled in QCA by building unions (or "disjunctions") or smaller sets where two or more conditions constitute functional equivalents of a same higher-order concept. The condition referring to the higher-order concept is then considered present in a

case if at least one of the lower-order conditions is present in the case. The logical operator "OR" (+) is used in Boolean algebra to build such unions of conditions. Equifinality is explicit in QCA solution formulas where the result of the sufficiency analysis is a union of (intersections of) conditions: each term of the union is sufficient on its own for the outcome to be present; the multiplicity of these terms indicates that there exist several alternative causal mechanisms to produce the outcome. Unions of conditions are also important to further the analysis of necessity in QCA: while no condition set may be sufficiently large on its own to constitute a superset of the outcome set, the union of two or more functional equivalents may be large enough to encompass all cases where the outcome is present. The conditions that are included in the necessary union then constitute what Mahoney et al. (2009) call a Sufficient but Unnecessary part of a factor that is Insufficient but Necessary (SUIN). Searching for SUIN conditions the union of which is empirically meaningful notaby enable QCA researchers to identify the different contexts in which the outcome occurs.

The analytic moment and parameters of fit

Depending on the particular approach to explanation adopted (see Section 6.1.2), the "analytic moment" of a QCA study may start with a search for relations of necessity between conditions and the outcome (Oana et al., 2021, pp. 201–206). Necessity analysis consists in determining which (unions of) condition sets constitute consistent supersets of the outcome set and assessing the empirical relevance of such supersets (Braumoeller & Goertz, 2000). Inconsistency in statements of necessity may arise from cases that have the outcome present but not the condition, those cases—labelled Deviant Consistency in Kind (DCK) cases—imply that the condition is not absolutely necessary for outcome. With fuzzy sets, inconsistency may also arise from cases that, in qualitative terms have both the outcome and the condition present, but have a higher membership score in the outcome than in the conditions. We then talk of Deviant Consistency in Degrees (DCD) cases, which weaken but do

not contradict the claim of necessity. A relation of necessity is perfectly consistent when there is no case where the outcome is present without the condition being present and when all cases have a membership score in the condition superior to their membership in the outcome set. The parameter of fit "consistency necessity" measures the degree of consistency of necessity relations: a consistency necessity score of at least 0.9 and the absence of DCK cases are usually required for admitting a statement of necessity (Oana et al., 2021, pp. 68–72).

On top of being consistent, a statement of necessity should also be empirically relevant. A condition set that is very large relative to the outcome set means that the condition is also present in many cases where the outcome is not present, and a condition set that is so large as to encompass almost all cases is a near constant; in both cases, the condition set is indeed a consistent superset of the outcome set, but the relation is trivial in terms of its causal relation to the outcome. Two parameters of fit are used to measure this "trivialness": relevance of necessity (RoN) and coverage necessity (Ragin, 2008; Schneider & Wagemann, 2012). For both measures, a value of 0.6 is considered as a minimum for admitting the necessity relation as empirically relevant.

The second main part of the analytic moment is the search for relations of sufficiency between conditions and outcome. In QCA, researchers determine the sufficiency of various configurations of conditions using a truth table. A truth table is, basically, a list of all logically possible configurations of the conditions selected for analysis with each row representing one particular configuration. Cases are assigned to truth table rows based on their membership in condition sets. A row (i.e., a specific configuration of the conditions) is considered sufficient for the outcome if the outcome is present in the cases assigned to it (the "OUT" column of the truth table shows the value 1). If the cases assigned to the row do not show the presence of the outcome, the row is considered not sufficient for the outcome (output: 0).

Rows where all the cases show the same value on the outcome can be unequivo-

cally classified as sufficient or not sufficient, but those rows including both cases with and cases without the outcome are problematic: they imply that a same configuration of conditions lead both to the outcome and its negation, a logical impossibility which must be dealt with either by identifying a potential missing condition, or by reviewing the conceptualisation of the outcome. Furthermore, when working with fuzzy sets, as I do in the present study, the membership of a case in the outcome may be lower than its membership in the truth table row: such cases are considered as weakening the statement of sufficiency (the full presence of the conditions should produce the full presence of the outcome). The metric "consistency sufficency" is used to determine the extent of this inconsistency of the sufficiency claim (Schneider & Wagemann, 2012, pp. 123–129): Some inconsistency can be tolerated, in order to account for "noisy" social science data, but a consistency score of 0.8 is considered by most QCA researchers as a lower bound.

A second parameter of fit needs to be considered in order to assess the sufficiency of truth tables rows: proportional reduction in inconsistency (PRI). PRI detects potential simultaneous subset relations, that is, situations where a particular configuration of conditions is at the same time a consistent subset of the outcome and its negation. Simultaneous subsets relations would lead to the untenable claim that a same condition is sufficient to produce both the outcome and its presence. PRI measures the extent to which the condition is a subset of only the outcome and not its negation. A PRI value below 0.5 indicates that the condition is more a subset of the negation of the outcome; a truth table row showing such a PRI value should then always be deemed not sufficient for the outcome. By contrast, the closer to 1 the value of PRI is, the more certain we are that the set represented by the truth table row is a subset of the outcome only.

Finally, rows (configurations) in which no case can be assigned are called "logical remainders"; their status—sufficient or not sufficient for the outcome—cannot be established based on empirical data. Logical remainders are the necessary consequence of limited diversity in the empirical world: even where great numbers of

cases can be observed, there is no guarantee that *all* the logically possible configurations will be observed (Schneider & Wagemann, 2012, Chap. 6). Should we stop the analysis of sufficiency to the truth table analysis, logical remainders would not be a concern. However, the next step of the QCA protocol is logical minimisation, that is, reducing the complexity of the truth table sufficiency statements by extracting redundant conditions across truth table rows that are sufficient for the outcome. Because there are no empirical data to determine whether or not they are sufficient for the outcome, logical remainder rows constitute counterfactuals, and whether researchers include them in the minimisation process or not, they necessarily make assumptions about their sufficiency.

The three types of solutions in the QCA "Standard Analysis"—conservative, most parsimonious and intermediate solutions—represent three possible approaches to counterfactuals (Haesebrouck & Thomann, 2021). The conservative solution limits the scope of logical minimisation to sufficient observed rows only and excludes all logical remainders; it then makes the assumption that all non-observed configurations would be insufficient for the outcome to occur. By contrast, the most parsimonious solution includes all logical remainders in the minimisation, making the opposite assumption that these unobserved configurations would be sufficient for the outcome. Finally, in the intermediate solution, prior knowledge and theoretical expectations are used to determine which of the logical remainders constitute "easy counterfactuals", that is, counterfactuals that are plausible. The logical minimisation is then applied to observed sufficient rows and easy counterfactuals only, rejecting counterfactuals that contradict our theoretical expectations.

Ideally, a QCA solution should have a high consistency sufficiency and a high coverage and be relatively insensitive to variations of analytic decisions (within a plausible range). Robustness tests are then to be conducted to observe the effects of various changes in parameters on the obtained solution. If those changes are limited, then the solution is deemed robust (Oana et al., 2021, pp. 144–158). Furthermore, for applied QCA research that considers the production of substantively interpretable

sufficient solutions as the primary goal of QCA (see next section), a solution is "good" only to the extent that its different terms can each be interpreted into causal mechanisms that produce the outcome of interest (Rutten, 2020).

All this analytic apparatus supports an approach to causality that is very different from those underlying quantitative approaches (Goertz & Mahoney, 2012). Where regression analysis takes a probabilistic view, which enables researchers to make causal inferences based on statistically significant interactions between dependent and independent variables, QCA imply a mechanistic approach whereby it is the particular interaction of multiple individual causes that makes the presence of the outcome possible (Beach & Petersen, 2013). In this perspective, the sufficient conditions uncovered by the QCA truth table analysis constitute not the causal mechanism itself, but evidence of the presence of an underlying causal mechanism (Goertz, 2017; Rutten, 2020). The analytic process of QCA then does not stop at showing evidence of the sufficiency of particular configurations of conditions for the occurrence of the outcome: these sufficient configurations require a substantive intepretation into plausible causal mechanisms.

6.1.2 Varieties of QCA approaches

Beyond the common aspects highlighted above, approaches to QCA vary importantly. Thomann and Maggetti (2020) identify three dimensions that distinguish eight different types of QCAs: their approach to cases, their mode of reasoning, and their approach to explanation. The first distinction separates "case-oriented" from "condition-oriented" QCAs. QCA was developed as a strongly case-oriented approach, where important knowledge of cases can be used to interpret solution formulas into causal mechansisms and assess their robustness (Ragin, 1987/2014; Rihoux & Ragin, 2009). Its increasing use in large-N contexts tends to shift the focus of researchers away from cases, depriving them of the possibility to "go back to the cases" to assess the validity of their findings (Greckhamer et al., 2013; Rutten,

2020). Assessing the robustness of results is, as a consequence, particularly important for such condition-oriented, large-N QCAs and QCA methodologists have developed several robustness tests over the years (see, e.g., Cooper & Glaesser, 2016; Emmenegger et al., 2014; Hug, 2013; Oana & Schneider, 2021; Rutten, 2020; Skaaning, 2011). With only 26 cases under analysis, the present QCA constitutes a small-N study, offering the possibility to use within-case knowledge to assess the validity of calibrations on the one hand, and of results on the other. I make use of this possibility as much as possible, but also assess the validity of the produced results against alternative plausible calibrations of the various conditions, using for that the robustness protocol proposed by Oana and Schneider (2021). The results of these robustness tests are presented alongside the QCA solution in Section 6.3.

Second, QCAs differ in terms of their mode of reasoning: exploratory or theory-evaluating. In the former, "the goal is to learn from the cases about new, hitherto unexplored or underexplored patterns, and derive some form of abstract lessons" (Oana et al., 2021, p. 207). This is generally considered as constituting the original and main use of QCA, and is the way I use it in the present study. QCA can however also be used for formal theory evaluation, by confronting the results of the truth-table analysis and logical minimisation to theory-derived *ex ante* expectations (Schneider & Wagemann, 2012, pp. 295–305). Though informed by the vast existing literature, the present analysis is definitely exploratory: my purpose in this dissertation, as was mentioned earlier, is to use QCA to explore in a systematic way the variety of causal mechanisms producing lobbying success (or its absence) in post-crisis reforms of bank capital requirements, and discuss the results of this exploratory approach in relation to the existing body of literature (see Chapter 7).

A third distinction, which relates to their approach to explanation, can be made between "substantive-interpretation" and "redundancy-free" approaches to QCA (Schneider, 2018a). The former considers that a QCA solution is valid only to the extent that it "resonate[s] with theoretical and substantive knowledge and do[es] not entail empirically contradictory or logically untenable claims" (Oana et al., 2021,

p. 208). By contrast, the latter approaches consider that causal inference can only be made on QCA models that only contain difference makers (Baumgartner & Thiem, 2015, 2017). As Rutten puts it:

> The difference between substantive-interpretation and redundancy-free QCA lies in the question, what is sufficient? Redundancy-free QCA follows a purely mathematical logic whereas substantive-interpretation QCA may reject a mathematically consistent set relationship on the grounds that it is substantively uninterpretable [...]. That is, substantive-interpretation QCA assesses the (substantive) plausibility of a set relationship, whereas redundancy-free QCA assumes that, absent explicit mathematical evidence to the contrary, all truth-table rows are sufficient for the outcome (Rutten, 2020, p. 7).

This distinction between what Schneider (2018a) calls the "realists" and the "idealists" in QCA research is crucial for applied QCA, since adopting one or the other view leads to very different protocols of analysis. Indeed, while the redundancy-free approach only focuses on the truth-table analysis and logical minimisation, the substantive-interpretation approach requires several additional steps aimed at determining which of the logical remainders can be considered as plausible counterfactuals. Typically, proponents of the redundancy-free approach would contend that only the most parsimonious solution, which is totally free of redundancies, can be interpreted causally, while the intermediate solution, with its concern for the plausibility of counterfactuals, is the one generally prescribed by advocates of the substantive-interpretation approach.

Sceptical of "the primacy given to parsimony" in the standard analysis, Schneider and Wagemann (2013, p. 211)—advocates of the substantive-interpretation approach—suggested several innovations to further include the concern for plausibility in the treatment of logical remainders. One such innovation is the approach they call "Enhanced Standard Analysis" (Schneider & Wagemann, 2013; Schneider & Wagemann,

2012, pp. 197–219), which requires researchers not only to distinguish between easy and uneasy counterfactuals, but also to exclude logical remainders that constitute "untenable assumptions": those implying the absence of a condition found necessary for the outcome and those that constitute logically impossible combinations of conditions.

Proponents of a substantive-interpretation approach furthermore generally suggest to limit the number of conditions in the analysis of sufficiency in order to keep the complexity of solutions within manageable bounds (Rutten, 2020; Schneider & Wagemann, 2006). The "two-step QCA" approach is one way to reduce the number of conditions. In a two-step QCA approach, a distinction is made between so-called "proximate" and "remote" conditions (Haesebrouck, 2019; Schneider, 2018b; Schneider & Wagemann, 2006). The difference between proximate and remote may be related to the time or space distance separating conditions from the outcome, but it can also be a difference in terms of the extent to which conditions relate to context or agency:

> Remote factors are [...] usually theorized as being causally more distant conditions. They do not directly produce the outcome but provide the context within which proximate conditions unfold their effects on the outcome (Schneider, 2018b, p. 3).

The two-step approach, in the version proposed by Schneider (2018b), therefore consists in conducting first a necessity analysis of context conditions in order to identify the context in which the outcome occurred. Identified necessary remote conditions or SUIN that can be interpreted as indicating that the outcome only occurs in certain particular contexts are kept for the sufficiency analysis in the second step, alongside the proximate conditions. Such an approach is, I believe, appropriate for studying the lobbying success of financial interest groups: As we have seen in Chapter 2, the existing literature on financial industry power tells us that lobbying success is the result of a complex set of factors, including not only factors related

to what *actions* interest groups take in their lobbying efforts, but also, and often crucially, factors that are beyond the scope of interest groups' agency, related to the characteristics of the policy issue being discussed and the institutional and political context in which decision-making takes place (Culpepper, 2011; Mahoney, 2008).

6.1.3 The QCA protocol implemented in this study

The protocol that I follow for the present study generally follows the steps outlined in Oana et al. (2021), which corresponds to the substantive-interpretation goal pursued here. The various analytic steps are realised using the *QCA* and *SetMethods* packages in R (Duşa, 2018; Oana & Schneider, 2018).

The initial list of candidate conditions was drawn based on the lessons derived from reviewing the literature on banking regulation and on financial industry power (see Chapters 2 and 3), as well as on a series of exploratory interviews conducted with 17 interest representatives between December 2019 and April 2020 (see list in Appendix D.1). The interviewees represented organisations selected in the list of organisations that submitted at least one response to consultation on Basel III or the CRD-CRR. While the literature suggested a great variety of possibly relevant variables, the interviews were instrumental in selecting among these variables those most likely to be causally relevant in the particular context of the post-GFC reform of bank capital requirements. I present in the next section of this chapter the candidate conditions finally retained for analysis (Section 6.2).

In this dissertation, I have relied on fuzzy logic to define the sets, which, I argue, offers the most appropriate representation of both differences in kind and differences in degree across my cases as regards the presence of each of the concepts analysed as conditions and outcome. Fuzzy logic is particularly appropriate to give a mathematical expression to social science concepts that have unclear boundaries and accept differences in degree across cases that are qualitatively similar (Zadeh, 1965).

The calibration of raw data into set membership scores constitutes, as was already mentioned, one of the crucial analytic steps in any QCA study. Calibration of quantitative indicators into set membership scores indeed connects "what we mean by concepts to some underlying numeric indicator or data" (Goertz, 2020, p. 99). The definition of qualitative anchors translates the researcher's judgement about the relation between the concept that defines the set and the indicator used to measure the presence of this concept. It has important consequences for the results obtained through QCA (Glaesser & Cooper, 2014).

Furthermore, in several of the conditions analysed here, I relied on qualitative data as raw indicator, which requires a different type of approach (Basurto & Speer, 2012; Legewie, 2017). Whether the raw data was quantitative or qualitative, I detailed in the next section, for each condition, the criteria used to set the qualitative anchors. I have generally used six-value scales to assign membership scores, which I believe provide a sufficiently fine-grained representation of the differences in degrees across the 26 cases.

The "analytic moment" (Oana et al., 2021) of my QCA begins with the search for necessary individual and SUIN conditions among the four "context" conditions selected for analysis. Where necessity statements are found that are consistent, not trivial and empirically meaningful, I integrate the necessary conditions or SUIN conditions into the sufficiency analysis, which constitute Step 2 of my two-step QCA. The sufficiency analysis phase starts with the construction of the truth tables for the outcome SUCCESS and for the outcome ~SUCCESS: alongside two context conditions found to be SUIN conditions for SUCCESS, I include in the truth tables three conditions characterising the "anti-stringency" lobbying coalitions on each policy issue. Each truth table is minimised applying Schneider and Wagemann's (2012) Enhanced Standard Analysis: an intermediate solution is produced for each outcome that only integrates easy counterfactuals and excludes untenable assumptions. The solutions for outcomes SUCCESS and ~SUCCESS are then assessed in terms of their robustness against alternative analytic decisions and their substantive in-

terpretability as indicating plausible causal mechanisms producing, respectively the presence of *successful lobbying* or its absence.

6.2 Candidate conditions

As per the two-step QCA approach that I adopt, I define two groups of candidate conditions: "context" conditions and "coalition" conditions. The former include conditions that characterise the nature of the standards that compose a policy issue (new or old, simple or complex) and conditions that define the broader political context in which decision-making took place (salience, political commitment to stricter regulation) and that we may expect to influence whether and to what extent the BCBS and the EU institutions could have acceded to financial industry requests for leniency. Those should be considered as "remote" conditions in the sense that interest representatives have little control over these factors, if any. In that sense, such conditions can be considered as "outcome-enabling": their presence (or indeed, their absence) makes the outcome possible. Four sets are defined to represent these conditions:

- The set ISSUSALI includes policy issues discussed in a context in which financial regulation issues are highly salient for the general public;
- The set ISSUCOMP includes policy issues characterised by a high degree of regulatory complexity;
- The set ISSUNOVE, in turn, includes policy issues where the Basel III reforms could be described as instances of regulatory innovation;
- The set ISSUPOLI, finally, includes policy issues on which political leaders expressed support for and a commitment to implement stricter regulation.

Conditions in the latter group, by contrast, characterise the collective effort of the members of a lobbying coalition to move policy outcomes towards their shared

preference. Beyond the mere number of interest representatives expressing the same preference, each coalition can indeed differ from the next in many aspects. Whether members generally contributed a significant amount of expert knowledge in support to the common preference, to what extent members coordinate their activity, how strongly members' preferences are generally worded, or whether the coalition includes interest representatives from outside the regulated industry: these are conditions that define a lobbying coalition, and that may play a role in determining whether a coalition is able to obtain lobbying success. Five sets are defined in this group:

- The set COALSIZE includes lobbying coalitions characterised by a large number of members;
- The set FINAMOOD includes lobbying coalitions in which financial interest groups generally expressed their preference for leniency in strong and even very strong terms;
- The set COALEXPE includes the lobbying coalitions in which a significant proportion of members displayed an important amount of expertise;
- The set COALCOOR is constituted by lobbying coalitions characterised by a high degree of coordination among coalition members;
- Finally the set NOFISUPP includes the anti-stringency coalitions in which non-financial sector representatives joined financial interest groups' call for leniency.

Two more sets are defined, which characterise neither issues nor coalitions but individual cases of lobbying. The set ACTOEXPE is defined as including cases of lobbying in which the actor, in its own comments on the issue, displayed an important amount of expert knowledge. The set ACTOCOOR is defined as including cases of lobbying in which the actor coordinated to a significant degree its responses

to consultations. These two sets are not included in the QCA process, but used as "stepping stones" to define the sets COALEXPE and COALCOR, respectively.

In the remainder of this section, I detail the definition of each condition and the boundaries of the set that represents it, starting with the two actor-level conditions, following with the coalition conditions, and, finally, the context conditions. For each set, I specify the indicators used to assess the presence of the condition in each case, the calibration process followed, and the resulting distribution of the 26 lobbying coalitions and 1043 cases of lobbying across levels of set membership.[3] As already mentioned, this step of the study should not be merely considered as data collection for the analysis but as the first step of the analytic process. Indeed, as we shall see with the sets COALEXPE and NOFISUPP, observations made while defining the sets can be useful in refining the selection of conditions.

6.2.1 Actor-level conditions

Important individual display of expertise (ACTOEXPE)

This condition is taken to characterize cases in which the organisation or individual displays large amounts of policy-relevant, technical information to policy-makers. The existing literature as well as practitioners all agree on the importance for lobbying success of supporting lobbying messages with quantitative data and expert knowledge.

I submit that interest groups can display expertise on a policy issue in two important ways. First, they may do so by providing long responses to publication consultations, in which they may introduce detailed legal or economic arguments, supported with technical information and illustrative examples. Second, interest groups can display expertise by showing quantitative data supporting the position they advocate on the policy issue. There is in theory no reason why a very long

[3] A table summarising the calibrated data set can be found in Appendix D.4

document with lots of graphs could not be totally useless to policy-makers, and conversely very short documents may convey key information in a very few words. As Klüver notes:

> There is no objective measure that one can rely on in order to measure the quality of information. Hence any attempt to assess information quality would be based on subjective evaluation and is therefore difficult to justify. Subjective evaluation is likely to vary extensively across different individuals so that reliability of the measurement is therefore hard to achieve (Klüver, 2013b, p. 107).

Nevertheless, in practice, writing responses to consultations—which have to be vetted by hierarchy or association members—is a time-consuming and potentially expensive exercise for interest representatives, which makes long uninformative documents unlikely. Conversely, interest representatives usually do not restrain their supply of technical information in public consultations. As one interviewee remarked: "If they [the EC] expect us to answer forty pages of questions, we can expect them to read at least as many pages of answers".[4]

For her own study, Klüver opted for using the length of interest groups' responses—measured in number of words per document—as a proxy for interest groups' provision of information. She validated this measure on a sample of her own corpus of responses to EC public consultation and found that "long submissions in general contain much more expertise, technical know-how, and political information about stakeholder preferences than short consultation submissions" (Klüver, 2013b, p. 107). I follow her example and adopt this metric as one indicator for the display of expertise. For each case in the data set, the number of words composing the interest group's comments on the issue is counted, after removing "stop words" (very common articles, preposition and other auxiliary words that carry no meaning).

[4]Interview with an interest representative, Brussels, January 7, 2020

Since most of the boilerplate language and repeated consultation questions were already removed from the corpus for the topic classification and sentiment analysis, the metric can be expected to capture text segments that are indeed used to convey information. Figure 6.1 displays the count of lobbying cases per length of comments extracted from the quantitative text analysis.[5]

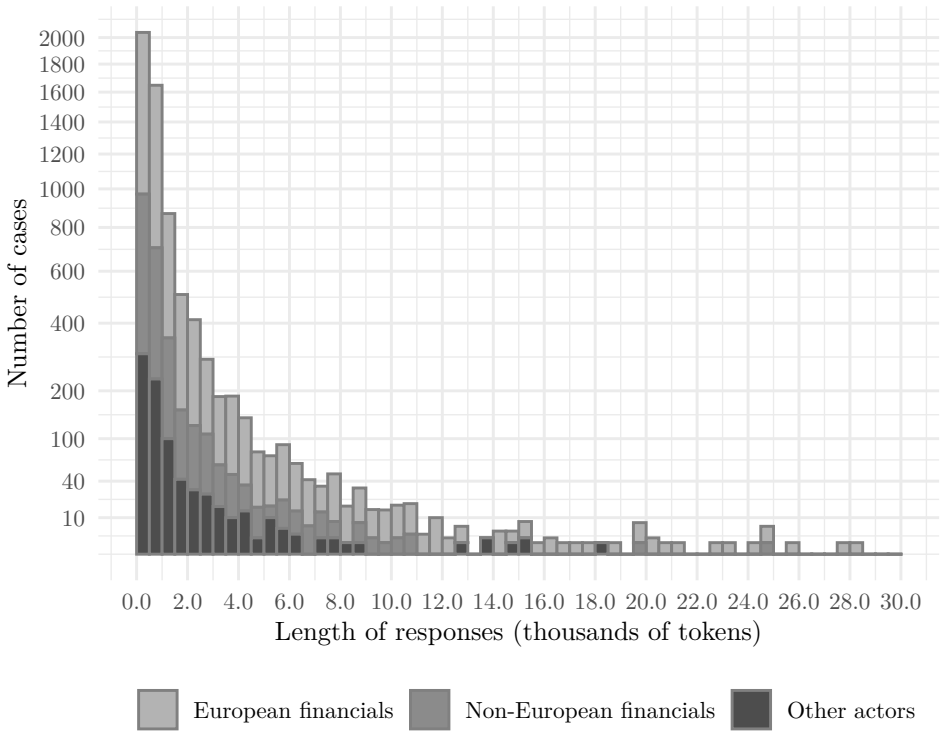

Figure 6.1: Length of comments across lobbying cases

However, I also submit that at least for financial regulation, the inclusion of graphs and tables to communicate quantitative evidence is an important tool to claim expertise in the field.[6] Indeed, claims that a particular product or activity is (un)safe from a prudential point of view may usefully be supported with time series data about market prices, profits and losses volatility or projections of impact that are better conveyed under the visual form of graphs and tables. Both the BCBS and

[5]Note that the distribution naturally mirrors the distribution of cases across number of sentences displayed in Figure 5.7: although sentences may vary in length, both measures are essentially measuring the same notion.

[6]Note that Klüver sought to measure the general *provision of information* by interest groups, while I seek to capture interest groups' display of *expertise* of capital requirements. The two concepts partly but not fully overlap, hence the different choice of indicators.

EC consultation documents on numerous occasions explicitly request respondents to support their responses with quantitative data, from which we can infer that responses that enjoy this empirical support are likely to receive more consideration.

For this second indicator, I counted the number of tables and figures (including graphs and diagrams) to be found in each of the collected documents. This count per document is then attached as a document variable to each of the sentences composing the document before they are mapped to policy issues in the topic classification. The tables and figures-based indicator of expertise display for each case is then obtained by averaging across all the sentences assigned to the case. Thus a case receives a high score on this metric if a high proportion of the sentences assigned to it are extracted from documents that include a large number of tables and figures; conversely, a case where most of the sentences come from documents that included no or very few tables and graphs will receive a low score.

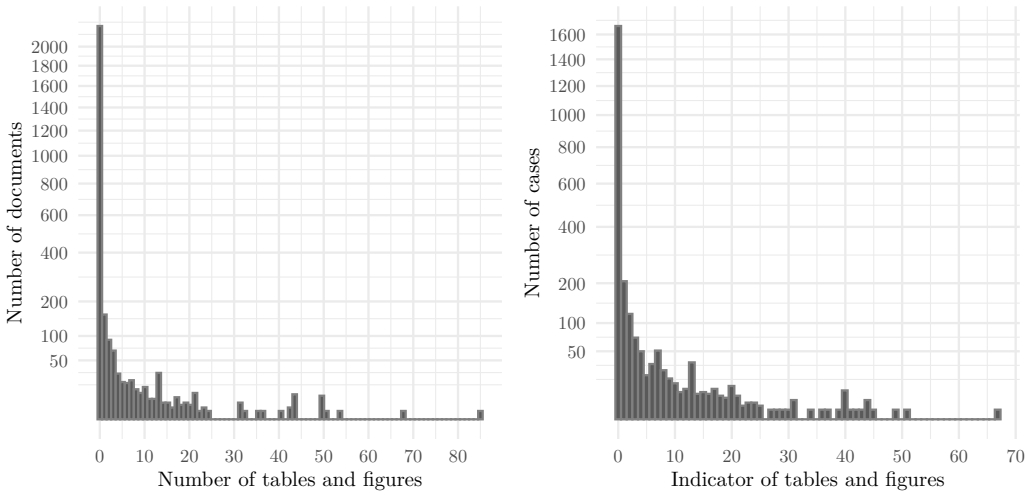

Figure 6.2: Interest groups' use of tables and figures to display expertise

In practice most of the documents in the corpus do not include any table nor figure, as depicted in Figure 6.2. It is notable that some long answers include no or very few tables and figures, while some short documents exhibit a large number of such data visualisation items. We can then consider that including tables and figures partly constitutes a functional equivalent to providing lengthy technical

Table 6.1: Calibration anchors for elements of ACTOEXPE

HIGHLENGTH	**MIDDLENGTH**	**VISUALS**	
Nb. of tokens		**Use of tables and figures**	**Membership score**
Less than 2 000	Less than 1 000	0	0
2 000 to 2 999	1 000 to 1 499	Above 0 to less than 0.5	0.2
3 000 to 3 999	1 500 to 1 999	0.5 to less than 1	0.4
4 000 to 4 999	2 000 to 2 999	1 to less than 1.5	0.6
5 000 to 5 999	3 000 to 3 999	1.5 to less than 2	0.8
6 000 or more	4 000 or more	2 or more	1

explanations—a picture is worth a thousand words, they say—and that the condition *important individual display of expertise* is present either when the respondent provided long comments on the issue *or* when they provided a significant amount of quantitative data, identified through graphs and tables. A table or a graph however is worthless without a good explanation: a lot of the former then cannot be expected to fully compensate for the absence of the latter.

In other words, for a case to be a member of the set ACTOEXPE, the interest group must have either provided very lengthy comments on the issue (member of the set of HIGHLENGTH) *or* have provided lengthy comments (MIDDLENGTH) *and* have provided quantitative data in the form of tables and graphs to support its positions (VISUALS). Then we can express the condition ACTOEXPE as:

$$ACTOEXPE \longleftrightarrow HIGHLENGTH + MIDDLENGTH * VISUALS \quad (6.1)$$

Membership in HIGHLENGTH and MIDDLENGTH is defined for each case by referring to the length (in tokens) of the interest group's comments on the policy issue. Membership in VISUALS is defined with reference to the tables and figures-based indicator of expertise display presented above. For each of the three sets, I define a six-value fuzzy scale for membership scores, using the recoding method of calibration with the thresholds presented in Table 6.1.

A case is considered more in than out of HIGHLENGTH from 4 000 tokens, which

corresponds approximately to 8 full pages of single-spaced, 12pt-sized text, which is indeed a long text for a response to a consultation. A case where the comments are at least 6 000 tokens long (12 pages) are considered fully in the set. To be a member on the conjunction MIDDLENGTH∗VISUALS, a case must have comments that are at least 2 000 tokens long (4 pages) and have an indicator of use of tables and figures at least equal to 1. To be a full member in this conjunction, the case must have comments that are at least 4 000 tokens long and exhibit an indicator of tables and graphs equal or superior to 2.

Equation (6.1) is then used to compute cases' membership scores in ACTOEXPE. The condition *important individual display of expertise* (ACTOEXPE) is then considered present in cases that meet the conditions to be either fully in or more in than out of HIGHLENGTH or of MIDDLENGTH∗VISUALS. The resulting distribution of cases across degrees of membership in ACTOEXPE is shown in Figure 6.3. In total, in only 319 of the 1043 cases (30.58%) do we find the condition *important individual display of expertise* to be present.

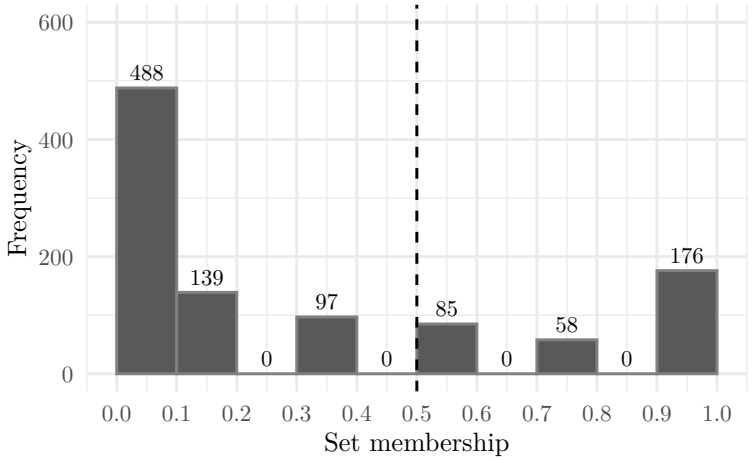

Figure 6.3: Membership in the set ACTOEXPE

Significant coordination activity (ACTOCOOR)

What effect does coalition-building activity have on lobbying success is a prominent question in the interest group literature, which finds evidence of interest groups' efforts to build large and diverse coalitions in support of their positions (e.g., Heaney & Lorenz, 2013; Pagliari & Young, 2014; Rozbicka, 2013; Young & Pagliari, 2017). The findings from studies investigating the effects of coalition-building on lobbying success lead to the theoretical expectation that an interest group that generally manages to coordinate its expressed positions with other interest groups' positions on a same issue is more likely to be successful. Signalling industry unity in support or opposition to a policy proposal is thus expected to increase the chances of success (Chalmers, 2018).

Furthermore, it appears that, for financial interest groups in particular, coordinating positions with actors beyond one's own industry increases chances of success. Pagliari and Young (2014) thus find that financial interest groups' capacity to tie their interests to that of non-financial business interests enables the former to 'leverage' their own influence, increasing chances of success.

Several of the financial interest representatives that I interviewed thus mentioned attempts to have non-financial business organisations adopt at least some of their positions on bank capital requirements. Similarly, respondents regularly mentioned their attempts to coordinate positions with organisations from other countries, or active on a different geographical scale (e.g., national-European or European-international) in order to increase the geographical representativeness of their positions and avoid the appearance of parochialism (interview, Brussels, January 7, 2020), in particular when targeting the EC, and even more the BCBS. Finally, financial interest groups may seek to coordinate messages with public authorities—Treasury departments, central banks, bank supervisors—and have these actors support the company's or industry's positions on a particular policy issue, fostering the development of broad advocacy coalitions including both state and non-state, public

and private actors (Quaglia, 2010; Sabatier & Jenkins-Smith, 1993).

This active coordination of positions can take different forms, varying in their degree of formality: from the informal exchange of information and discussion of respective point of views on a same policy proposal to the creation of a common organisation "with logos, letterhead and secretariat" (Mahoney, 2007b, p. 366), the coordination activity of interest representatives takes multiple forms (Junk, 2020). Four main ways to empirically measure coordination activity have been proposed in the literature. The first two rely respectively on the analysis of formal membership of firms and associations in trade associations and federations (Bunea, 2014; Chalmers, 2018) or on patterns of formal co-signing of position papers (Box-Steffensmeier & Christenson, 2014; Pagliari, 2018).

The third approach relies on surveying interest representatives and asking them about their informal coordination efforts (Chalmers, 2013b; Mahoney, 2007b), an approach that may however become unreliable when researchers seek information about events long past (Holyoke, 2009). Finally, recent studies have suggested to infer from instances of text-reuse in the documents produced across different organisations the presence of communication channels between these organisations (James et al., 2021; Pagliari & Young, 2020). This approach relies on the assumption that when position papers submitted by different organisations to a same public consultation have a significant amount of text in common, it is most likely the result of an active discussion of positions between these organisations in the preparation of their responses, involving the circulation of drafts and talking points.

When constituting the corpus analysed in the previous chapter, I could observe that co-signing and text-reuse have been common practice for a series of actors involved in debates about bank capital requirements. Interviewees generally confirmed that coordinating positions with other organisations in order to speak with one voice is indeed expected to contribute to lobbying success by increasing the representativeness of the common positions. In other words, the presence of the

condition *significant coordination activity* in a given case is expected to contribute to the presence of the outcome *successful lobbying* in that case. I call the set of cases where the condition is present ACTOCOOR.

The presence of the condition is measured through a text-reuse approach: I follow the 'substring matching' approach laid out by Pagliari and Young (2020) and James et al. (2021), applying it to the sentences in my corpus in order to identify sequences of texts that are shared across several organisation's documents. The approach uses the Smith-Waterman (SW) local alignment algorithm (Smith, Waterman, et al., 1981), which was originally developed in biology research to identify matching sequences of genes in DNA but was later applied to text analysis (see, e.g. Burgess et al., 2016; Linder et al., 2018; Wilkerson et al., 2015). Indeed,

> this algorithm is particularly appropriate for detecting instances of coordination among interest groups since it allows us to identify similar passages of text between two documents that are not perfectly overlapping (James et al., 2021, p. 904).

I detail in Appendix D.2 the technique used to detect instances of text-reuse across the documents in the corpus and the filters applied to limit the results to instances of text-reuse that are indeed very likely the result of active coordination of responses. This analysis yields 3 836 pairs of documents by different organisations, each pair having in common at least 10 sentences of at least 20 consecutive words. For each document that appear in this data set, I calculate the total number of pairs the document is part of: since each pair constitutes a tie to one other organisation, the number of pairs the document is part of indicates how many other organisations the author coordinated their response with.

These data attached to documents must then be transformed into a case-level indicator of coordinated activity. The document-level count of ties is attached to each sentence of the document, which are mapped to policy issues through the topic

classification. I then compute the case-level indicator by taking the average across the sentences attached to each case. The resulting distribution of cases across levels of average ties number is presented in Figure 6.4 for European and non-European financial interest groups and for non-financial interest groups.

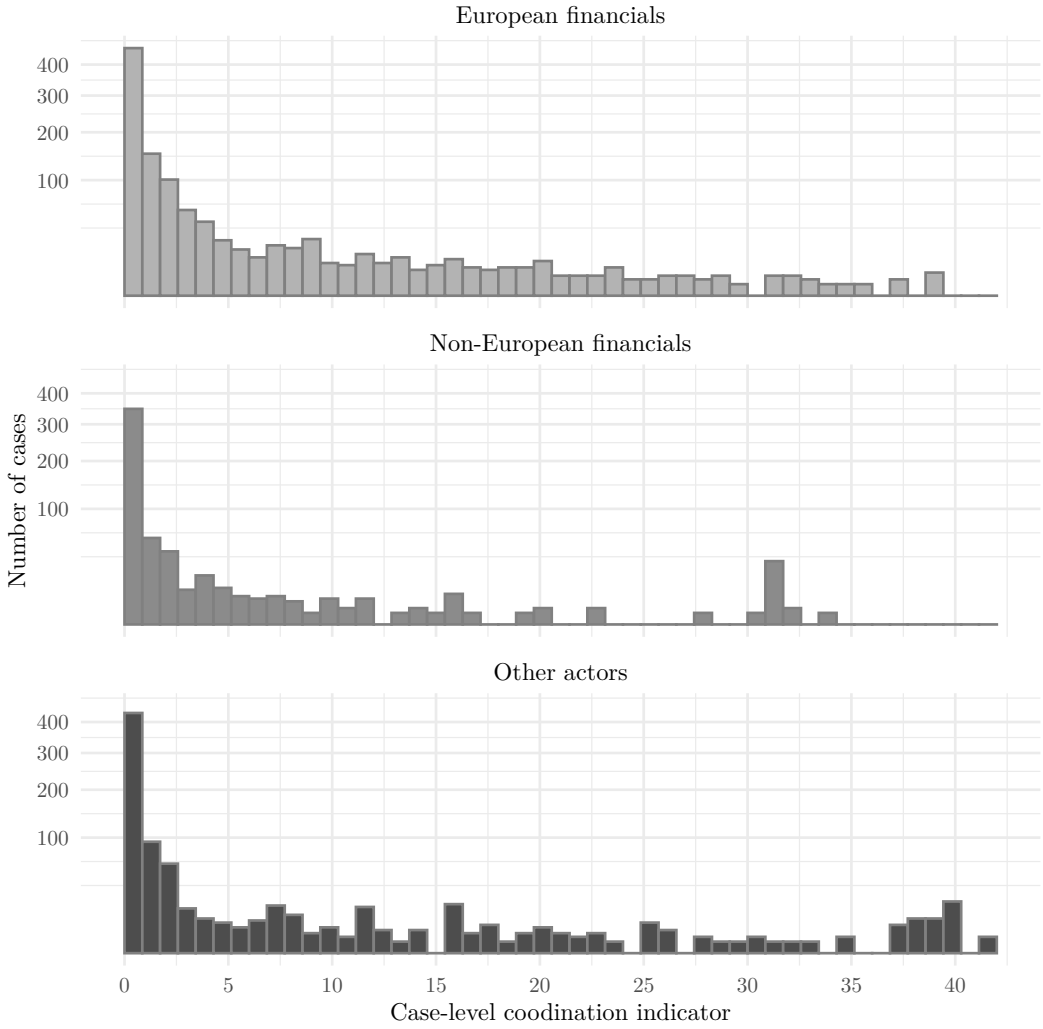

Figure 6.4: Distribution of cases across average number of ties to other organisations

As can be seen in Figure 6.4, most cases exhibit low text-reuse indicators, which is in part due to the conservative parameters used to produce the count of ties: a tie is counted only where the original document shared at least 10 sentences of at least 20 consecutive words each with a submission by another organisation. We can observe that the distribution is similar for all three groups of the population:

Table 6.2: Calibration anchors for ACTOCOOR

Coordination indicator	**Membership score**
Less than 0.5	0
0.5 to less than 1	0.2
1 to less than 1.5	0.4
1.5 to less than 2	0.6
2 to less than 2.5	0.8
2.5 or more	1

European financial interest groups are not different from other types of interest groups in terms of their coordination activity.

345 of the 1 043 cases involving a European financial interest group show no evidence of text-reuse at all (the indicator is 0). All cases where the indicator is above 0 exhibit *some* text-reuse, evidence of *some* coordination activity. However, for the observed text-reuse to be considered as evidence of a *significant* level of coordinated activity, the indicator should be clearly above 0, to exclude cases of very marginal coordination, but not so high as to exclude cases in which an actor coordinated its responses with only one or two other organisations. Many organisations indeed tend to discuss their positions with a small group of organisations that are natural "partners" or "allies"; for instance, representatives of small retail banks maintain regular contacts with organisations representing non-financial SMEs.[7]

To define the membership of cases in the set ACTOCOOR, I define a six-value fuzzy scale and use the recoding method of calibration with the thresholds presented in Table 6.2. Cases with an indicator below 0.5 are full non-members of the set, cases with an indicator above 2.5 are full members, and the cross-over point is located at an indicator of 1.5. The resulting distribution of cases across membership scores is depicted in Figure 6.5. With these calibration anchors, the condition *significant coordination activity* is then found present in 468 of the 1043 cases (44.87%).

[7]Interview, Brussels, January 23, 2020.

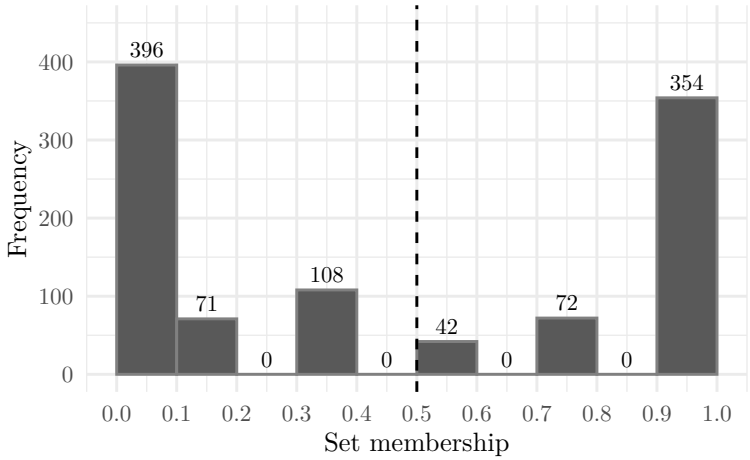

Figure 6.5: Membership in the set ACTOCOOR

6.2.2 Coalition conditions

Large supporting coalition (COALSIZE)

We can intuitively grasp how the presence of a large coalition of actors expressing the same preference on a given issue may contribute to that coalition's members obtaining a major success in their lobbying on that issue. Indeed, a position defended by a large number of actors is more likely to be successful because of its higher representativeness. I then expect that where the condition *large supporting coalition* is present, it contributes to the presence of the outcome *successful lobbying*. Conversely, the absence of a large supporting coalition should be expected to contribute to the absence of the outcome.

I name COALSIZE the set of cases in which this condition is present. Cases are to be considered members of the set COALSIZE when the preference of the actor for less stringency is shared with a large number of other actors expressing the same preference regarding the issue. It is important to note that the observation of a large lobbying coalition does not imply that the members of that coalition are effectively coordinating their lobbying activities: here a *coalition* is to be understood as a side in the conflict over the policy issue; membership in the coalition is only determined

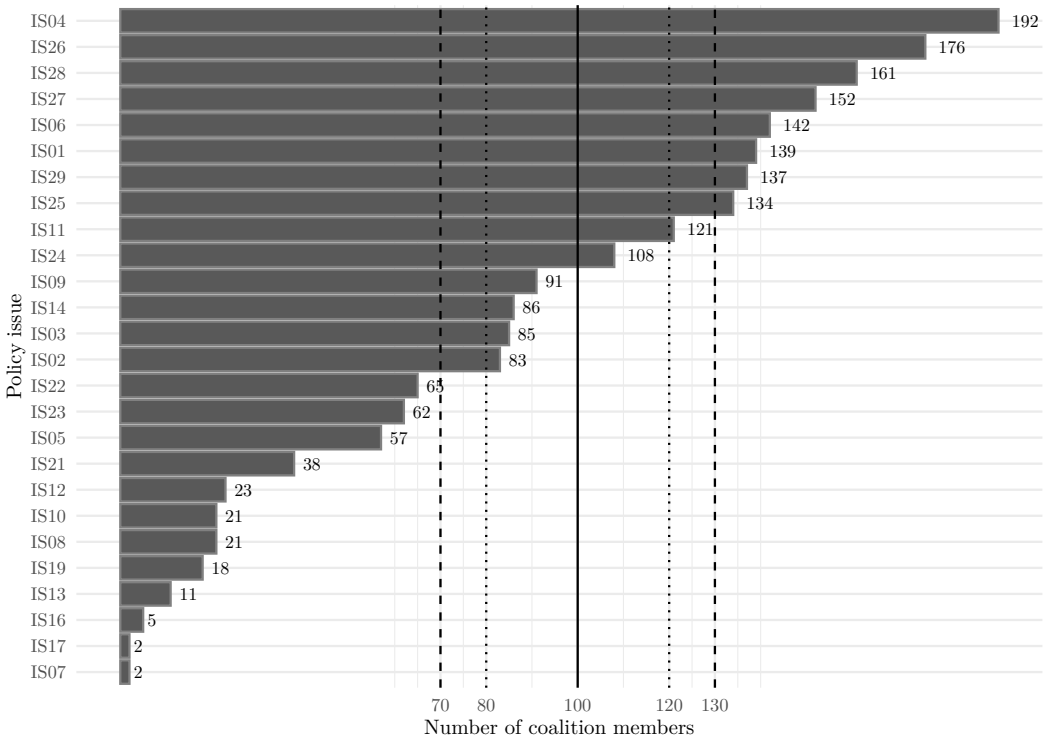

Figure 6.6: Size of the anti-stringency coalition

by the preference expressed by actors.

The membership of each individual case in the set COALSIZE is determined based on the count of actors expressing a similar preference for less stringency on the same issue. Figure 6.6 depicts the size of such coalitions of anti-stringency actors across policy issues.

In terms of calibration, there is no obvious benchmark to define the thresholds above which a coalition is to be considered fully in or below which it is to be considered fully out of the set. I then use the strategy suggested by Ragin (2008) which consists in identifying "convenient gaps" in the data, that is, points where values increase in greater increments than in the rest of the series.

In Figure 6.6, there are several such gaps, in particular in the region between 70 and 130 coalition members. The biggest "step" is between 91 and 108, I then suggest that in cases where the supporting coalition includes more than 100 members, the

condition *large supporting coalition* should be considered present. I then adopt the following thresholds to assign cases a membership score in COALSIZE: Where the supporting coalition has less than 70 members, the case is assigned a 0 (fully out); cases with 70 to less then 80 members or with 80 to less than 100 receive scores of 0.125 and 0.25, respectively (more out than in); cases with 100 to less than 120 members or with 120 to less than 130 receive scores of 0.75 and 0.875, respectively (more in than out); finally cases where the coalition includes 130 members or more receive a score of 1 in the set (fully in). The thresholds are reported with horizontal lines in Figure 6.6. With this calibration, 10 of the 26 coalitions (38,46%), representing 690 of the 1043 cases (66.16%), are members of the set COALSIZE.

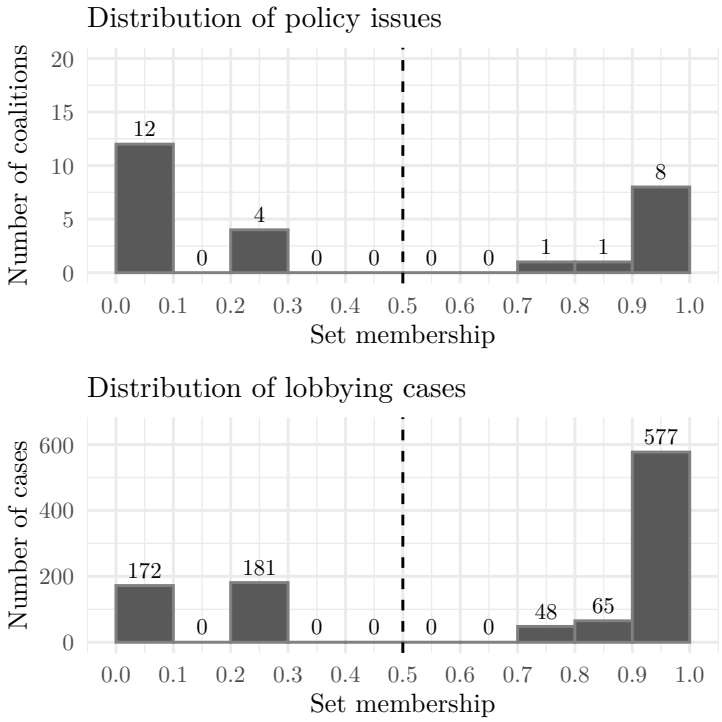

Figure 6.7: Membership in the set COALSIZE

Financial interests' strongly worded opposition to stringency (FINAMOOD)

In the previous chapter, I have remarked the important variation that exists in terms of the intensity of financial interest groups' opposition to stricter rules. The

computed polarities across those financial interest groups expressing a preference for leniency reflected that in some cases the preference was expressed in moderate terms, while in other cases, the high absolute value of the sentiment score revealed a strongly worded position.

Were we to observe that strongly worded anti-stringency positions concentrate on some issues, while on other issues, the average opposition to stricter rule was moderate, we may expect that this difference in terms of average intensity of financial interest groups' opposition to stricter rules played some role in producing *successful lobbying* or its negation. Indeed, we can sense that the terms in which the regulated industry collectively reacts may *ceteris paribus* make a difference in terms of the number and extent of the concessions that decision-makers make to accommodate the industry's criticisms. The opposition from the industry to the proposed reform would however need to be particularly strongly worded to make a significant difference.

Observing across policy issues the average sentiment score of anti-stringency comments submitted by financial interests (Figure 6.8), we indeed find some substantial variation. While on the use of external ratings (IS07) and haircut floors for SFTs (IS16), the average score above -3.1[8] indicates the absence of any strongly worded preference, at the other extreme, proposals on the CVA framework (IS23), the IMA for market risk (IS22) and the securitisation framework (IS11) appear to have caused an outcry.

We can observe several gaps in the data that may indicate qualitative differences between coalitions. In particular, there is a gap between the average score for the credit risk mitigation (CRM) framework (IS08, -7.08) and that for large exposures (IS28, -8.44), another between average scores for the SA-CR (IS06, -9.15) and the SA for market risk (IS21, -9.84), and a third one between scores for the NSFR (IS27, -10.82) and the IMA for market risk (IS23, -12.41). Since a score of -3.1 was found to

[8]the score found as the best threshold to distinguish moderately from strongly worded preferences, see page 157.

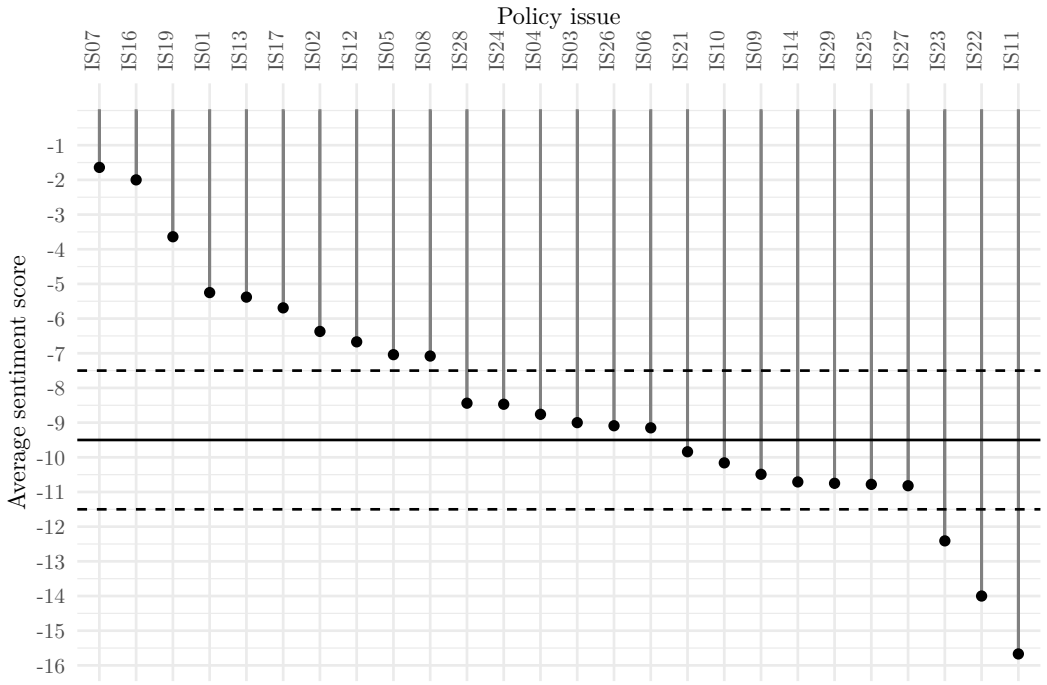

Figure 6.8: Average sentiment score of anti-stringency comments by financial interest groups

generally distinguish between a moderately and a strongly worded set of comments, we can observe that these gaps broadly correspond to values that are equal to 2.5, 3 and 3.5 times -3.1. To calibrate membership in the set FINAMOOD, I then suggest that all coalitions for which the average score is between -7.5 and -11.5 (dashed lines in Figure 6.8) have partial membership in the set $FINAMOOD$, with a difference in kind existing between those above and those below an average score of -9.5 (full line). Anti-stringency coalitions with average sentiment scores above -7.5 are fully out of the set, and those with average scores below -11.5 are found fully in the set. I use a six-value fuzzy scale and the recoding method to calibrate membership scores, using the thresholds presented in Table 6.3.

With this calibration, the condition is found present in 476 out of the 1043 cases (45.64%) and 10 of the 26 coalitions (36.46%). The resulting distribution is depicted in Figure 6.9.

Table 6.3: Calibration anchors for FINAMOOD

Average sentiment score	**Membership score**
Less than -11.5	1
-11.5 to less than -10.5	0.825
-10.5 to less than -9.5	0.75
-9.5 to less than -8.5	0.25
-8.5 to less than -7.5	0.125
-7.5 or more	0

Important collective display of expertise (COALEXPE)

The third coalition-specific condition that I test in the study relates to the *collective* display of expertise by the members of a coalition. As we have seen in Section 5.2 of the previous chapter, there is great variation across cases in terms of the amount of expertise displayed by interest groups. Considering the previously stated expectation that a greater display of expertise by individual interest groups contributes to *successful lobbying*, we may similarly expect that where the members of lobbying coalition generally display large amounts of expertise, this collective display contributes to the *successful lobbying* of all the coalition members.

In other words, an actor, regardless of its own display of expertise, may be able to obtain major success on a particular issue if a significant number of the organisations advocating the same direction on that issue display an important amount of expertise. It is then this *collective* display of expertise, rather than each individual organisation's, which is expected to be relevant for the occurrence of *successful lobbying*.

To assess the presence of the condition, I rely on the previously defined criteria for the condition *important individual display of expertise*, defining the boundaries of the set ACTOEXPE (see Table 6.1 on page 200). Figure 6.10 below depicts for each lobbying coalition the proportion of members fully in, more in than out, more out than in and fully out of the set ACTOEXPE.

As we can see from the graph, for 20 of the 26 observed coalitions, submissions

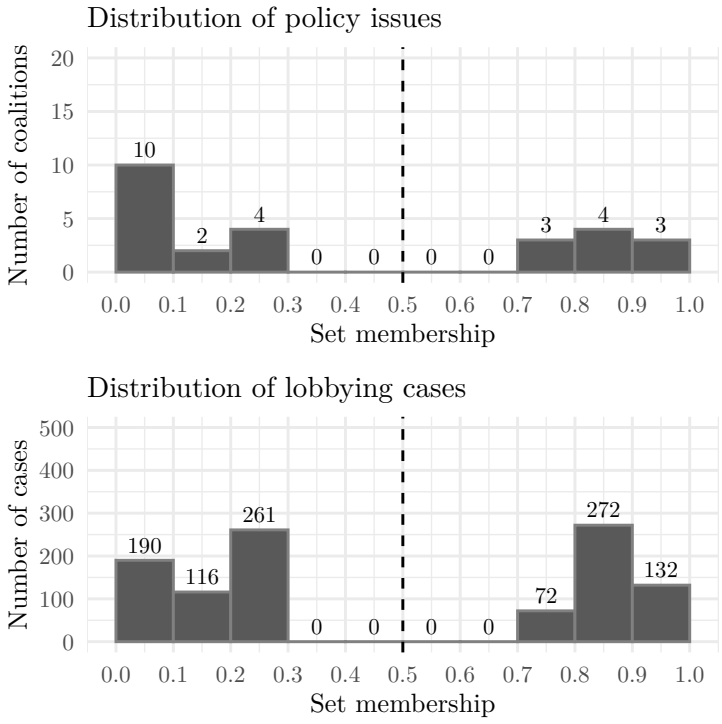

Figure 6.9: Membership in the set FINAMOOD

that qualify for membership in ACTOEXPE represent between one tenth and a little more than one fourth of the submitted anti-stringency comments on the issue. For most of those coalitions, comments that would qualify for full membership in ACTOEXPE represent close to 10% of the comments. No clear gap appears that would be sufficient to infer a qualitative difference among these coalitions. The only clear gaps in the data separate the first two and last two coalitions from the rest: respondents mobilised significantly more expertise in the anti-stringency coalitions on the IMA for market risk (IS22) and the securitisation framework (IS11) than in any other coalition. At the other end of the spectrum, we find four issues where none of the (few) submitted comments would make the case a member of ACTOEXPE. Using either of these gaps to set calibration thresholds would inevitably result in a highly skewed set, with a very large share of cases either in or out. Furthermore, we already know that, while European financial interest groups obtained major successes on both IS11 and IS22, there are both many cases of success and cases of

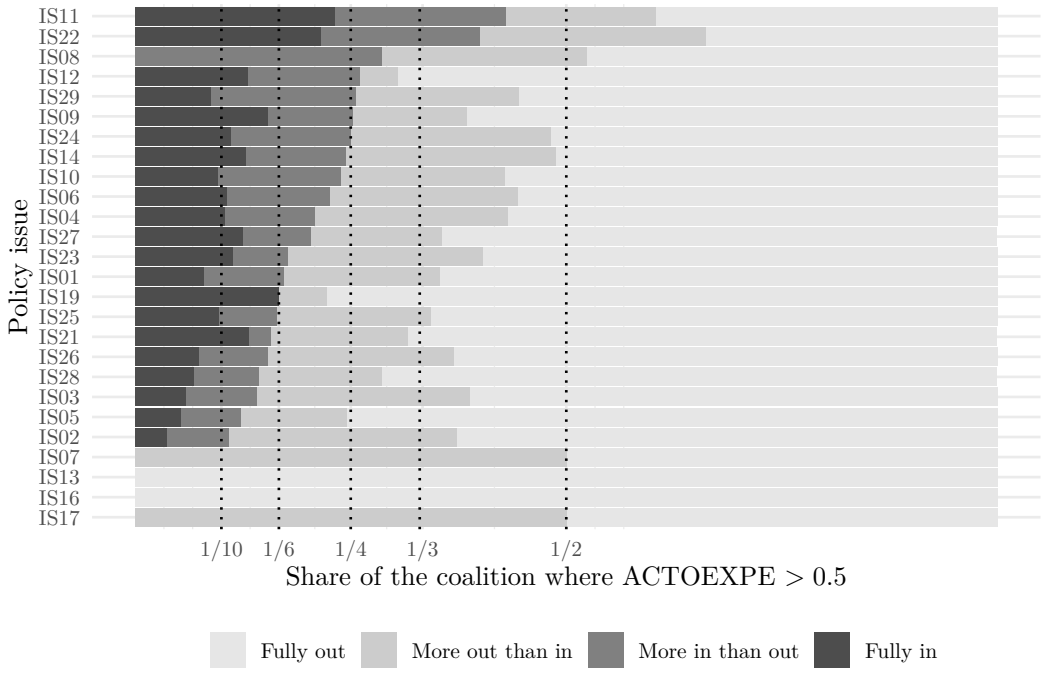

Figure 6.10: Display of expertise in anti-stringency coalitions

non-success among cases cases that are part of "mid-expertise" coalitions.

Rather than integrating the condition *important collective display of expertise* in the truth table analysis and logical minimisation, I then suggest to assess its relevance as a confounding condition *after* the minimisation. I define the set COALEXPE of cases where the supporting lobbying coalition collectively displayed important expertise as a crisp set: cases targeting IS11 and IS22 are members of the set (1), all other cases are non-members (0). I will then implement the method proposed by Rutten (2020, pp. 21–23) to determine whether the condition is part of any of the sufficient terms of the solution resulting from the truth table analysis and minimisation (see Section 6.3.4).

Strong degree of coordination among coalition members (COALCOOR)

Continuing with our search for conditions that qualify lobbying coalitions, I now turn to the degree of coordination activity displayed by the members of a coalition.

Theoretically, the expectation is that where a significant portion of the members of a lobbying coalition actively coordinate the expression of their preferences (a behaviour measured through the detection of text-reuse in their comments), we may expect that this coordination activity benefits *all* the members of the lobbying coalition, including those who did not actively coordinate their positions with others.

To assess the presence of the condition, I build on the condition *important collective display of expertise*, relying on the previously defined criteria for membership in the set ACTOCOOR. Based on the count of ties obtained through the text-reuse analysis presented above and in Appendix D.2, I compute the membership score of all interest group-policy issue pairs, including non-European and non-financial interest groups, in the set ACTOCOOR. Figure 6.11 below depicts for each lobbying coalition the proportion of members fully in, more in than out, more out than in and fully out of the set ACTOCOOR.

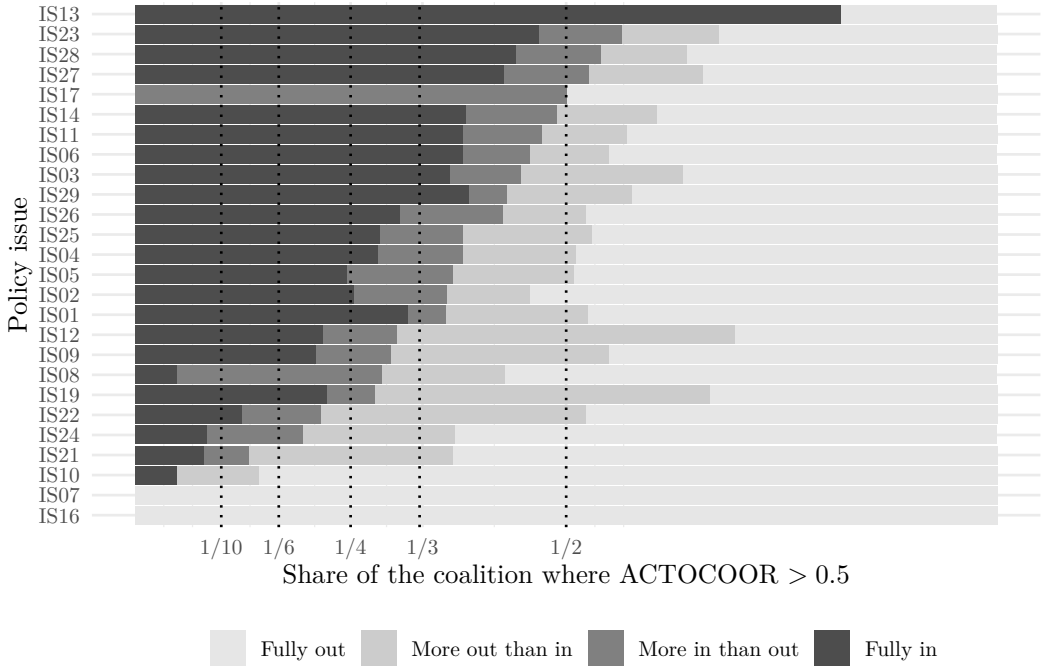

Figure 6.11: Coordination activity in anti-stringency coalitions

Focusing on the relative numbers of actors fully in or more out than in ACTOCOOR in each coalition (in dark grey), we can observe that there are coalitions

Table 6.4: Set membership scores in COALCOOR

Membership score	**Anti-stringency coalition (target issue)**
0	IS07, IS10, IS16, IS21, IS24
0.1	IS22
0.2	IS08, IS17
0.3	IS09, IS12, IS19
0.6	IS05
0.7	IS01, IS02, IS04, IS25
0.8	IS26
0.9	IS14, IS11, IS06, IS03, IS29
1	IS13, IS23, IS28, IS27

characterised by important levels of coordination (actors fully in or more out than in ACTOCOOR dominate), while in others, coalition members show little coordination activity. To calibrate the membership of cases into the set COALCOOR, I consider that those coalitions where more than half of the members actively coordinated their positions (ACTOCOOR > 0.5) and more than a third of the members did so to an important extent (ACTOCOOR $= 1$) are fully in the set COALCOOR (IS13, IS23, IS28 and IS27). At the opposite end of the spectrum, cases where less than a fourth of coalition members are in the set ACTOCOOR and less than a tenth of are fully in that set are fully out of COALCOOR. Further, I submit that cases where more than a third of the coalition members are at least more in than out of ACTOCOOR and among those at least one fourth are fully in ACTOCOOR are more in than out than in the set COALCOOR, to various degrees. The remaining cases are more out than in to various degrees. Using the recoding method, I define the fuzzy scale presented in Table 6.4.

Figure 6.12 shows the distribution of cases and coalitions across levels of membership in COALCOOR. With this calibration, 15 out of the 26 observed lobbying coalitions (57.69%) are included in the set COALCOOR. These 15 coalitions however represent 80.54% of the cases which makes for a significantly skewed set if we consider the level of individual lobbying cases.

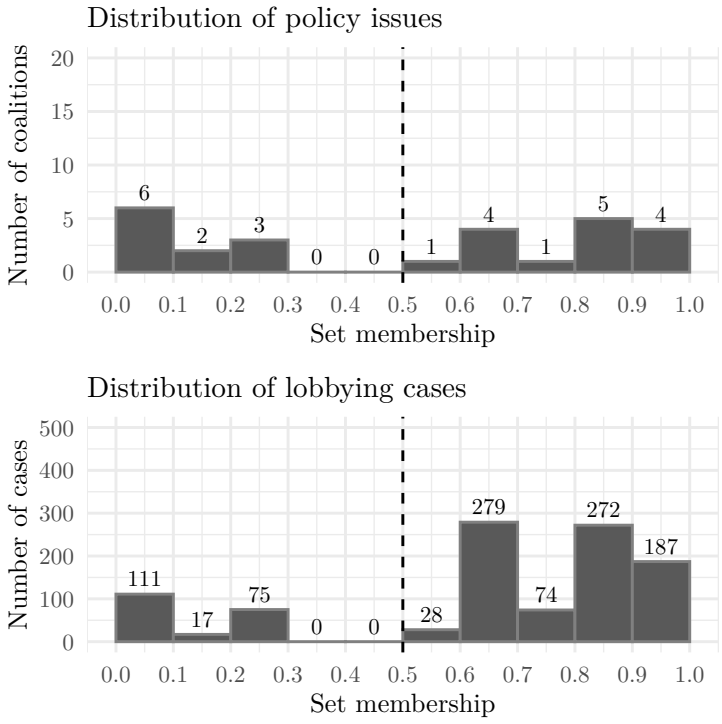

Figure 6.12: Membership in the set COALCOOR

Important support from non-financial actors (NOFISUPP)

As already mentioned in Chapter 2 and in Section 5.3.2, the existing literature leads to the expectation that, where the positions of financial interests are also supported by large number of actors beyond the financial sector, this support contributes to financial interest groups obtaining important successes in their lobbying.

The variable I use as indicator of the presence of the condition *important support from non-financial actors* is the number of non-financial interest groups who expressed on the issue the same preference for leniency. I have noted in the previous chapter that the involvement of representatives of non-financial business interests, public sector institutions and other non-business actors varied significantly across the policy issues examined in this study. Figure 6.13 below shows for each issue the number of such actors who expressed a preference for a lenient approach. We can see a significant variation across issues, from 62 anti-stringency non-financial

comments on the capital buffers above the regulatory minimum (IS04) to only 1 for the tail of the distribution. We can then conclude that European financial interest groups' opposition to stricter rules benefited on a number of issues from an *important support from non-financial actors*, a support which was absent in other cases. Knowing already that European financial interest groups obtained little concessions on IS04 but important ones on the next five issues, we may expect the presence of the condition *important support from non-financial actors* to be relevant, although insufficient in itself, to produce success.

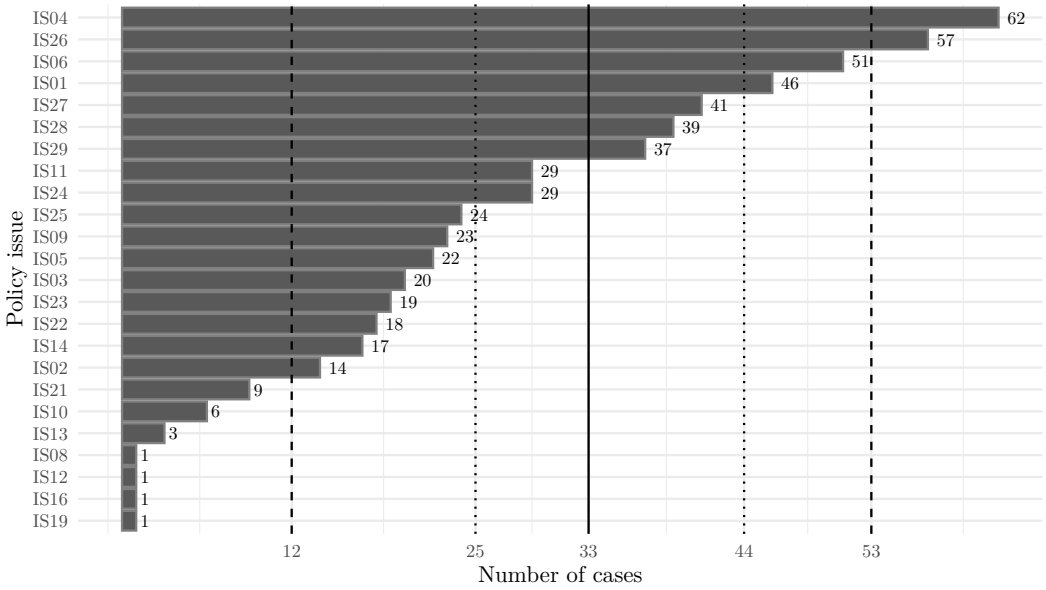

Figure 6.13: Involvement of non-financial actors in anti-stringency coalitions

Where does the limit lay that differentiates cases in which the condition should be considered present and those in which the condition should be considered absent? In other words, at which number of non-financial supporters can we consider their support as "important"? Here again, I refer to gaps in the data. We can observe that the largest "step" between two values is from 37 for margin requirements (IS29) to 29 for securitisation (IS11) and operational risk (IS24): this gap could be considered as indicating a threshold beyond which the support of non-financial actors to the anti-stringency position indeed becomes more *important* than *not important*. On the right of the graph, we can see another gap between the 14 for prudential adjustments

Table 6.5: Calibration anchors for NOFISUPP

Coordination indicator	**Membership score**
Less than 12	0
12 to less than 25	0.125
25 to less than 33	0.25
33 to less than 44	0.75
44 to less than 53	0.875
53 or more	1

(IS02) and only 9 for the SA for market risk (IS21), then 6 for the CRM framework (IS10): I submit that this bend in the distribution reveals a threshold below which non-financial actors' support is fully insignificant.

In the higher values (left-hand side of the graph) we see several gaps which may be significant. I suggest to set the inclusion threshold—above which cases are considered fully in the set NOFISUPP—at 53, that is, the middle of the largest gap in this area. Using a six-value fuzzy scale and the recoding method of calibration, I then distinguish among cases that are more in than out and between those that are more out than in. Table 6.5 shows the correspondence between number of non-financial actors in the anti-stringency coalition and membership scores in NOFISUPP.

With this calibration, 501 out of the 1 043 cases (48.03%) and 7 out of 26 coalitions (26.92%) in the data set are members of the set NOFISUPP, as depicted in Figure 6.14. We should note, however, that in all cases where the condition *important support from non-financial actors* is present, the condition *large supporting coalition* is also present, but not vice versa.

The set NOFISUPP then is a subset of the set COALSIZE, a relation that we can observe in the Venn diagram in Figure 6.15: Three coalitions are in the set COALSIZE and out of the set NOFISUPP, seven stand at the intersection of the two sets, but there is no coalition in the set NOFISUPP beyond the intersection with COALSIZE. I then suggest not to integrate the condition in the truth table analysis and logical minimisation, but rather to consider it as a possible confounding condition to be controlled for across the terms of the QCA solution.

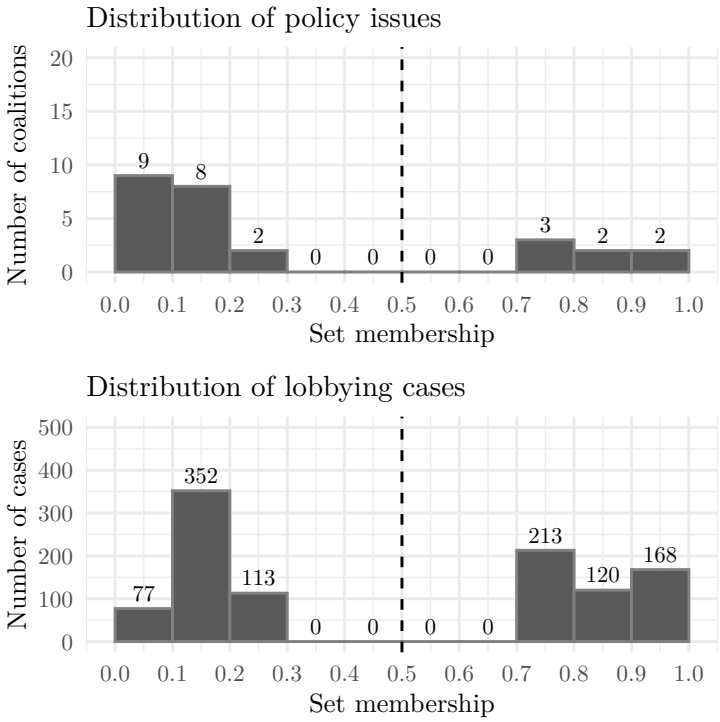

Figure 6.14: Membership in the set NOFISUPP

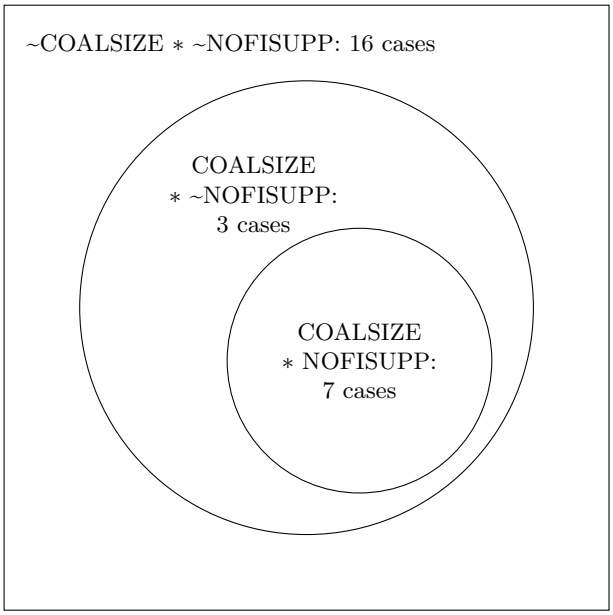

Figure 6.15: Relation of the sets COALSIZE and NOFISUPP

6.2.3 Context conditions

High salience context (ISSUSALI)

As we could see in the review of the business power literature, increased public attention to a given policy issue may be expected to reduce the influence of business interests. First, it may increase the number of actors opposing the preferences of industry representatives (Chalmers, 2015; Dür & Mateo, 2014; Mahoney, 2007a). Second, a crisis, by drawing voters' attention to a particular area of policy-making previously discussed only among experts, may push elected officials to prioritise their voters' concerns where "quiet politics" used to offer business interests a quasi-monopoly of interest representation (Culpepper, 2011; Massoc, 2019).

The GFC has suddenly drawn a lot of public attention to financial regulation, including the prudential requirements imposed on banks. Scholars have already analysed the effect of that increased salience on several parts of the post-crisis financial reform (Chalmers, 2015; Quaglia, 2012; Woll, 2013), without always finding evidence that heightened public attention led to significant policy change (Moschella & Tsingou, 2013). In some cases, industry representatives even sought to raise public attention to financial reforms in order to limit the tightening of standards (Kastner, 2018). Public attention, although high in the immediate aftermaths of a crisis, tend to decrease as the memory of the crisis fades. Since the various components of the Basel III framework were drafted and negotiated at different points in time, then lobbying on each of these policy issues would have taken place in a context where the salience of financial regulation was high for the earlier works and low—or at least more limited—for the later parts of the reform.

I then include the salience of financial regulation issues with the general public in my study by defining a condition *high salience context* (ISSUSALI). The presence of the condition in a case depends on the policy issue that the interest group targeted. I adopt as a proxy for issue salience the news coverage of financial regu-

lation, instability and crises, measured as the number of newspaper and magazine articles found in the *Global Newsstream* database mentioning a series of keywords related to financial regulation and financial crisis. Time series of mentions of an issue in the news are regularly used by political scientists to assess the relative salience of an issue at different points in time (e.g., Dür & Mateo, 2014, p. 1209; Kriesi, 2007). To obtain such count for the present study, I searched the data for all newspaper and magazine articles from January 1, 2000 to November 29, 2021 including the following keywords: *financial regulation*, *banking regulation*, *capital adequacy*, *bank capital*, *liquidity crisis*, *financial leverage*, *banking crisis*, *financial crisis*, *bank failure*, *subprime crisis*, *bank bailout*, *financial reform*, *banking reform*, *financial stability*, *financial instability*, *systemic crisis*, *capital requirements directive*, *capital requirements regulation*, *Basel accords*. [9]

The total number of articles found in the database for each year is reported in Figure 6.16.[10] We can see that news coverage of financial and banking issues was relatively low in the early 2000s. We then see a dramatic increase in the number of articles, starting late 2007 and peaking in 2010, which corresponds to the GFC and its immediate aftermaths. The news coverage of financial and banking issues thereafter decreased progressively but remained significantly higher than in the pre-crisis years, with a surge in 2020, decreasing again in 2021.[11] These numbers confirm the expectation from the literature that public concern for financial instability and the related scrutiny of financial regulation was at its highest in the immediate post-crisis years before progressively fading.

I then define a five-value scale where 0 indicates a year in which salience of

[9] These keywords were selected because they refer to the general policy area of banking/financial regulation, the general policy concern of banking/financial sector instability, and the occurrence of crises. To account for the linguistic diversity of news coverage in the EU, I also searched for articles including the translations of the keywords in French, German, Italian, Polish, Portuguese and Spanish. Furthermore, I allowed the search engine to include articles that featured variations of my keywords.

[10] Each point on the graph represents the count of articles published during the year *before* the point.

[11] Even though the count for 2021 does not cover the whole year but only the first 11 months, it is unlikely to reach the levels of 2020, or even 2019.

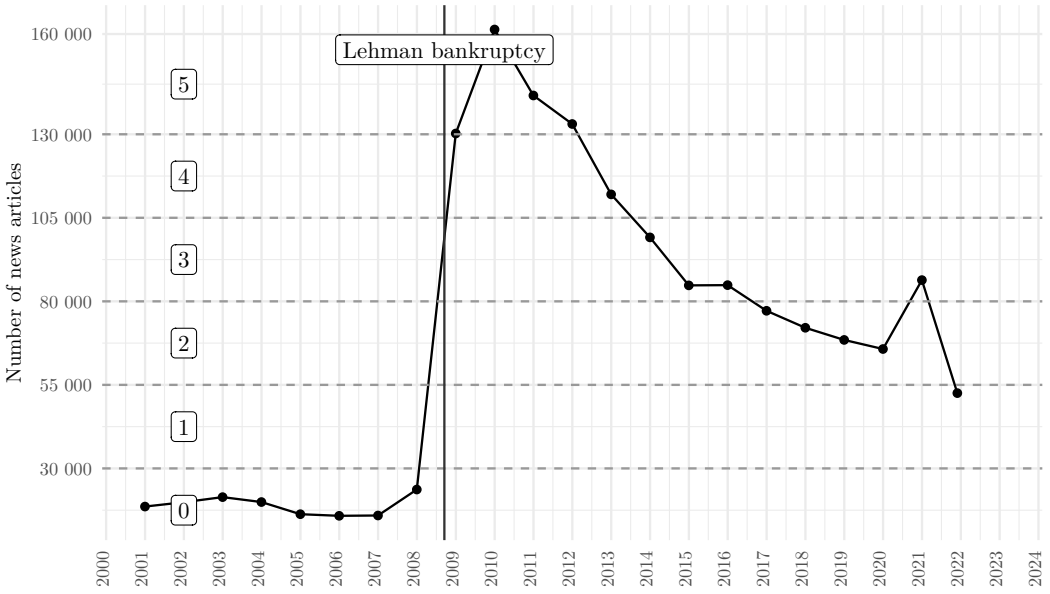

Figure 6.16: Global news coverage of financial regulation and crises

financial regulation issues with the public opinion was very low, and 5 indicates a year of very high salience. Following the existing literature, I will here consider that before the fall of the US-based investment bank Lehman Brothers on September 15, 2008 (the vertical solid line on Figure 6.16), financial regulation had been an issue for expert discussion attracting little public attention. Conversely, after the Lehman crisis, financial instability became one of the most publicly salient policy issues. I then assign a 0 to all years that, like the years prior to the Lehman bankruptcy, saw a number of newspaper and magazine articles lower than 30 000, and a 5 to all years in which more than 130 000 articles could be found, which is slightly less than the number found for 2008. I divided the interval between these two values in four buckets of equal length. The resulting scale is indicated in Figure 6.16 by the dashed horizontal lines.

We can then observe that the salience of financial regulation issues was very high from end-2008 to end-2011 and quickly declined afterwards from 2012 to end-2014. Since 2016, this salience generally kept declining although at a slower pace, and never reaching the low level of coverage seen in pre-crisis years. We can then see the period end-2008 to end-2011 as a period of very high salience of financial regulation

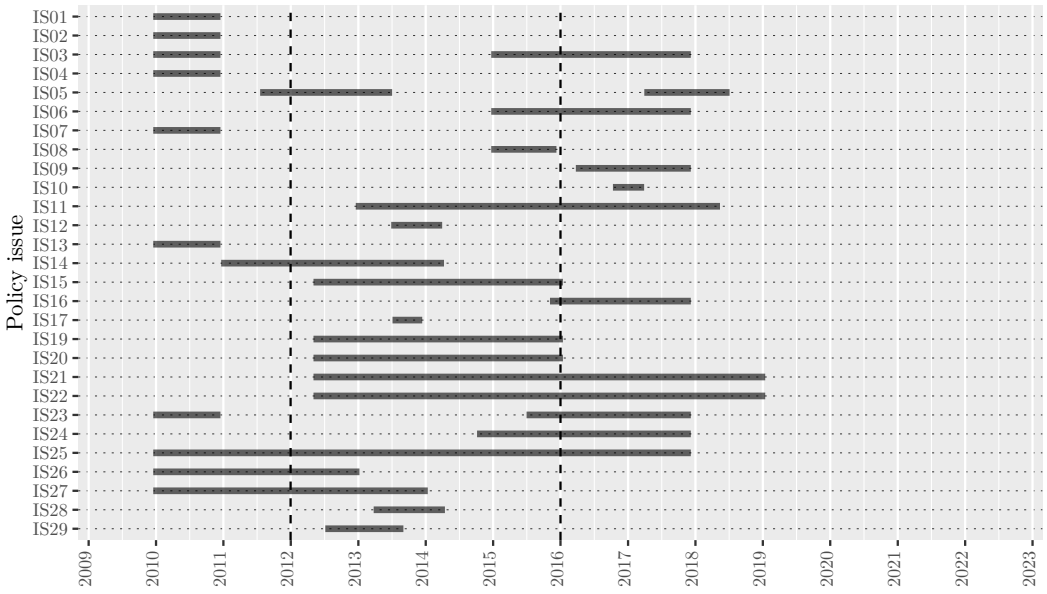

Figure 6.17: Periods of BCBS works on bank capital requirements

issues. Conversely, since 2016, the salience of financial regulation issues is *not* very high. The years 2012 to 2015, finally, constitute a transition period marked by a quick decline.

Based on the dates of publication of the BCBS consultation documents and standards, I obtain an indication of the periods during which the BCBS was working on each policy issue. This is a rough estimate, since work naturally starts *before* the publication of the first consultation document, to prepare initial policy proposals. Figure 6.17 shows the identified work periods for each of the policy issues at Basel level. The vertical dashed lines identify the limits between the three "salience" periods previously observed: "very high salience" from 2008 to end-2011, "transition" from 2012 to end-2015, "medium salience" since 2016.

We can observe that while for several policy issues, work was conducted entirely or mostly during the "very high salience" period, for others, conversely, the work extended in periods in which salience was quickly declining or was stabilising at a lower level. The condition *high salience context* can then be considered present in all the cases targeting issues of the former group, and absent where the target policy

issue is of the latter group.

I name ISSUSALI the set of cases in which the target policy issue was discussed in a context of high salience. To define the membership of cases in ISSUSALI, I define a six-value fuzzy scale. A score of 1 indicates full membership and is assigned to cases where the policy issue was entirely discussed before the end of 2011 (IS01, IS02, IS04, IS07, IS13). Cases targeting issues for which the work started before end-2011 but extended in 2012 and 2013 are assigned a score of 0.9: these cases have partial membership in ~ISSUSALI because by the time the BCBS was finalising its works on them, salience was fast declining.

Conversely, a 0 (full non-membership) is assigned to cases targeting issues for which works started after end-2015, that is, during the medium salience period (IS09, IS10, IS16). Cases targeting policy issues on which works started during the transition period and extended beyond end-2015 (IS06, IS11, IS21, IS22) are assigned a 0.1 score, the partial membership in ISSUSALI arising from the fact that financial regulation still drew significant public attention when works started. Cases targeting issues for which works took place entirely during the transition period are assigned a score of 0.2 for the same reason. Note that I assign a 0.2 to cases targeting the securitisation framework (IS11), since the bulk of the framework was finalised during the transition period; the remaining work concerned the addition of a special framework for simple, transparent and comparable (STC) securitisations. Remain cases targeting four policy issues the situation of which needs to be examined in more detail: the calculation of minimum capital requirements (IS03), the G-SIB/D-SIB framework (IS05), the CVA framework (IS23) and the leverage ratio (IS25):

- On IS03, we know that the first period of work concerned the system of limits and minima for the three solvency ratios and the second period concerned the aggregate output floor, which constitutes a major part of the standards on this issue. The former was included in the broad Basel III consultation of 2009 (BCBS, 2009c) while the latter was the object of a specific consultation

Table 6.6: Policy issues and scores in ISSUSALI

Assigned score	Policy issues
1.0	IS01, IS02, IS04, IS07, IS13
0.9	IS14, IS25, IS26, IS27
0.8	IS05, IS29
0.2	IS03, IS11, IS12, IS15, IS17, IS19, IS20, IS23, IS28
0.1	IS06, IS08, IS21, IS22, IS24
0.0	IS09, IS10, IS16

(BCBS, 2014d). We should then consider that since a lot of the work on this issue took place during the medium salience period, cases targeting this issue should receive a membership score of 0.2.

- On IS05, most of the framework was finalised during the first period of work, and works during the second period were limited to adjustments and revisions of the G-SIB assessment methodology. I then assign cases targeting this issue a score of 0.8.

- For the CVA framework, a first interim framework was adopted during the very high salience period, but it was completely overhauled during the medium salience period. I then suggest to assign cases targeting this issue a score of 0.2.

- Finally, works on the leverage ratio extended over most of the three periods, starting in 2009 and ending in 2019. However, the main elements of this new policy instruments were set early in the process (BCBS, 2010a) and adjusted thereafter. I then assign cases targeting this issue a score of 0.9.

Table 6.6 summarises the assignation of membership score per policy issue. Each coalition then receives as membership score into the set ISSUSALI the score assigned to the policy issue it addressed.

The resulting distribution of cases and issues into ISSUSALI is depicted in Figure 6.18: in total, the condition *high salience context* is found present in 11 of the

26 coalitions (42.30%), representing 583 of the 1043 individual cases (55.9%).

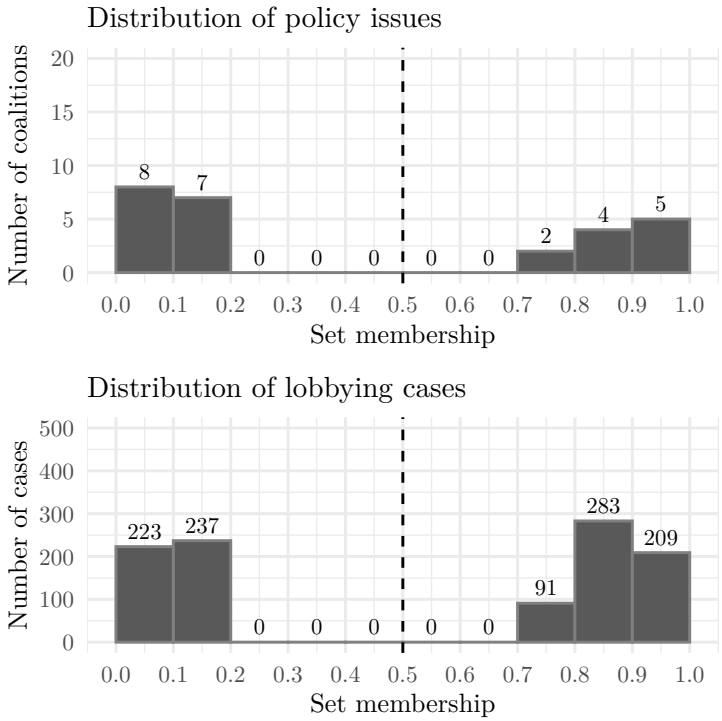

Figure 6.18: Membership in the set ISSUSALI

Highly complex standards (ISSUCOMP)

A second issue-related condition that I integrate in the model relates to the degree of regulatory complexity characterising each of the twenty-nine policy issues. Regulatory complexity usually arises in a policy area due to regulators' attempts to include provisions covering a broader array of potential sources of risk (Ehrlich & Posner, 1974). In this sense, the extension of the Basel standards from 347 pages under Basel II (BCBS, 2006a) to the 1 626 pages of the consolidated Basel III framework in its latest version (BCBS, n.d.) appears as a clear indication that regulators sought to contain risks of future banking crises by regulating more financial products and activities (Barth & Miller, 2018; Herring, 2018).

Regulatory complexity can be expected to play a role in the lobbying success of European (and non-European) financial interest groups to the extent that discussing

technically complex reform proposals require an expertise that is scarce outside the limited circle of the regulated industry and its supervisors. Highly complex sets of regulations then entail a risk of regulatory capture by the regulated industry (Hakenes & Schnabel, 2014; Posner, 1975). Several scholars maintain that the phenomenon particularly affects the area of banking regulation, due to the perceived highly technical nature of modern finance and its complex interactions with the broader economy, which *de facto* exclude non-expert or unorthodox voices from the debate (Kwak, 2013; Underhill, 2015). As Admati and Hellwig note

> [a] major reason for the success of bank lobbying is that banking has a certain mystique. There is a pervasive myth that banks and banking are special and different from all other companies and industries in the economy. Anyone who questions the mystique and the claims that are made are at risk of being declared incompetent to participate in the discussion (Admati & Hellwig, 2013, p. 2).

As these studies however make clear, regulatory complexity can be expected to affect lobbying success in relation to actors' expertise on banking; hence cases where the targeted standards are highly complex should be expected to be among cases of lobbying success when the case also involves a high display of expertise by the actor.

But what constitutes a *highly complex* standard? Several studies in recent years have sought to provide a measure of regulatory complexity in financial regulation, in particular to measure the increasing complexity of Basel bank capital requirements from their origins to the post-GFC framework (Barth & Miller, 2018). Length of regulation is a commonly retained measure, notably suggested by Haldane and Madouros (2012), which, although considered crude, remains an important factor in more elaborate measures (Amadxarif et al., 2019).

Indeed, long standards contain either simply more requirements or more detailed ones than short standards, which translate into more operations required

from the regulated actor to comply with the regulation. Counting the number of mathematical operations involved in the calculation of specific capital requirements is a complementary approach to capturing the complexity of a set of requirements (Barth & Miller, 2018; Herring, 2018). Finally, complexity in a standard can arise from the use of numerous conditional statements that introduce several alternative treatments based on particular conditions in order to cover more eventualities and related sources of risk. If we consider standards as a system of elementary events and tasks articulated by logical connectives into a formal logic system or a type of algorithm, then a large number of logical operators reveals a complex standard (Amadxarif et al., 2019; Battigalli & Maggi, 2002; Colliard & Georg, 2020).

I submit that in the context of bank capital requirements, a set of standards should be considered as highly complex when it imposes numerous and often detailed requirements, and when those requirements include a significant number of operators, taking the form of conditional statements or mathematical operations. I label ISSUCOMP the set of cases where the interest group is addressing a highly complex policy issue and argue that a case is a member of ISSUCOMP if the standards addressed are both long (LONGSTAND) *and* these long requirements include numerous conditional or mathematical operators (OPERATORS). Then, expressed in Boolean algebra:

$$ISSUCOMP \longleftrightarrow LONGSTAND * OPERATORS \tag{6.2}$$

To obtain data about the two identified dimensions of complexity, I conducted a simple statistical analysis of the consolidated Basel III framework analysed in Chapter 4. I divided the text of the framework into twenty-nine documents, one for each of the policy issues. Each Basel III chapter is included into one document, based on the identification of policy issues (see Table 4.1). For each document, I measure the total length of the document in terms of number of individual words (tokens). I count the number of mathematical operations required by the provisions

Table 6.7: Indicators of regulatory complexity

Issue ID	**Nb. of tokens**	**Nb. of conditional statements**	**Nb. of mathematical operations**	**Total nb. of operators**
IS01	14 247	150	1	151
IS02	10 544	87	5	92
IS03	2 250	15	0	15
IS04	6 022	56	8	64
IS05	9 418	47	0	47
IS06	17 219	135	56	191
IS07	3 030	40	1	41
IS08	10 064	105	34	139
IS09	40 625	280	28	308
IS10	846	5	0	5
IS11	30 754	263	23	286
IS12	13 995	99	30	129
IS13	9 970	69	1	70
IS14	5 504	64	0	64
IS15	463	2	0	2
IS16	1 387	10	8	18
IS17	2 570	35	1	36
IS18	1 174	16	0	16
IS19	5 345	59	0	59
IS20	1 475	4	0	4
IS21	46 113	349	48	397
IS22	22 423	150	61	211
IS23	11 941	83	10	93
IS24	6 970	50	11	61
IS25	11 799	113	10	123
IS26	40 700	306	12	318
IS27	10 932	92	11	103
IS28	7 972	70	0	70
IS29	9 097	43	8	51

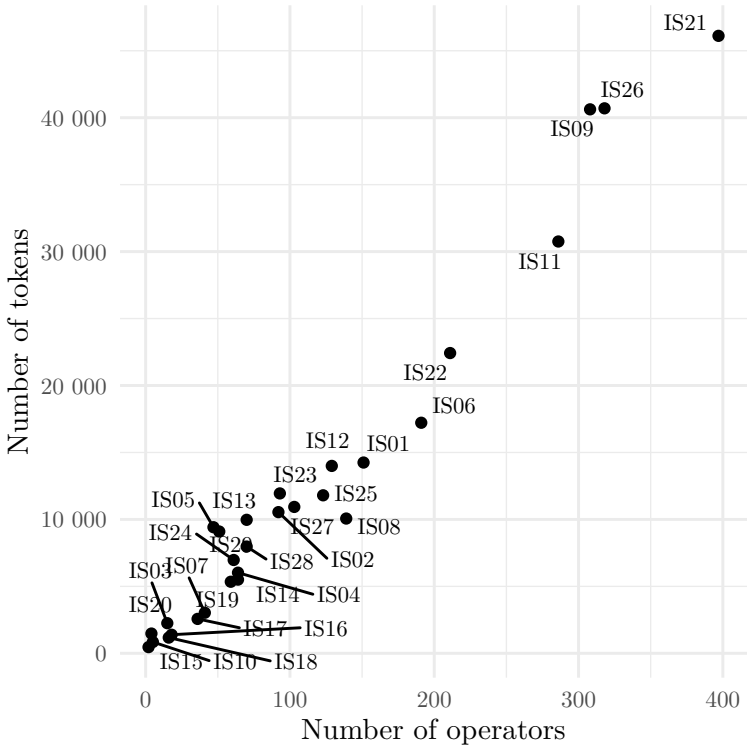

Figure 6.19: Length of standards to number of operators

in a document by counting the number of mathematical symbols and the expressions "the sum of", "the product of", "the maximum of" and "the minimum of". I further count the occurrences of conditional statements, using for that the list of words proposed by Amadxarif et al. (2019, p. 18): *if*, *when(ever)*, *where(ever)*, *unless*, *notwithstanding*, *except*, *but*, *provided that*. Finally, I compute the simple sum of mathematical operations and conditional statements to obtain a count of operators. The resulting metrics are presented in Table 6.7. Plotting the relation between the two measures, we can observe a positive correlation (see Figure 6.19), therefore for most issues, LONGSTAND and OPERATORS should have similar values.

The experience gained through the analysis of the Basel framework for Chapter 4 gives me prior knowledge of the complexity of the standards for each policy issue. The calculation of RWA amounts for credit risk, securitisation and market risk, both under standardised or internal models (IS06, IS09, IS11, IS21 and IS22) constitute some of the most complex parts of the Basel III framework, with long and detailed

rules requiring numerous calculations and involving numerous alternatives depending on the type of assets considered. Cases in which the interest group addresses issues with similar characteristics should be fully in the set ISSUCOMP.

Issues such as the definition of regulatory capital (IS01), the credit risk mitigation framework (IS08), the SA-CCR, the CVA framework (IS23) and the leverage ratio (IS25) are also quite complex, even though to a lesser extent than the first series of issues. Prudential filters to regulatory capital (IS02) are quite complex—notably due to numerous *if …else* statements—even though definitely not among the most complex parts of the framework. Cases where the policy issue addressed is similar in terms of length or number of conditional statements should be considered more in that out of ISSUCOMP.

Conversely, the calculations of additional buffer requirements such as the capital conservation buffer (CCB), the CCyCB (IS04) or the G-SIB and D-SIB buffers (IS05 and respectively) are relatively straightforward. Cases addressing issues with similar characteristics could be considered more out than in the set ISSUCOMP. Finally, cases that address standards that have a very limited scope, such as requirements for the structure of trading desks (IS20) or even the minimum haircut floors for SFTs (IS16), should be considered fully out of the set.

Based on the above, I propose that where a case targets a policy issue with more than 12 000 tokens, that case be considered fully in the set LONGSTAND, more in than out from 8 500 tokens and fully out below 3 000 tokens. As regards the set OPERATORS, I suggest that where the standards for a policy issue use more than 110 conditional statements and mathematical operators, cases targeting that issue be considered fully in, more in than out from 80 conditional statements and mathematical operators, and fully out below 50. The set membership scores for both sets are calibrated using the direct method of calibration, resulting in a continuous fuzzy-set scale. Applying these calibration anchors and Equation (6.2), I calculate cases memberships in the set ISSUCOMP. Figure 6.20 shows the distribution of

cases across ISSUCOMP membership scores: in total, 13 of the 26 issues (50%), representing 620 out of the 1043 cases (59.44%) are targeting a highly complex issue.

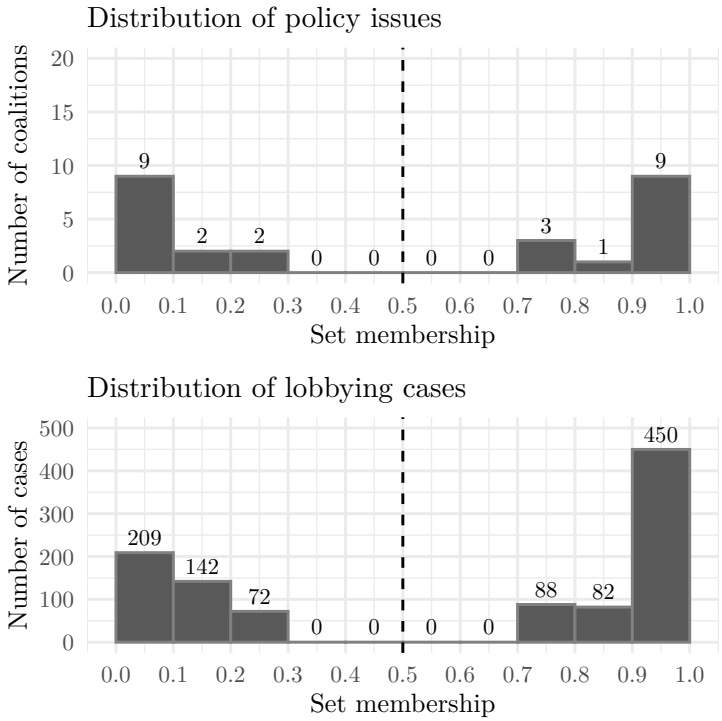

Figure 6.20: Membership in the set ISSUCOMP

Regulatory novelty (ISSUNOVE)

I have previously explained how the Basel III reform of bank capital requirements consisted both in a revision of the pre-crisis Basel II framework and in the introduction of entirely new policy instruments (see Section 4.1). This implies that while some of the cases of lobbying observed here target policy issues in which the new proposals are building on the experience accumulated through one or several cycles of decision-making and implementation feedback, in other cases, the target of lobbying constitutes a regulatory novelty, one that may be supported with much less empirical data.

How could this difference in terms of relative novelty relate to variation in lobby-

ing success? We can imagine two opposite scenarios. On the one hand, the novelty of a policy issue may strengthen financial interest groups' lobbying against the imposition of new requirements: if the regulators have little data and past experience on which they can rely to anticipate the costs and benefits of the proposed regulation, it may become easier for financial interest groups to counter the proposal by denouncing its likely undesired consequences. Regulators may be wary of taking too bold a step and, faced with industry opposition, decide to fall back to a less ambitious proposal for the policy issue, reverting to a *muddling through* approach of the type described by Lindblom (1959). On the other hand, the absence of empirical support also affects interest groups' lobbying: the more a reform proposal departs from existing regulation and practices, the less market participants can rely on their past experience and accumulated data to estimate the costs that are likely to arise from the reform. I integrate this characteristic of the observed lobbying cases by assigning to each case a membership score in the set of lobbying cases that target a regulatory novelty (ISSUNOVE).

Regulatory novelty can be defined as "the extent to which a new international regulatory initiative builds upon or departs from previous regulations" (Pagliari & Wilf, 2021, p. 936). Focusing only on previous *regulations* would however be too limited: when new regulation is being introduced for a previously unregulated risk area, we should also consider whether this risk area is equally new for market practitioners or whether there already exist an important body of knowledge and established market practices against which the new regulation would inevitably be benchmarked.

How are we to measure the novelty of a given regulatory initiative? Pagliari and Wilf (2021) suggest a text-as-data approach relying on the computation of the cosine similarity between an initiative of interest and a set of previously adopted initiative. Cosine similarity, applied to texts, measures the degree to which two documents use a similar vocabulary. The approach thereby relies on the assumption that "vocabulary differences in any two international regulations capture differences

in the extent to which they build or depart from each other" (Pagliari & Wilf, 2021, p. 937). In their empirical study of the relative novelty of regulatory initiatives by the BCBS and the International Organization of Securities Commissions (IOSCO) from the late 1970s to the mid-2010s, they compute pairwise cosine similarities between all documents issued by the BCBS and IOSCO, identify for each document the pair showing the highest cosine similarity, and conclude from this maximum cosine similarity the degree of regulatory novelty of the initiative.

Taking inspiration from their approach, I assess the degree of similarity between the Basel III standards for each of the twenty-nine policy issues and their equivalent in Basel II (where such equivalent could be found) using cosine similarity as a numeric indicator. To produce this measure, I divided the texts of the consolidated Basel II and Basel III frameworks and assigned each section to one of the policy issues (BCBS, 2006a, n.d.). Twenty-nine documents were thus created from the Basel III framework; eighteen were created from the Basel II framework; the difference corresponds to the policy issues newly introduced in Basel III. I then used the *quanteda* package to compute the cosine similarity, after removing the most common grammatical words from each text. Table 6.8 presents the cosine similarity scores computed for each of the policy issue where a Basel II equivalent could be identified.

I nevertheless argue that the quantitative measure of similarity resulting from the above approach is insufficient to adequately measure the presence or absence of regulatory novelty in each of the policy issues. In particular, the new policy instruments formally introduced into the capital requirements framework with Basel III differ widely in terms of their actual novelty as prudential instruments. For instance, liquidity requirements have been in use in many jurisdictions in the past and the proposals for the LCR and NSFR (IS26 and IS27) extensively drew on liquidity management methodologies already in use in many international banks; then although they never were part of the Basel framework before, they hardly are a novelty. Similarly, the large exposures framework (IS28) was never formally a part of the Basel framework before Basel III but BCBS guidelines and core principles

Table 6.8: Regulatory novelty in Basel III

Policy issue (ID)	**Cosine similarity**	**Membership in ISSUNOVE**
IS01	0.637	0.15
IS02	0.654	0.15
IS03	0.483	0.85
IS04	NA	1.00
IS05	NA	1.00
IS06	0.689	0.15
IS07	0.681	0.15
IS08	0.891	0.00
IS09	0.935	0.00
IS10	0.845	0.00
IS11	0.810	0.00
IS12	0.542	0.75
IS13	0.886	0.15
IS14	NA	1.00
IS15	0.812	0.00
IS16	NA	1.00
IS17	0.361	0.85
IS18	0.848	0.00
IS19	0.700	0.15
IS20	NA	1.00
IS21	0.698	0.15
IS22	0.760	0.15
IS23	NA	0.85
IS24	0.616	0.15
IS25	NA	1.00
IS26	NA	0.25
IS27	NA	0.25
IS28	NA	0.15
IS29	NA	1.00

existed in this area long before formal pillar 1 requirements (BCBS, 1991, 2006b), and most member jurisdiction had rules in place to measure and limit banks' large exposures (BCBS, 2013k, p. 5). By contrast, the framework for banks' exposures to CCP (IS14) was a genuinely novel instrument: before Basel III, these exposures were simply applied a 0% RW.

For each of the policy issues, I then searched for evidence indicating whether the BCBS proposals built on a long-established body of knowledge and practices, including existing international regulation, or, conversely, formulated proposals that could be considered as truly innovative, building on little previous experience. For this research, I mainly relied on BCBS documents—consultation documents and standards—which in most cases included in their introduction or background section a history of standards for the issue or an explanation of the rationale to introduce novel instruments. I also compared, for each policy issue, the contents of the Basel II and Basel III sections or chapters dedicated to the issue, focusing on subsections and titles to observe changes in the general architecture of the standards. I summarise the result of this research in Appendix D.3.

Generally, the manual search confirms the patterns observed with the cosine similarity measure: among those standards that already existed in Basel II, those that were the object of major reforms (new instruments, fully new methodology) indeed exhibit lower cosine similarity scores than those where reforms were limited to increasing parameter levels and strengthening existing requirements. Among those instruments that were formally introduced in bank capital requirements with the Basel III reform, however, the qualitative evidence reveals the existence of "false" innovations: the two liquidity standards indeed built on an extensive body of existing methodologies and practices as well as historical precedents, and the large exposures framework actually constitutes a harmonisation of rules that were already in place in most BCBS member jurisdictions.

To define case membership scores in the set ISSUNOVE, I define a six-value fuzzy

scale. To represent differences in kind between target policy issues, all cases where the target policy issue can be considered either fully or mostly a regulatory novelty receive a score between 0.75 and 1 (mainly or fully in the set); all the cases where the target is either fully or mostly derived from the Basel II framework, or builds on a long-established body of standards and practices—showing no or little regulatory novelty—receive a score between 0 and 0.25 (mainly or fully out of the set). Among the cases exhibiting regulatory novelty, a score of 1 is assigned to cases where the target policy issue constitutes a fully new instrument or set of instruments (e.g., capital buffers, the leverage ratio, margin requirements). A score of 0.875 where the new framework constitutes such an important change in approach and instruments that it almost completely redefines the standards for the policy issue (e.g., the output floor and the new system of limits and minima for the calculation of minimum risk-based capital requirements, the treatment of equity investments in funds, or the treatment of CVA risk). A score of 0.75 is assigned to cases where the target policy issue saw the introduction of a new methodological approach in a relatively recent field (the SA-CCR).

Among cases where the target policy issue is mostly *not* a novelty, a score of 0 is assigned to those cases where no changes at all were made in the Basel III reform, and cases where the changes were mere adjustment of parameters which did not create any new requirement on banks. A score of 0.125 is assigned to cases where the changes do create new requirements and involve some degree of methodological change but still rely on the same set of concepts and instruments as the Basel II standards that are replaced (e.g., the SA-CR, the IMM for CCR, the two approaches to market risk and the large exposures framework). A 0.25, finally, was assigned to cases that targeted a policy issue where BCBS proposals were formally a novelty, but actually built on well-known methodologies and historical precedents (namely, the LCR and NSFR).

The resulting distribution of cases in the set $ISSUNOVE$ is depicted in Figure 6.21. 10 of the 26 issues (38.46%), representing 408 of the 1043 lobbying cases,

are either fully in or more in than out of the set of cases targeting a regulatory novelty.

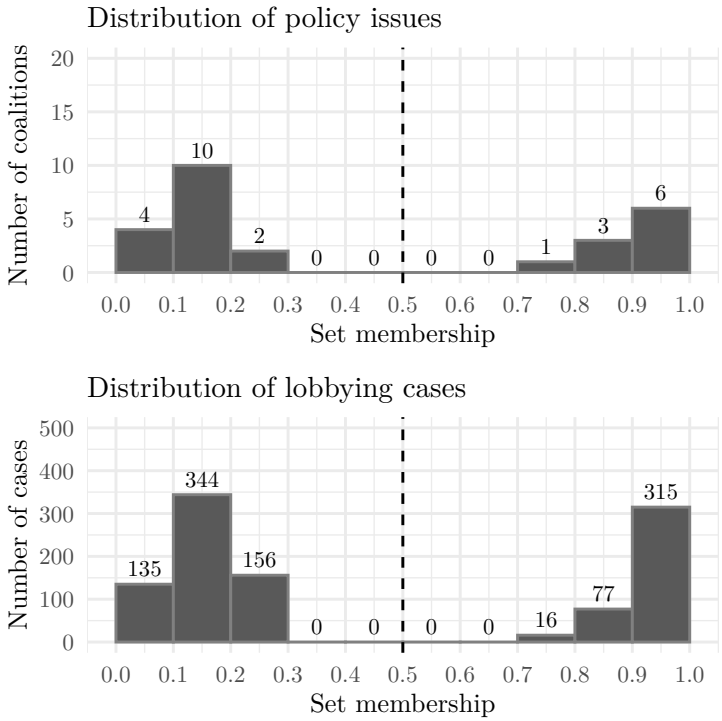

Figure 6.21: Membership in the set ISSUNOVE

Political commitment to stricter regulation (ISSUPOLI)

Political commitment to reform financial regulation is at the root of the whole Basel III reform: after the bankruptcy of US-based investment bank Lehman Brothers and in the midst of a quickly unfolding financial meltdown, leaders from the twenty largest economies in the world committed to adopt a new set of globally harmonised regulations covering every segment of financial activity, including banking, and tasked the BCBS—as well as other international regulators—to formulate proposals (G20, 2008). In the aftermaths of the GFC, G20 leaders met regularly—initially every semester, then every year—to coordinate their crisis containment actions and discuss plans for international financial regulation. The "statements", "declarations", or "communiqués" they jointly issued at the end of these summits listed the

items on which they had agreed to act and the regulatory initiatives they jointly called for or agreed to support.

During the exploratory interviews I realised for this study, several respondents, when asked about their preferences and strategies regarding specific policy issues—notably the leverage ratio—hinted at the fact that although they had been opposed to the *principle* of the new instruments, they had no choice but to accept their introduction, because the decision had already been "locked-in" at the political level. If that is true, then where the G20 leaders had publicly announced their wish to see specific new prudential policy instruments implemented, that commitment would have reduced the scope of the policy debate on those instruments, in a way similar to that describe by Putnam (1988). Once the G20 had said that a leverage ratio, for instance, should be implemented, the question was no longer *whether* but merely *how* to implement it.

In the present study, political commitment to stricter regulation is to be understood as the action by high-level political leaders—typically heads of state and governments—to publicly call for the drafting of new, more stringent standards and to commit to adopt in their jurisdictions the reform proposals submitted to them. We could expect that the expression of a political commitment to stricter regulation on a particular issue, expressed publicly in statements by G20 leaders, contributed to lobbying failure of limited success for cases targeting that issue. By contrast, the *absence* of political commitment to stricter regulation on the target issue could be a necessary element of a causal mechanism producing highly successful lobbying.

In order to measure the presence of the G20 political commitment to reform across policy issues, I collected the official leaders' declarations and communiqués adopted at the end of each G20 leaders' summit from the Washington summit on November 15, 2008 to the Osaka summit on June 29, 2019.[12] In each of these

[12]The G20 Research Group at the University of Toronto collects every document produced in G20 meetings as well as press releases, speeches and briefings by participants and makes them available on their website http://www.g20.utoronto.ca/. All the documents used here were collected from this source.

documents, I coded the sentences in which the leaders either called on the BCBS and other international regulators to formulate proposals, committed to adopt proposals in their respective jurisdictions or noted that more regulation was still necessary. I coded each of such sentences with the Basel III issues it relates to: in some cases, the sentence directly and unambiguously mentioned a specific Basel III issue, in other cases, the G20 leaders called for/promised support for reforms in a broad area, with implications for one or several Basel III issues—e.g., when calling for a better regulation of over-the-counter (OTC) derivatives markets—, in which case I coded the sentence with all the policy issues where reform proposals by the BCBS could be considered as a response to the G20's call.

Proceeding in this way, I obtain for each issue a count of the number of times it was mentioned in G20 leaders' declarations (Table 6.9), which, I argue, can be taken as a proxy for the intensity of the political commitment to stricter regulation on that issue. The G20 comments appeared to have focused on three major groups of issues. First, we see G20 leaders calling for increased amounts of bank regulatory capital, both through a tighter definition of capital and an increase of the solvency ratios (IS01 and IS03, respectively), but even more so through the creation of CCyCBs (IS04) and additional requirements for G-SIBs (IS05).

Second, G20 leaders repeatedly expressed their will to see OTC derivatives markets regulated and all standardised OTC derivatives cleared through CCPs. In this area, they saw the need for an appropriate regulation of CCPs themselves and of banks' exposures to them (IS14), for a better capitalisation of CCR which creates an incentive to centrally clear OTC derivatives (IS12 and IS13), and called for the implementation of haircut floors on SFTs (IS16) and margin requirements on remaining non-centrally cleared derivatives (IS29).

Third, the G20 documents show a great concern for the regulation of credit rating agencies and the use of these ratings in various areas of financial regulation, including bank capital requirements (IS07). Finally, political leaders called on nu-

merous occasions for the implementation of a leverage ratio requirement on banks (IS25).

All other issues are either not mentioned at all or mentioned irregularly and indirectly. The need for liquidity requirements was mentioned on several occasions, but very shortly and irregularly (IS26 and IS27). Similarly, G20 members mentioned the need to revise the securitisation framework but did not elaborate nor insist on this issue (IS11).

Besides the different weight given to different issues in their declarations, an important reversal occurred in 2016, when, after meeting in Hangzhou, China, the G20 leaders stated:

> We reiterate our support for the work by the Basel Committee on Banking Supervision (BCBS) to finalize the Basel III framework by the end of 2016, *without further significantly increasing overall capital requirements* across the banking sector, while promoting a level playing field. (G20, 2016, emphasis added)

This statement—repeated almost word for word a year later in Hamburg, Germany (G20, 2017)—was interpreted by several financial interest representatives as setting a condition to the continuation of the G20's support to the Basel III reform program and a call to the BCBS to limit the effects of its remaining reform proposals.

Among the policy issues on which the BCBS still worked after the Hangzhou declaration, we find the output floor for the calculation of the minimum risk-based capital requirements (IS03), a revision of the methodology for identifying G-SIBs (IS05), the new SA-CR (IS06), the IRB for credit risk (IS09), the treatment of expected losses and provisions under IRB (IS10), the securitisation framework (IS11), the haircut floors for non-centrally cleared SFTs, the standardised approach and IMA for market risk (IS21 and IS22), the CVA framework (IS23), the operational

risk framework (IS24) and the finalisation of the leverage ratio (IS25). Works on these different issues had however not reached the same stage.

On the G-SIB identification methodology and the leverage ratio, the BCBS was working on relatively small adjustments: a new indicator of systemic importance was to be integrated to the G-SIB methodology, and the revisions to the leverage ratio were limited to the integration of an additional leverage buffer requirement for G-SIBs. On both issues, most of the standards were already settled. Similarly, on securitisation, the general framework was already settled, and what remained was the integration of the preferential treatment for STC securitisations. Furthermore, on haircut floors for non-centrally cleared SFTs, the BCBS work only related to the integration in the Basel framework of the haircut floors previously defined by the Financial Stability Board (FSB) in 2014 (BCBS, 2015b; Financial Stability Board [FSB], 2014). It is then unlikely that these four issues, which had already been discussed at length and were mostly closed, were the intended target of the G20's Hanghzou declaration.

By contrast, at that time, no interim standard had been adopted on the other issues. In theory, none of the particular calibrations for these frameworks was fixed yet and the G20 statement could have had an impact on the final standards. The third column of Table 6.9 indicates for each issue whether or not it should be considered a target of the declaration.

Among the issues that may have been the intended target of the Hangzhou declaration, only in the case of the calculation of minimum risk-based capital requirements (IS03) can we observe a contradiction between the two indicators: with 15 sentences identified as calls for stricter regulation, the issue features among those listed as priorities by G20 leaders; however, at the time of the Hangzhou declaration, the BCBS was still calibrating the output floor for the calculation of total RWAs, which is likely to significantly increase the capital requirements of banks using internal models. I argue that the contradiction is only apparent: the support for BCBS proposals for

Table 6.9: Political commitment to stricter regulation

Policy issue (ID)	**Nb. of G20 sentences**	**Hanghzou declaration**	**Commitment indicator**
IS01	15	No	15.0
IS02	3	No	3.0
IS03	15	Yes	7.5
IS04	20	No	20.0
IS05	37	No	37.0
IS06	1	Yes	0.5
IS07	16	No	16.0
IS08	0	Yes	0.0
IS09	5	Yes	2.5
IS10	0	Yes	0.0
IS11	6	No	6.0
IS12	12	No	12.0
IS13	15	No	15.0
IS14	16	No	16.0
IS15	0	No	0.0
IS16	21	No	21.0
IS17	4	No	4.0
IS18	0	No	0.0
IS19	1	No	1.0
IS20	1	No	1.0
IS21	1	Yes	0.5
IS22	4	Yes	2.0
IS23	0	Yes	0.0
IS24	0	Yes	0.0
IS25	12	No	12.0
IS26	7	No	7.0
IS27	7	No	7.0
IS28	2	No	2.0
IS29	23	No	23.0

IS03 concerned the new systems of limits and minima for the three components of regulatory capital; that is, it was a support to increase solvency ratios. By the time the BCBS started working on an aggregate output floor (BCBS, 2014d), the G20 had all but stopped talking about enhancing the quality and quantity of regulatory capital. We can then venture that while there had been political commitment to increase levels of regulatory capital, this commitment had faded by the time of the Hangzhou declaration.

Based on the above, in which lobbying cases can we consider the condition *political commitment to stricter regulation* to be present? In other words, how should membership scores of lobbying cases in the set ISSUPOLI be calibrated. I rely on the measure of the number of G20 sentences calling for stricter regulation as a quantitative indicator of political commitment. Where the issue is likely to have been the target of the Hangzhou call for moderation, I apply a 0.5 factor to the number of sentences. I use the recoding method based on this indicator to assign membership scores on a six-value scale.

Ranking policy issues by the number of sentences identified in G20 documents, I see a gap in the data from 7.5 to 12 sentences, which can be taken as indicating a qualitative difference in terms of the presence of the condition. Considering all issues with 12 sentences or more, I see the issues for which the examination of G20 documents above revealed political leaders' consistent concern and commitment. 12 sentences where thus found for the leverage ratio, all of which shortly but unambiguously repeated the commitment to implement this new policy instrument. I then suggest to consider that on issues for which more than 10 sentences were found in G20 documents, the condition *political commitment to stricter regulation* is present. Cases targeting issues on which 15 sentences or more were identified are fully in the set ISSUPOLI (score of 1), those with at least 12 but less than 15 are more in than out, with a score of 0.8 indicating the small degree of non-membership.

Conversely, among issues with 7.5 sentences or less, we find issues that were

never mentioned by the G20 or only indirectly, which is reflected with numbers between 0 and 4. We also find three issues that were mentioned a few times but either irregularly and without emphasis: the two liquidity requirements (IS26, IS27, 7 sentences each) and securitisation (IS11, 6 sentences). Finally, we find the issue of the calculation of minimum capital requirements (IS03), for which I have argued that there was a reversal (support for the initial change in solvency ratios, but reduced support for the output floor). I suggest to account for these differences in degrees by considering that issues with less than 5 sentences are fully out of the set (score of 0); issues with 5 to 7 sentences receive a score of 0.2 (marginal membership in the set) and issues with more than 7 but less than 10 sentences (in effect, only IS03) have a substantial membership in the set but still are more out than in, therefore receive a score of 0.4. This calibration results in the distribution depicted in Figure 6.22: In total, the condition is considered present in 10 of the 26 issues (38.46%), representing 406 out of the 1043 cases (38.93%).

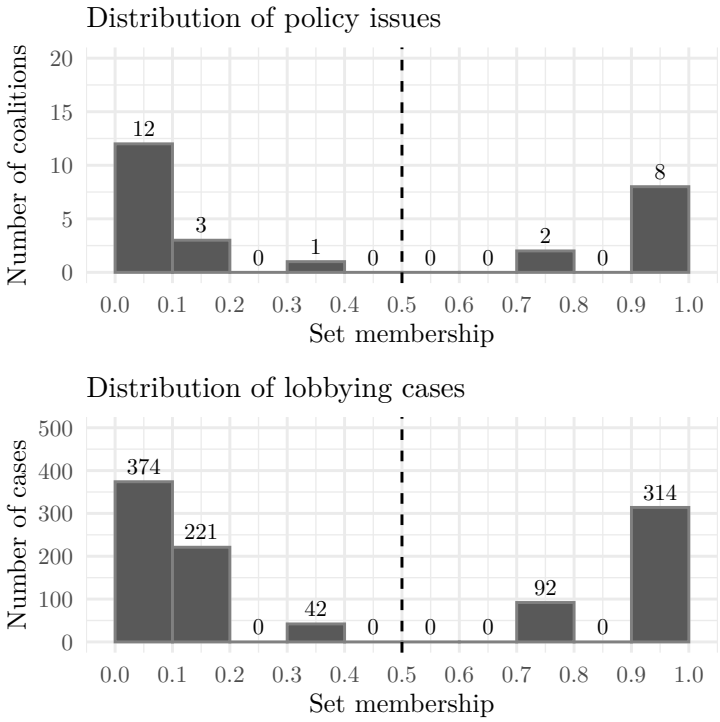

Figure 6.22: Membership in the set ISSUPOLI

6.3 Necessity and sufficiency analyses

6.3.1 Necessity analysis

As announced in Section 6.1.3, page 192, I start the analysis with a search for supersets of the outcome, indicative of possible relations of necessity. The necessity of individual conditions is assessed first. Table 6.10 presents the computed parameters of fit for relations of necessity between each individual condition and outcome SUCCESS (presence of *successful lobbying*, left-hand half of the table) and outcome ~SUCCESS (absence of *successful lobbying*, right-hand side).

As we can observe, only one superset relation reaches the minimum consistency necessity level of 0.9: with a consistency necessity of 0.993 the set ~COALEXPE (absence of collective display of expertise) is a consistent superset of the outcome set ~SUCCESS. This relation is however trivial: coverage necessity is below 0.6 and, even more importantly, with a value of 0.163, the RoN parameter is very low. This is unsurprising considering that the set COALEXPE only includes 2 of the 26 cases: we can actually observe that ~COALEXPE is also close to be a consistent superset of SUCCESS.

We can further observe that several other relations have relatively high consistency values, though insufficient to be considered as consistent necessity statements. ISSUCOMP and ~ISSUPOLI for SUCCESS both have consistency necessity scores above 0.8, showing that each of these two conditions cover nearly all cases of *successful lobbying*, and relatively high RoN values indicating empirical relevance. The set ~NOFISUPP (absence of an *important support from non-financial actors*) is almost a consistent superset of ~SUCCESS, although the RoN of only 0.536 indicates a limited relevance of the relation.

Expanding the search for meaningful supersets of both outcomes, I search for SUIN conditions the union of which would reach the consistency threshold of 0.9, and the 0.6 coverage necessity and RoN thresholds. In accordance with the two-

Table 6.10: Necessity of individual conditions

Outcome:	SUCCESS			~SUCCESS		
Condition	**Cons.Nec**	**Cov.Nec**	**RoN**	**Cons.Nec**	**Cov.Nec**	**RoN**
Context conditions						
ISSUSALI	0.434	0.438	0.671	0.558	0.636	0.760
ISSUCOMP	0.806	0.746	0.792	0.291	0.305	0.583
ISSUNOVE	0.244	0.267	0.646	0.616	0.764	0.850
ISSUPOLI	0.172	0.198	0.644	0.638	0.830	0.895
~ISSUSALI	0.639	0.561	0.665	0.507	0.504	0.637
~ISSUCOMP	0.248	0.236	0.574	0.757	0.815	0.848
~ISSUNOVE	0.785	0.644	0.677	0.409	0.380	0.547
~ISSUPOLI	0.852	0.675	0.679	0.384	0.344	0.512
Coalition conditions						
COALSIZE	0.609	0.699	0.828	0.275	0.358	0.693
FINAMOOD	0.523	0.637	0.815	0.299	0.412	0.731
COALEXPE	0.156	0.950	0.996	0.007	0.050	0.927
COALCOOR	0.689	0.596	0.676	0.536	0.525	0.640
NOFISUPP	0.467	0.760	0.911	0.196	0.360	0.794
~COALSIZE	0.441	0.350	0.515	0.768	0.689	0.690
~FINAMOOD	0.518	0.395	0.508	0.737	0.636	0.632
~COALEXPE	0.844	0.429	0.127	0.993	0.571	0.163
~COALCOOR	0.451	0.462	0.688	0.587	0.681	0.788
~NOFISUPP	0.607	0.400	0.403	0.870	0.649	0.536

Cons.Nec: Consistency necessity
Cov.Nec: Coverage necessity
RoN: Relevance of necessity

Table 6.11: SUIN conditions: Context conditions

Configuration	**Cons.Nec**	**Cov.Nec**	**RoN**
Outcome: ~SUCCESS			
~ISSUCOMP+ISSUPOLI	0.916	0.771	0.72

step QCA approach, I start with a search limited to context conditions: I find one superset of context conditions meeting the criteria. As we can see from Table 6.11, the union of the sets ~ISSUCOMP and ISSUPOLI is a consistent superset of the outcome set ~SUCCESS, and with a coverage necessity of 0.771 and a RoN of 0.72, the relation appears to be empirically relevant.

Plotting the membership scores in the union ~ISSUCOMP+ISSUPOLI against scores in ~SUCCESS in Figure 6.23, we can however observe that there is one DCK case contradicting the statement of necessity: on the CRM framework (IS08), financial interests did *not* obtain significant concessions even though that part of the framework is quite complex *and* was not the object of a particular political commit-

ment to stricter regulation. The statement of necessity does not hold.

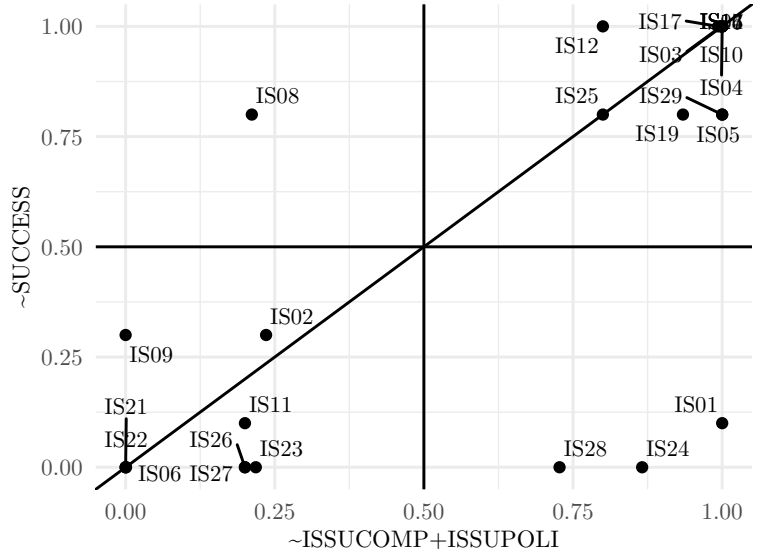

Figure 6.23: Necessity plot of ISSUCOMP+ISSUPOLI for ~SUCCESS

Even if we rule out a relation of necessity, can we still interpret this superset in terms of two contexts that contribute to the absence of successful lobbying? Cases within the set ~ISSUCOMP are, as per the definition of the set, cases in which the targeted policy issue is *not* characterised by regulatory complexity. The presence of regulatory complexity is generally expected to favour the interests of the regulated industry because outsiders lack the necessary expertise to actively participate in the policy discussion (Admati & Hellwig, 2013, p. 2); it is then plausible that its absence contributes to the absence of successful lobbying by financial interests.

Cases within the set ISSUPOLI are those cases involving a policy issue on which we could observe a commitment by the highest-ranking political leaders to implement stricter standards. Here again, finding that such a condition would be among the contexts in which financial interests tend to *not* obtain significant concessions meets our prior expectations. Following my two-step QCA, I then include the conditions ISSUCOMP and ISSUPOLI within my analysis of sufficiency, despite the presence of a DCK case.

Expanding now the search for necessity relations to the whole set of candidate

Table 6.12: SUIN conditions: Full set

Configuration	Cons.Nec	Cov.Nec	RoN
Outcome: SUCCESS			
COALSIZE+ISSUCOMP	0.937	0.674	0.620
Outcome: ~SUCCESS			
~COALCOOR+~ISSUCOMP	0.908	0.703	0.606
~COALCOOR+ISSUPOLI	0.920	0.709	0.609
~ISSUCOMP+ISSUPOLI	0.916	0.771	0.720

conditions, I find one configuration meeting the criteria for outcome SUCCESS, and three for the outcome ~SUCCESS. One of these configurations, as can be seen in Table 6.12 actually is the union ~ISSUCOMP + ISSUPOLI. We can note that despite reaching the thresholds, the other three configurations all show low RoN values, which indicates a significant degree of *trivialness*.

Furthermore, plotting the relations between outcomes and conditions for the three statements in Figure 6.24, we can see that the two statements for ~SUCCESS are contradicted by DCK cases. Only the superset COALSIZE + ISSUCOMP appears to be a consistent and relevant superset of SUCCESS.

In terms of substantive interpretation, the statement of necessity implies that for financial interests to obtain a significant move of policy proposals towards less stringency, it is necessary (though not sufficient) that either a large number of actors mobilise to support this preference (COALSIZE) *or* that the issue that is the target of their lobbying efforts is a complex one (ISSUCOMP), which is indeed a plausible statement.

Reaching the end of this analysis of necessity statements, we then have one consistent, relevant and plausible statement of necessity for the presence of successful lobbying—COALSIZE + ISSUCOMP ⟵ SUCCESS—and two context conditions that appear particularly relevant, even though their union does not support a consistent necessity statement: ISSUCOMP and ISSUPOLI.

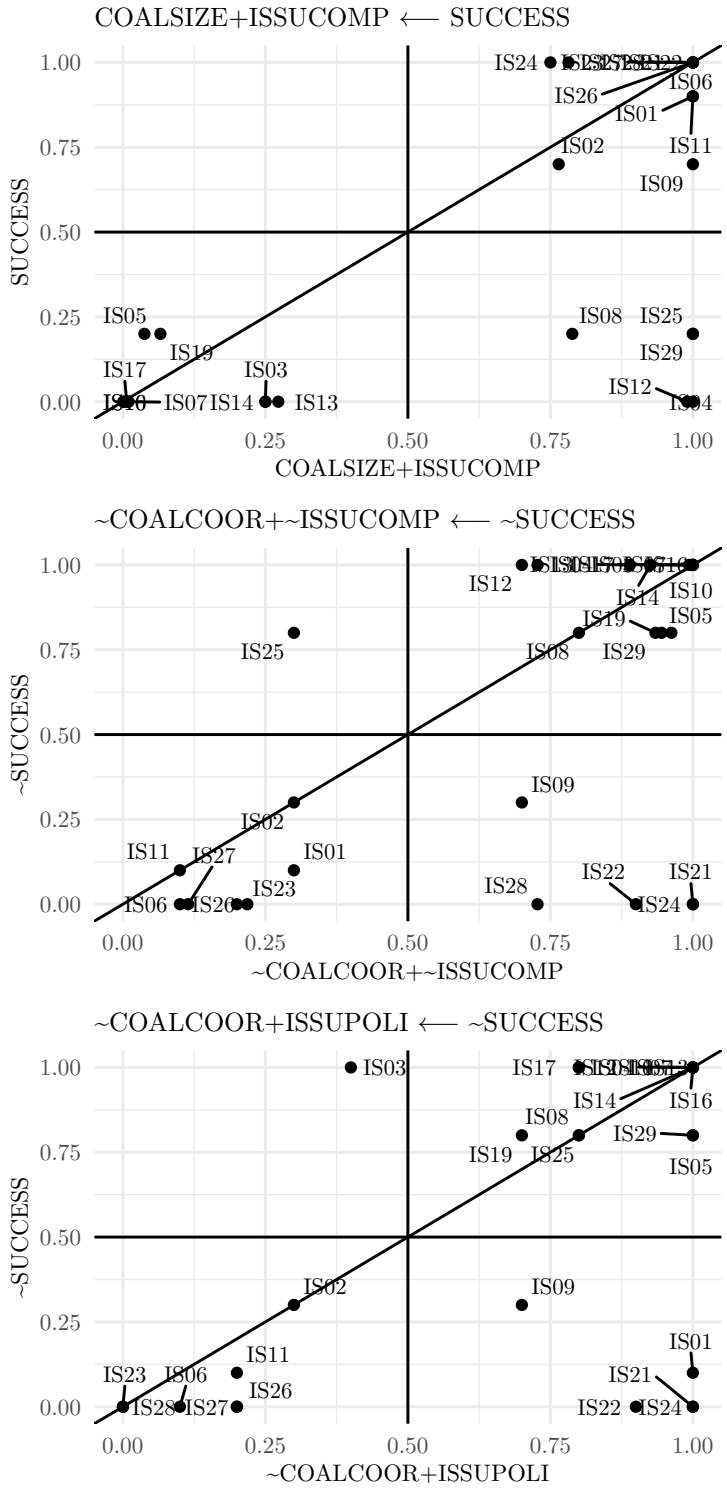

Figure 6.24: Necessity of SUIN conditions

6.3.2 Sufficiency analysis

Turning to the search for configurations of conditions sufficient for the presence (absence) of successful lobbying, I construct two truth tables: one where the outcome is the presence of successful lobbying (SUCCESS), the other where the outcome is the absence of successful lobbying (~SUCCESS). These truth tables are reproduced below in Tables 6.13 and 6.14. In each truth table, each logically possible combination of the conditions constitutes a row and is given a number. The row number remains the same regardless of the outcome of interest. The cases are assigned to the truth table row that best describes them based on the presence or absence of the five conditions selected for analysis and regardless of their membership in the outcome set.

The consistency sufficiency (column "incl") and PRI score of the row is calculated based on membership scores of assigned cases in the configuration and in the outcome. The column "OUT" (output), indicates whether the row is deemed sufficient for the outcome (SUCCESS in Table 6.13, ~SUCCESS in Table 6.14), based on the thresholds specified for consistency (here 0.8), PRI (0.51) and frequency (1). The rows are sorted by descending consistency sufficiency score (column "incl"). Logical remainder rows are those rows where no case could be assigned, and the sufficiency of which is, logically, impossible to determine (output "?").

As we can see in Table 6.13, eight rows are found sufficient for the outcome SUCCESS and eleven rows are found insufficient. There is a clear gap in terms of consistency and PRI between the sufficient and insufficient rows, so the statements of sufficiency are strong. Furthermore, looking at the last column, we can indeed see that cases in sufficient rows are indeed all policy issues on which we observed significant shifts towards less stringency, while cases in the insufficient rows are issues of limited shifts towards less stringency, no shift, or shifts towards more stringency. There are therefore no DCK case across the sufficient rows that are to be included in the conservative solution, nor any case of success that would be left out. Two of

the thirteen logical remainders (rows 10 and 13) are manually assigned the output 0 (insufficient) because they contradict the previously observed relation of necessity ("untenable counterfactuals").

Reversing the perspective in Table 6.14, we observe ten sufficient rows for the absence of successful lobbying and nine insufficient rows. The rows found sufficient for ~SUCCESS do not contain any DCK case: in all the cases assigned to these rows we could indeed observed the absence of *successful lobbying*. Row 32 is problematic: the only case assigned to it is IS25 (leverage ratio), a case in which financial interests obtained only limited concessions, but the consistency of the subset relation is too low for the row to be deemed sufficient for ~SUCCESS. In other words, there is no configuration of our selected condition that adequately explains the absence of success on the leverage ratio: other factors need to be explored. Beyond row 32, all the rows found insufficient for ~SUCCESS only include cases on which we indeed observed significant to major concessions to financial interests' requests for leniency (those are the rows sufficient for SUCCESS).

Table 6.13: Truth table for the outcome SUCCESS

	Row nb.	COALSIZE	FINAMOOD	COALCOOR	ISSUCOMP	ISSUPOLI	OUT	n	incl	PRI	cases
Sufficient rows	11	0	1	0	1	0	1	3	0.999	0.999	IS09,IS21,IS22
	23	1	0	1	1	0	1	2	0.999	0.999	IS06,IS26
	31	1	1	1	1	0	1	2	0.999	0.999	IS11,IS27
	15	0	1	1	1	0	1	1	0.999	0.998	IS23
	17	1	0	0	0	0	1	1	0.913	0.882	IS24
	24	1	0	1	1	1	1	1	0.866	0.832	IS01
	7	0	0	1	1	0	1	1	0.854	0.657	IS02
	21	1	0	1	0	0	1	1	0.820	0.771	IS28
Insufficient rows	3	0	0	0	1	0	0	1	0.601	0.325	IS08
	32	1	1	1	1	1	0	1	0.555	0.421	IS25
	5	0	0	1	0	0	0	1	0.411	0	IS03
	1	0	0	0	0	0	0	2	0.346	0.130	IS17,IS19
	22	1	0	1	0	1	0	1	0.222	0.096	IS04
	30	1	1	1	0	1	0	1	0.208	0.074	IS29
	9	0	1	0	0	0	0	1	0.128	0.128	IS10
	6	0	0	1	0	1	0	2	0.107	0	IS05,IS13
	2	0	0	0	0	1	0	2	0.077	0	IS07,IS16
	4	0	0	0	1	1	0	1	0.046	0	IS12
	14	0	1	1	0	1	0	1	0	0	IS14
Untenable counterfactuals	10	0	1	0	0	1	0	0			
	13	0	1	1	0	0	0	0			
Logical remainders	8	0	0	1	1	1	?	0			
	12	0	1	0	1	1	?	0			
	16	0	1	1	1	1	?	0			
	18	1	0	0	0	1	?	0			
	19	1	0	0	1	0	?	0			
	20	1	0	0	1	1	?	0			
	25	1	1	0	0	0	?	0			
	26	1	1	0	0	1	?	0			
	27	1	1	0	1	0	?	0			
	28	1	1	0	1	1	?	0			
	29	1	1	1	0	0	?	0			

Table 6.14: Truth table for the outcome ~SUCCESS

	Row nb.	COALSIZE	FINAMOOD	COALCOOR	ISSUCOMP	ISSUPOLI	OUT	n	incl	PRI	cases
Sufficient rows	2	0	0	0	0	1	1	2	1	1	IS07,IS16
	6	0	0	1	0	1	1	2	1	1	IS05,IS13
	4	0	0	0	1	1	1	1	1	1	IS12
	5	0	0	1	0	0	1	1	1	1	IS03
	14	0	1	1	0	1	1	1	1	1	IS14
	22	1	0	1	0	1	1	1	0.917	0.904	IS04
	1	0	0	0	0	0	1	2	0.902	0.870	IS17,IS19
	30	1	1	1	0	1	1	1	0.895	0.877	IS29
	9	0	1	0	0	0	1	1	0.872	0.872	IS10
	3	0	0	0	1	0	1	1	0.808	0.675	IS08
Insufficient rows	7	0	0	1	1	0	0	1	0.719	0.343	IS02
	32	1	1	1	1	1	0	1	0.676	0.579	IS25
	21	1	0	1	0	0	0	1	0.392	0.229	IS28
	17	1	0	0	0	0	0	1	0.344	0.118	IS24
	24	1	0	1	1	1	0	1	0.335	0.168	IS01
	15	0	1	1	1	0	0	1	0.307	0.002	IS23
	23	1	0	1	1	0	0	2	0.248	0.001	IS06,IS26
	31	1	1	1	1	0	0	2	0.206	0.001	IS11,IS27
	11	0	1	0	1	0	0	3	0.156	0.001	IS09,IS21,IS22
Logical remainders	8	0	0	1	1	1	?	0			
	10	0	1	0	0	1	?	0			
	12	0	1	0	1	1	?	0			
	13	0	1	1	0	0	?	0			
	16	0	1	1	1	1	?	0			
	18	1	0	0	0	1	?	0			
	19	1	0	0	1	0	?	0			
	20	1	0	0	1	1	?	0			
	25	1	1	0	0	0	?	0			
	26	1	1	0	0	1	?	0			
	27	1	1	0	1	0	?	0			
	28	1	1	0	1	1	?	0			
	29	1	1	1	0	0	?	0			

Logical minimisation is then applied on each truth table in parallel, following the Enhanced Standard Analysis protocol (Schneider & Wagemann, 2012). The conservative and most parsimonious solutions produced for SUCCESS and ~SUCCESS are presented in Appendix D.5. To produce the intermediate solution, I define the following directional expectations, which are used to sort logical remainders into "easy" and "difficult" counterfactuals:

- The *presence* of a large supporting coalition (COALSIZE), the *presence* of a strongly worded opposition to stringency by financial interest (FINAMOOD), the *presence* of a strong degree of coordination among coalition members (COALCOOR), the *presence* of regulatory complexity (ISSUCOMP) and the *absence* of a political commitment to stricter regulation (~ISSUPOLI) are expected to contribute to the *presence* of successful lobbying (SUCCESS).

- Symmetrically, the *absence* of a large supporting coalition (~COALSIZE), the *absence* of a strongly worded opposition to stringency by financial interest (~FINAMOOD), the *absence* of a strong degree of coordination among coalition members (~COALCOOR), the *absence* of regulatory complexity (~ISSUCOMP) and the *presence* of a political commitment to stricter regulation (ISSUPOLI) are expected to contribute to the *absence* of successful lobbying (~SUCCESS).

The resulting intermediate solution for SUCCESS and ~SUCCESS are presented in Tables 6.15 and 6.16. Each of the two solutions includes four terms of two to four INUS conditions: four alternative conjunctions of conditions are found to produce successful lobbying, and four alternative conjunctions produce its absence. All terms have high consistency values (column "inclS") as well as high PRI values. These parameters are also high at the solution levels, reflecting the general absence of DCK cases (as already seen in the truth table analysis). Solution coverage ("covS") is also high at solution level for both SUCCESS and ~SUCCESS, showing that the

sufficient terms of Tables 6.15 and 6.16 account for almost all of the sets SUCCESS and ~SUCCESS, respectively.

Drawing XY plots of the solutions (Figure 6.25 for the entire solutions, and Figures D.1 and D.2 in Appendix D.5), we can observe that there are indeed no DCK cases (those would appear in the bottom-right quadrant of the plot), although there is a number of DCD cases in (below the diagonal in the bottom left and top-right quadrants).

Cases left unexplained by the solution (or the term) appear in the top-left quadrant. Having such cases in sufficiency plots for solution terms is normal: cases unexplained by one particular term may be explained by another. Cases in the top-left quadrant of a sufficiency plot for an entire solution are however left entirely unexplained: In the plot for the entire solution for ~SUCCESS, we thus find the case IS25 (leverage ratio). Logically, since row 32 was found insufficient for both outcomes, IS25 does not appear in any of the solutions.

The unique coverage of each sufficient term is relatively low: we can indeed observe that a number of cases of SUCCESS appear in two (or even three) sufficient terms, that is, the successful lobbying we observe in these cases can be explained in two (or three) different ways. Similarly, some cases of ~SUCCESS meet the description of three or even all four (IS07, IS16) sufficient terms for ~SUCCESS.

Table 6.15: Intermediate solutions for SUCCESS

	inclS	PRI	covS	covU	cases
COALSIZE∗~ISSUPOLI	0.959	0.953	0.480	0.119	IS24; IS28; IS06,IS26; IS11,IS27
FINAMOOD∗ISSUCOMP∗~ISSUPOLI	0.991	0.990	0.474	0.168	IS09,IS21,IS22; IS23; IS11,IS27
COALCOOR∗ISSUCOMP∗~ISSUPOLI	0.966	0.958	0.485	0.059	IS02; IS23; IS06,IS26; IS11,IS27
COALSIZE∗~FINAMOOD∗COALCOOR∗ISSUCOMP	0.946	0.930	0.269	0.062	IS06,IS26; IS01
Solution	0.937	0.928	0.844		

Table 6.16: Intermediate solutions for ~SUCCESS

	inclS	PRI	covS	covU	cases
~ISSUCOMP∗ISSUPOLI	0.940	0.936	0.479	0.185	IS07,IS16; IS05,IS13; IS14; IS04; IS29
~COALSIZE∗~FINAMOOD∗~COALCOOR	0.928	0.913	0.464	0.116	IS17,IS19; IS07,IS16; IS08; IS12
~COALSIZE∗~FINAMOOD∗~ISSUCOMP	0.927	0.917	0.499	0.047	IS17,IS19; IS07,IS16; IS03; IS05,IS13
~COALSIZE∗~COALCOOR∗~ISSUCOMP	0.957	0.950	0.402	0.054	IS17,IS19; IS07,IS16; IS10
Solution	0.918	0.908	0.855		

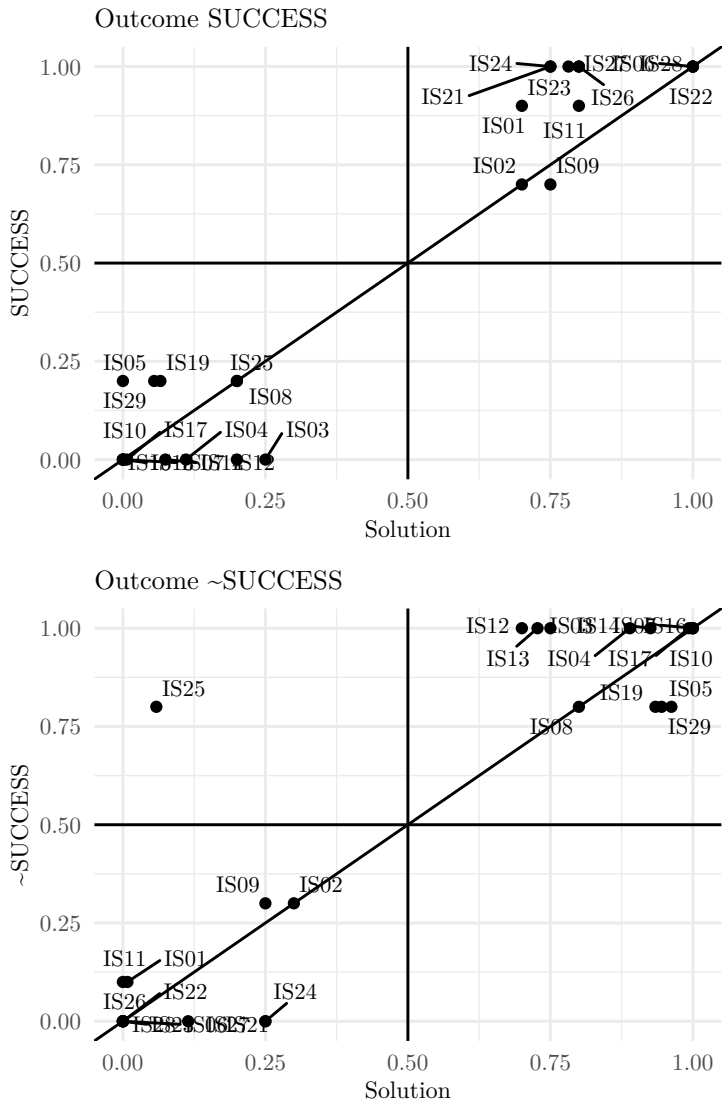

Figure 6.25: Sufficiency plots of solutions

6.3.3 Robustness tests

As previously mentioned, to test the robustness of the results presented above, I rely on the protocol defined by Oana and Schneider (2021) as presented in Oana et al. (2021, pp. 144–158). This protocol includes three steps: "evaluating sensitivity ranges, evaluating fit-oriented robustness and evaluating case-oriented robustness" (Oana et al., 2021, p. 145). Sensitivity ranges are the ranges within which the various

thresholds used for the calibration of sets or the inclusion of truth table rows can be changed without altering the solution: the larger these ranges, the more robust the solution is.

The evaluation of fit-oriented and case-oriented robustness, in turn, implies creating multiple alternative solutions using alternative analytic decisions (e.g., different plausible calibration thresholds), which are aggregated into a so-called Test Set *TS*. "This Test Set *TS*, therefore, represents the space of all other possible solutions generated based on changes in analytic decisions that fall within the range of substantive plausibility" (Oana & Schneider, 2021, p. 146). The maximal Test Set *maxTS* is defined as the union of the alternative solutions; the minimal Test Set *minTS*, conversely, corresponds to the intersection of these alternative solutions. The choice solution (*IS*) is then compared to these *maxTS* and *minTS*: the intersection of *IS* with the *minTS*, which corresponds to the part of the choice solution that is common to all plausible alternative solutions, is called the Robust Core (*RC*).

A perfectly robust solution would then see a perfect coincidence between the *minTS*, the *RC* and the *IS*:

> When the overlap between the *IS* and the *minTS* becomes less than perfect, the robust core *RC* becomes smaller than either the *IS*, or the *minTS*, or both. When the overlap between the *IS* and the *maxTS* decreases, the RC need not be affected but new cases that are part of the *maxTS* become addition, possible cases to be taken into consideration for robustness. (Oana et al., 2021, p. 147)

To create the *maxTS* and *minTS* in the present QCA, I have defined seven alternative intermediate solutions based on more inclusive or more exclusive calibration thresholds for the five conditions included in the sufficiency analysis. These seven alternative calibrations are detailed in Appendix D.6.

Assessing fit-oriented robustness involves comparing the parameters of fit of the

IS, the *RC*, the *maxTS* and *minTS*. Oana and Schneider (2021) define four parameters of fit based on this comparison: *Robustness Fit Consistency* (RF_{cons}), *Robustness Fit Coverage* (RF_{cov}), which compare the consistency and coverage of the *RC* to those of the *IS*; and two *Robustness Fit Set Coincidence* parameters (RF_{SC}_minTS and RF_{SC}_maxTS), which measure the set coincidence between the *IS* and the two *TS*. Each of these indicators take values between 0 and 1: high values indicate high robustness. Table 6.17 shows the values of all four parameters for the SUCCESS and the ~SUCCESS solutions. As can be observed, the computed values are quite high, except for RF_{cov} in the solution for SUCCESS: indeed, the solutions using more exclusive calibrations for the sets FINAMOOD and COALCOOR result in several cases being left unexplained by the alternative solutions and a *RC* smaller than the *IS*.

Table 6.17: Fit-oriented robustness: Parameters of fit

	RF_{cons}	RF_{cov}	RF_{SC}_minTS	RF_{SC}_maxTS
SUCCESS	0.745	0.957	0.823	0.892
~SUCCESS	0.827	0.95	0.926	0.948

Finally, the case-oriented perspective on robustness consists in identifying cases which change of type—typical cases becoming deviant cases, or the reverse—when alternative solutions are considered. Oana and Schneider (2021) define several types of cases: cases within the *RC* are *robust typical* or *robust deviant* (depending on whether or not they are members of the outcome set; cases in the *IS* but not in the *RC* are called *shaky typical* and *shaky deviant*, since their status can change with changes in analytic decisions; cases in the *maxTS* but out of the *RC* are *possible* cases, since they would be convered by the solution were we to choose different thresholds; finally cases with the outcome present that are included neither in the *IS* nor the *maxTS* are called *extreme deviant coverage cases*. With a perfectly robust solution there should be no *shaky* or *possible* cases. In our case, the case-oriented robustness test shows one possible deviant case (IS25) and one shaky typical (IS28),

that is, there is at least one alternative solution in which the solution for SUCCESS covers IS25 (which would then be a DCK case since it is not a member of the set SUCCESS), and there is at least one solution where the case IS28 is not covered by the solution. As regards the case-oriented robustness of the solution for ~SUCCESS, the test shows only one shaky typical case (IS03).

6.3.4 Interpretation of the sufficiency formulas

The QCA developed in this chapter has then yielded two Boolean expressions representing the configurations of factors that were sufficient for European financial interest groups who opposed a stringent approach to bank capital requirements to obtain significant concessions in the course of the decision-making process in Basel and at the EU level (SUCCESS), and the configurations of conditions under which such concessions were not made (~SUCCESS). The two complete expressions, which as we have seen can be considered as analytically robust, are displayed in Equations (6.3) and (6.4):

$$\begin{aligned} & COALSIZE * \sim ISSUPOLI \\ + & FINAMOOD * ISSUCOMP * \sim ISSUPOLI \\ + & COALCOOR * ISSUCOMP * \sim ISSUPOLI \\ + & COALSIZE * \sim FINAMOOD * COALCOOR * ISSUCOMP \longrightarrow SUCCESS \end{aligned} \tag{6.3}$$

$$\begin{aligned} & \sim ISSUCOMP * ISSUPOLI \\ + & \sim COALSIZE * \sim FINAMOOD * \sim COALCOOR \\ + & \sim COALSIZE * \sim FINAMOOD * \sim ISSUCOMP \\ + & \sim COALSIZE * \sim COALCOOR * \sim ISSUCOMP \longrightarrow \sim SUCCESS \end{aligned} \tag{6.4}$$

In order for us to move from configurations of conditions to causal mechanisms, these two expressions now need to be interpreted. In Boolean mathematics, the sign

+ stands for the operator *OR* and the sign ∗ for the operator *AND*: we then have, for each outcome, four alternative "recipes" for each outcome, each involving several "ingredients".

Conditions and mechanisms of SUCCESS

At a general level, we can already make the observation that all terms of the solution for SUCCESS , Equation (6.3), include at least one context condition—the absence of a political commitment to stricter regulation (~ISSUPOLI) or the presence of regulatory complexity (ISSUCOMP), or both—and one or more coalition conditions. *Successful lobbying*, at least on post-GFC bank capital requirements, then requires both the right context and a voluntary collective action from interest groups.

I now decompose the solution and focus in turn on each sufficient term. The first term reads as: "On a policy issue on which political leaders have *not* committed to implement stricter standards, an important mobilisation of interest groups opposed to a stringent approach is sufficient for European financial interests to obtain significant to major shifts towards more leniency".

The second term reads as: "On a policy issue that is characterised by a high degree of regulatory complexity *and* on which political leaders have *not* committed to implement stricter standards, a strongly worded expression of financial interest groups' opposition to a stringent approach is sufficient for European financial interests to obtain significant to major shifts towards more leniency".

The third term reads as: "On a policy issue that is characterised by a high degree of regulatory complexity *and* on which political leaders have *not* committed to implement stricter standards, a strong degree of coordination among interest groups opposed to a stringent approach is sufficient for European financial interests to obtain significant to major shifts towards more leniency".

Finally, the fourth term reads as: "Where a policy issue is characterised by a high

degree of regulatory complexity, a large, strongly coordinated coalition in favour of a lenient approach in which financial interests do *not* strongly express their preference for leniency is sufficient for European financial interests to obtain significant to major shifts towards more leniency". The inclusion of ~FINAMOOD in the configuration is surprising: why would the *absence* of a strongly worded preference from financial interests be part of a causal mechanism producing successful lobbying? I suggest that this may be a noisy result from the logical minimisation. Indeed, row 32 of the truth table, which contains the leverage ratio case, was duly rejected from the minimisation since the outcome in that case is ~SUCCESS. However, row 32 is a subset of COALSIZE∗COALCOOR∗ISSUCOMP: removing ~FINAMOOD would include a case of ~SUCCESS in the solution formula for SUCCESS. I will later return to the issue when I inspect the association of potential confounding conditions with the sufficient terms.

What causal mechanisms can be inferred from the observed configurations? We have two configurations in which the presence of a large supporting coalition is a necessary part of the sufficient term (terms 1 and 4). We may then see a "strength in numbers" mechanism, whereby the causal force of individual actors' lobbying is geared down by the important mobilisation of interest groups in support of an anti-stringency position. A large supporting coalition is insufficient in itself, however: the increased causal force is permitted to produce successful lobbying only in conjunction with other factors that also form part of the causal mechanism. The presence of one "helping" context condition is thus necessary: for a large coalition to prevail, it is also necessary that either political leaders have *not* committed to strengthen regulation on the issue (term 1), or, failing that, that the issue be complex, in which case a strong coordination of coalition members is also required for the mechanism to operate (term 4).

Alternatively, we have two configurations that have in common to require the presence of regulatory complexity and the absence of a political commitment. Such a combination depicts a situation akin to "quiet politics" (Culpepper, 2011), whereby

seemingly complex, technical issues are discussed among experts, away from public scrutiny. Such a setting reduces the number of potential opponents and makes it easier for business arguments to prevail. The "quiet politics" context however is insufficient: as the inclusion of one coalition condition in each of the two configurations demonstrate, collective action is required, either voicing industry concerns in a forceful manner (FINAMOOD) or coordinating responses to show consensus (COALCOOR), even where few interest groups are mobilising. We then see a "small but active coalition—quiet politics" path to successful lobbying.

In order to complete the interpretation of configurations into causal mechanisms, I assess the association of the four conditions that were not included into the sufficiency analysis with each of the four configurations sufficient for SUCCESS. To do so, I follow the approach defined by Rutten (2020, pp. 22–24): I count for each condition and each sufficient term the number of cases where the condition is present, and the number of cases where the condition is absent. I then compute the respective proportions of cases with and without the condition in the configuration, and the indicator of "heterogeneity" defined by Rutten.

The heterogeneity indicator for a sufficient term with respect to a condition is defined mathematically as the product of the proportions divided by 0.25, that is, the maximum possible value of that product (for instance, the heterogeneity of term 1 with respect to the condition COALEXPE is $(0.17 \times 0.83)/0.25 = 0.56$). The indicator ranges from 0 to 1, with a value of 0 indicating that the condition (or its absence) is a constant in the configuration, while 1 indicates that cases are split. Although the indicator was developed for use in large-N QCAs, I use it here for guidance. The results of these calculations for the outcome SUCCESS are shown in Table 6.19.

From the table, we can observe that the conditions NOFISUPP (presence of an important support from non-financial actors) and ~ISSUNOVE (absence of regulatory novelty) are both present across all three cases in term 4 (IS01, IS06, IS26)

Table 6.18: Confounding conditions — Outcome SUCCESS

Solution term	Condition present		Condition absent		Heterogeneity
	Nb.	Prop.	Nb.	Prop.	
COALEXPE					
Term 1	1	0.17	5	0.83	0.56
Term 2	2	0.33	4	0.67	0.89
Term 3	1	0.17	5	0.83	0.56
Term 4	0	0.00	3	1.00	0.00
NOFISUPP					
Term 1	4	0.67	2	0.33	0.89
Term 2	1	0.17	5	0.83	0.56
Term 3	3	0.50	3	0.50	1.00
Term 4	3	1.00	0	0.00	0.00
ISSUSALI					
Term 1	2	0.33	4	0.67	0.89
Term 2	1	0.17	5	0.83	0.56
Term 3	3	0.50	3	0.50	1.00
Term 4	2	0.67	1	0.33	0.89
ISSUNOVE					
Term 1	0	0.00	6	1.00	0.00
Term 2	1	0.17	5	0.83	0.56
Term 3	1	0.17	5	0.83	0.56
Term 4	0	0.00	6	1.00	0.00

and may be part of the configuration. We should note that the leverage ratio case (row 32, issue IS25), left unexplained, differ from these three cases on these two conditions as well as on the condition FINAMOOD. We may then consider that in sufficient term 4, ~FINAMOOD, which we had trouble explaining, is actually redundant while NOFISUPP and/or ~ISSUNOVE are INUS conditions. For all the other conditions and terms, we see a split with at least one case showing the condition or its absence. Considering the limited number of cases, it would be hazardous to interpret the heterogeneity indicator further to find associations.

Conditions and mechanisms of ~SUCCESS

Turning now to the solution for ~SUCCESS, we observe that one term, the first one, includes only context conditions, while another (the second one) only includes coalition conditions. We can then already conclude from this observation that there is one particular context that made *successful lobbying* impossible in the reform of

bank capital requirements regardless of what collective action was taken by interest groups, and one particular collective behaviour that produced the absence of success in all contexts.

I now analyse in turn each sufficient term of the solution for ~SUCCESS. The first term of Equation (6.4)—~ISSUCOMP∗ISSUPOLI ⟶ ~SUCCESS— reads as "Where a policy issue is *not* characterised by a significant degree of regulatory complexity *and* there is a political commitment to implement stricter standards, anti-stringency lobbying is *not* successful".

The second term—~COALSIZE∗~FINAMOOD∗~COALCOR ⟶ ~SUCCESS— reads as "Where *not* many interest groups mobilise on an issue *and* do *not* coordinate their activity *and* financial interests do *not* strongly express their opposition to stringency, anti-stringency lobbying is *not* successful".

The third term—~COALSIZE∗~FINAMOOD∗~ISSUCOMP ⟶ ~SUCCESS— reads as "Where *not* many interest groups mobilise on an issue *and* financial interests do *not* strongly express their opposition to stringency *and* the issue is *not* characterised by a high degree of regulatory complexity, anti-stringency lobbying is *not* successful".

Finally, the fourth term—~COALSIZE∗~COALCOOR∗~ISSUCOMP ⟶ ~SUCCESS— reads as "Where *not* many interest groups mobilise on an issue *and* do *not* coordinate their activity *and* the issue is *not* characterised by a high degree of regulatory complexity, anti-stringency lobbying is *not* successful".

What causal mechanisms may these configurations be revealing? Term 1 implies that in a context characterised by both the *absence* of regulatory complexity (~ISSUCOMP) and the *presence* of a political commitment to stricter regulation (ISSUPOLI), all efforts to obtain a more lenient approach are bound to fail or only achieve limited results (~SUCCESS). We can then see a causal mechanism whereby however strong the causal force of a lobbying coalition in favour of leniency is prevented by these two contextual factors from producing successful lobbying. I will

label this mechanism the "simple and politicised" mechanism.

Terms 2 to 4 suggest a mechanism whereby the weakness of interest groups' mobilisation chiefly explains the absence of success. All three configurations feature the *absence* of a large supporting coalition (~COALSIZE) in conjunction with financial interest groups *not* voicing they concerns in a forceful way (~FINAMOOD) and/or anti-stringency actors *not* strongly coordinating their responses (~COALCOOR), all of which suggests that interest groups generally and financial interests in particular may not be investing a significant amount of their resources in lobbying on those issues.

The cumulation of ~FINAMOOD and ~COALCOOR where the coalition is already not a large one (term 2) would then make the coalition so weak than even a particularly hospicious context is insufficient to prevent the absence of success. If a not-large coalition is only "handicapped" by the presence of one of ~FINAMOOD or ~COALCOOR, then the mechanism only applies in a context characterised by the absence of regulatory complexity (~ISSUCOMP). If we look at the cases covered by these configurations, we see mostly issues that are relatively "minor" issues within the Basel framework, issues on which indeed interest groups—whose limited resources push to prioritize the issues they focus on—may have chosen not to fight the proposed reforms. I label this mechanism the "secondary issue" mechanism.

The calculation of minimum capital requirements (IS03, including the output floor) and the G-SIB framework may be seen as exceptions: these are very important parts of the framework, even though their standards apply mostly to the subset of the banking sector composed of large, international banks. Furthermore, the case of the G-SIB framework is also covered by term 1: there has been a political commitment to implement capital surcharges on G-SIBs. We should also note that the jury is still out on the output floor, which has not yet been transposed into EU law: The EU legislator may still decide not to implement the measure, or implement it in a diluted version, which would make it a case of successful lobbying.

Table 6.19: Confounding conditions — Outcome ~SUCCESS

Solution term	Condition present		Condition absent		Heterogeneity
	Nb.	Prop.	Nb.	Prop.	
COALEXPE					
Term 1	0	0.00	7	1.00	0.00
Term 2	0	0.00	6	1.00	0.00
Term 3	0	0.00	7	1.00	0.00
Term 4	0	0.00	5	1.00	0.00
NOFISUPP					
Term 1	2	0.29	5	0.71	0.82
Term 2	0	0.00	6	1.00	0.00
Term 3	0	0.00	7	1.00	0.00
Term 4	0	0.00	5	1.00	0.00
ISSUSALI					
Term 1	6	0.86	1	0.14	0.49
Term 2	1	0.17	5	0.83	0.56
Term 3	3	0.43	4	0.57	0.98
Term 4	1	0.20	4	0.80	0.64
ISSUNOVE					
Term 1	5	0.71	2	0.29	0.82
Term 2	3	0.50	3	0.50	1.00
Term 3	4	0.57	3	0.43	0.98
Term 4	2	0.40	3	0.60	0.96

As I did with the solution for SUCCESS, I now inspect the potential association of the untested conditions with the four terms sufficient for ~SUCCESS. The homogeneity of all four sufficient terms with regard to ~COALEXPE is unsurprising—the only two cases where the condition is present are cases of SUCCESS—but also mostly irrelevant: since most cases of SUCCESS also show ~COALEXPE, the condition is redundant. We also observe the constant absence of an important support from non-financial actors (~NOFISUPP) in terms 2 to 4. This may be interpreted as another weakening factor for lobbying coalition and fits with the "secondary issue" mechanism.

Finally, although not a constant, a high salience context (ISSUSALI) characterises six of the seven cases in term 1. The association, here again, fits with the interpretation of the configuration as indicating the presence of a "simple and politicised" mechanism preventing lobbying coalitions from producing successful lobbying. A high salience context may also be part of the missing explanation for the absence of success in the case of the leverage ratio.

6.4 Conclusions

In this chapter, I sought to identify the causal mechanisms that enabled European financial interest groups to be successful in their lobbying on bank capital requirements, and those that resulted in the absence of such success. To do so, I defined nine conditions that I expected to be relevant explanatory factors, based on the findings of the previous steps of this dissertation, lessons drawn from the existing literature on financial industry power and a series of exploratory interviews with interest representatives active in the policy debate about bank capital requirements.

I adopted *fs*QCA as an approach to conduct systematic cross-case comparisons from a set-theoretic perspective. I first identified for each condition the relevant quantitative or qualitative indicator of the presence of the condition in each case and determined the appropriate qualitative anchors to define the boundaries between members and non-members of the condition set. Conducting a necessity analysis, I identified the contextual factors that were necessary for European financial interest groups to obtain significant concessions in the reform of bank capital requirements. Such an outcome only occurred on issues that where characterised either by a significant degree of complexity *and/or* by the absence of a high-level political commitment to implement stricter standards. No contextual factor could be identified as a necessary condition for the absence of success.

Having defined the *necessary* contexts, I then conducted in parallel two truth table analyses to identify the configurations of conditions that were sufficient for European financial interest groups to be successful in their lobbying on bank capital requirements, and those configurations that consistently produced the absence of such success. These configurations where then reduced through logical minimisation to two Boolean expressions of four terms each, which I interpreted into four plausible causal mechanisms leading either to the presence or to the absence of success for financial interest groups in their calls for a lenient approach to bank capital requirements. The robustness of the solutions resulting from the *fs*QCA was as-

sessed following the protocol established by Oana and Schneider (2021) and found satisfactory.

I identify a "strength in numbers" and a "small but active coalition–quiet politics" mechanisms as producing the successful lobbying. In the former, the presence of a large coalition of actors advocating a lenient approach is sufficient to produce this outcome, provided political leaders have not explicitly called for or committed to implement stricter standards. If such a political commitment was made, then the members of the large coalition must show unity by coordinating their position, and the coalition must furthermore include non-financial actors, which increases the representativeness of anti-stringency positions. And even then, success only occurs on complex issues.

The "small but active coalition–quiet politics" mechanism involves an anti-stringency coalition that is not necessarily very large but in which financial interest groups are expressing in a very strong opposition to stringent rules or whose members are actively coordinating their lobbying messages (or both). To produce successful lobbying, such a coalition however needs a context characterised by a significant degree of regulatory complexity and the absence of political commitment to stricter regulation, i.e., it can obtain success on issues that are generally discussed among experts behind closed doors.

I further identify two causal mechanisms which produce the absence of successful lobbying. A mechanism which I label "simple and politicised" involves the absence of regulatory complexity—that is, the issue under discussion is not complex—and the presence of a political commitment to stricter regulation. Where such a context was present in the post-GFC reform of bank capital requirements, no anti-stringency lobbying coalition was able to obtain more than limited concessions. A context characterised by a high public salience of financial stability and financial regulation issues was also identified as a potential element of this mechanism, a variant of which may explain the absence of success on the leverage ratio, a case left unexplained by

our model.

The alternative mechanism, which I label the "secondary issue" mechanism, involves anti-stringency coalitions that are neither large nor active in terms of actively coordinating positions or expressing a forceful opposition to stringent rules. We could observe such "weak" coalitions lobbying on policy issues that generally are of secondary importance within the overall Basel framework.

The next chapter will recollect the findings of the three empirical chapters of this dissertation. In that final, concluding chapter, I will draw lessons from the analysis of the post-GFC reform of bank capital requirements for our understanding of the political influence of financial interest groups.

Chapter 7

Conclusions: When does finance win?

This dissertation analysed the involvement of financial interest groups in the regulatory process known as Basel III, which produced a new international framework on bank capital requirements, and a new EU legislation for the prudential supervision of banking activities. This reform was supposed to be a direct response to the financial disaster represented by the GFC: After the crisis revealed the full extent of the failure of Basel II to contain excessively risky behaviours, Basel III would herald a new era of financial stability.

The first elements of the Basel III reform and their transposition into the EU's CRD-CRR legislation were however found disappointing by many commentators. Those pointed at several instances where ambitious proposals made by the BCBS for the new framework were "watered down" in the course of the decision-making process, either in Basel or in Brussels (e.g. Buckley et al., 2012; Helleiner, 2014; Howarth & Quaglia, 2013; Johnson & Kwak, 2011; Moschella & Tsingou, 2013; Young, 2014).

The apparently slow, incremental change that was to result from this reform process, together with the observation that the pre-crisis regulation of financial activities had been extremely accomodating to private interests, was the starting point of a new research agenda that focused on the interaction of financial interests,

international regulatory processes and domestic politics to explore the forces that shape international financial regulation and the contexts that enable these forces to operate (Culpepper, 2015; Helleiner & Pagliari, 2011).

The financial sector is an industry that is very active politically, in particular in Brussels, Basel and Washingtion, D.C. It relies for that on several key assets, including important financial resources, a quasi-monopoly on expertise and, as we have seen, the central role that financial intermediation plays in any advanced economy. Considering the important resources available to financial interests to obtain favourable outcomes from political decision-making processes, it was then hardly surprising that finance appeared to have "won" important lobbying battles in the post-GFC reform of bank capital requirements. Regularly described in terms of "structural power" or "regulatory capture", the political clout of financial interests seems so great to many commentators and the general public that many expect finance to *always* win. More surprising was the fact that financial interests also appeared to have "lost" on several elements of the reform. Indeed, the final version of the Basel III framework and its transposition into EU law as the CRD-CRR legislation includes policy instruments that were forcefully opposed by financial interest representatives, such as the leverage ratio, or an aggregate output floor on the calculation of RWAs.

This situation constituted the empirical puzzle that motivated the present dissertation: If financial interests were indeed powerful, how could we explain that they "lost" their lobbying battles on issues such as the leverage ratio? But if financial interests were not all powerful in international and EU regulatory politics, what factors determined when they would manage to obtain major concessions and when they would not?

In the introductory chapter of this dissertation I defined the following as the overarching empirical question guiding my research:

To what extent do the cases of lobbying success obtained by European

> *financial interest groups in the post-GFC reform of bank capital requirements constitute cases of financial industry influence on international and European regulatory processes?*

To answer this question, I adopted an inductive approach, analysing the lobbying of European financial interest groups on post-GFC bank capital requirements in three successive steps. I first identified those policy issues pertaining to the area of bank capital requirements on which changes made during the decision-making process resulted in policy outcomes significantly less stringent than original proposals (policy shifts). I then could determine whether these policy shifts coincided with financial interest groups' calls for leniency (lobbying success). Finally, I analysed the various configurations of conditions that were sufficient for European financial interest groups to obtain such significant concessions in order to determine to what extent success could be considered as a consequence of these actors' lobbying activity (causal paths).

In the next section of this chapter (Section 7.1), I summarise the key findings of each of the three empirical chapters of the dissertation and discuss whether, based on these findings, we can consider that European financial interest groups were influential in the post-GFC reform of bank capital requirements. I then reflect in Section 7.2 on what these findings tell us more broadly about the political power of financial interests and how these conclusions resonate with our prior knowledge of business power and decision-making processes on international and European financial regulation, the limitations of the present study and the possible avenues for future research it opens. I finish with some concluding remarks regarding the political significance of my findings.

7.1 The influence of European financial interest groups on post-GFC bank capital requirements

In this dissertation, I conceptualised the political influence of interest groups as the situation in which an organisation or individual (a) attains their preferences with regard to the outcome of a political decision-making process—a phenomenon which I called "lobbying success"—*and*; (b) in which a causal mechanism can be inferred that relates this preference attainment to the organisation's or individual's actions. In other words, *influence* in this dissertation was defined as the situation in which the *lobbying* of interest groups can be said to be the *cause* of their *lobbying success*.

The apparent necessary-and-sufficient condition structure of this concept led me to adopt a set-theoretic approach, whereby influence and lobbying success are defined as the intersection of the sets of cases where their respective constitutive dimensions are present. Influence is then defined as the intersection of the set of cases where lobbying success is present, and the set of cases where a causal mechanism is present that involves the causality of the interest group's lobbying for the outcome of that lobbying (be that success or the absence of success).

Lobbying success itself is conceived of as the intersection of the set of cases where a significant policy shift can be observed and the set of cases where the policy shift has the same direction as the actor's preferences. The three empirical chapters of this dissertation sought to determine on what issues the lobbying of European financial interests on bank capital requirements indeed stands at the intersection of these three sets. In the remainder of this section, I summarise the findings resulting from each of these three analytic steps and discuss to what extent they support a claim that European financial interests were influential in this reform.

7.1.1 Evidence of policy shifts

In Chapter 4, I first identified twenty-nine policy issues as the main component parts of the Basel III framework. The boundaries of these policy issues were determined from an analysis of the structure of the Basel framework itself, from the way in which the BCBS had structured its consultations and work into parallel but distinct streams, and, finally, from an assessment of the degree of functional interdependence between the various sections of the framework.

I operationalised the concept of policy shifts in terms of amendments made to initial draft standards that create a distance between those initial drafts and the version finally adopted, on a continuum of stringent to lax standards. I systematically compared, for each policy issue, the standards published by the BCBS in initial consultation documents with the version contained in the final Basel III framework as well as, where these have been transposed into EU law, with the CRD-CRR version. Where I could see differences, I traced their likely effects in terms of changes to banks' capital and liquidity management costs, operational costs, as well as changes to the perimeters of exceptions and exemptions. Aggregating for each policy issue the effect of observed provision-level changes, I could determine whether a policy shift occurred on the issue, and if so what the direction and extent of this shift were. I defined a *policy shift indicator* to give a numeric representation of both direction and extent of shifts.

I find that on 17 of the 29 policy issue, amendments made to the draft standards resulted in a reduced level of stringency, against two issues only were the changes made the standards more demanding, and 10 issues on which no or only marginal changes were made, without any noticeable effect on stringency. Of the 17 issues where moves towards less stringency could be observed, 12 saw a policy shift that was at least significant in its extent, from which we can already conclude that the Basel III framework was indeed watered down on a significant number of points.

This purely quantitative observation is reinforced by the qualitative observation

that major policy shifts towards less stringency happened on issues that constitute the core of the Basel machinery. The content of the policy issues—the standards they cover—indeed vary importantly in terms of their length, complexity, and, importantly, in terms of the aspects of banking activities they govern. Indeed issues such as the specific treatment of banks' equity investments in funds (IS17) or the regulatory definition of trading desks (IS20) have a very limited scope and changes on these standards have, overall, a relatively minor effect on banks' management and costs. By contrast, other parts of the framework are of crucial importance because they define requirements that have a direct impact on the capital, liquidity or operational cost related to a substantial part of banks' balance sheet. The series of RWA amounts defined in the standardised approach to credit risk (SA-CR) or the requirements for banks to use internal models for the estimation of credit risk (IRB, IS09), for instance, apply to assets that generally represent more than two thirds of banks' balance sheets (see Table 4.8 on page 121). A policy shift occurring on an issue of this latter group may then have a major effect on a bank's overall minimum regulatory capital requirement, while a major change on a relatively minor issue is likely to be less consequential, both for the bank's costs and for financial stability.

What I find in analysing these policy shifts is that important and even major moves towards less stringency happened on some major elements of the Basel framework, in particular the various approaches to calculate RWs for credit, market and operational risk, as well as the two liquidity standards. By contrast, among the 10 issues on which no policy shift occurred, I find a large majority of small-scope issues. There are exceptions to this pattern: I thus observe only limited concessions on the leverage ratio or on the G-SIB framework, two important policy instruments.

7.1.2 Interest representation on bank capital requirement

In Chapter 5, I used a text-as-data approach to analyse the expressed preferences of interest groups regarding each of the 29 policy issues. This approach consisted of two

steps—a topic classification and a sentiment analysis—and was applied to a corpus of written comments submitted by 817 unique organisations or individuals in response to BCBS and EC public consultations on Basel III and its transposition from 2008 to 2020. As is usually the case with public consultations (Beyers & Arras, 2020), the corpus was dominated to a large extent by representatives of the financial sector, with banks providing the largest number of documents. Public authorities—in particular ministries of finance, central banks and financial supervisors—represented the majority of non-business actors, followed by academia, a few NGOs and private citizens.

The primary purpose of the quantitative text analysis was to determine on which issues each responding organisation expressed a preference (cases of lobbying), and whether that preference was for a stricter or, conversely, a more lenient approach (pro-stringency and anti-stringency lobbying). The identification of cases of lobbying was made by mapping each sentence in the corpus to the issue that it was most likely related to, using for that a semi-supervised topic classification algorithm and a dictionary of issue-related seed words. The extraction of interest groups' preferences was done through a dictionary-based sentiment analysis.

I find 2 372 cases of lobbying distributed across 26 of the 29 policy issues. Cases involving a European financial interest group represent 1 051 of the 2 372 cases identified, also distributed across 26 of the 29 issues. 2 132 of the total 2 372 cases of lobbying expressed a preference for less stringency. Most financial interests were found advocating for a lenient approach. Among European financial interest groups, 1 043 cases expressed a preference for a lenient approach to bank capital requirements; only 8 cases in favour of a stringent approach. This finding confirms the theory-derived expectation that, in debates about the regulation of economic activities, representatives of the regulated industry tend to oppose policy proposals that create or increase their costs. In Basel III, very few representatives of the financial industry actually called on the BCBS or EC institutions to *increase* requirements. The preference for more stringent capital requirements was upholded predominantly

by non-business actors: public authorities, NGOs, academics and private citizens.

The data on observed policy shifts and the indication of interest group preferences on each issue were then brought together to determine whether each case constituted a case of successful lobbying or not: Cases where the policy shift was at least significant *and* in the same direction as the preference expressed by the actor constitute cases of *successful lobbying*. Where one or both of the two condition is missing, the lobbying is found fully unsuccessful (no policy shift or shift in the opposite direction), or mostly unsuccessful (limited shift in the same direction). With 541 cases of success and 510 cases of non-success, European financial interest groups were in approximately equal proportion successful and unsuccessful in the reform of bank capital requirements. This distribution is similar for the broader community of financial interests (of the 1 600 observed cases of lobbying by financial interests, including European ones, 826 are cases of successful lobbying) and non-financial business interests (128 cases of success out of 246 observations).

7.1.3 Conditions of success

The third step of my empirical study of lobbying on post-GFC bank capital requirements consisted in the exploration of the configurations of conditions necessary and/or sufficient for the occurrence of the outcome *successful lobbying*. In Chapter 6, I relied on the analytic protocol of QCA to identify cross-case regularities across the 26 policy issues/lobbying coalitions observed in Chapter 5. The analysis started with the definition of five "coalition conditions" and four "context conditions", derived from the results of Chapters 4 and 5, and informed by the existing literature.

A preliminary analysis of the commonalities between policy issues that witnessed similar policy shifts (or absence thereof) and differences between those that witnessed different policy shifts enabled me to identify four features of the policy issue or the context surrounding its reform that could be expected to contribute to lobbying success or, conversely, limit the extent of concessions that financial interests could

hope to obtain on a particular issue. These features were (a) a context characterised by the high salience of financial regulation issues with the general public; (b) a policy issue characterised by a high degree of regulatory complexity; (c) a policy issue where the Basel III reform represented a regulatory novelty; (d) the presence of a high-level political commitment to adopt and implement stricter standards on the target issue. Similarly, observing the distribution of cases of lobbying across policy issues, I identified five characteristics of lobbying coalitions that could be expected to contribute to the success of anti-stringency lobbying. These were: (a) the presence of a large coalition of actors expressing a preference for a lenient approach; (b) a strongly worded collective opposition to stringent reform from financial interests; (c) an important display of expertise by a large share of the anti-stringency coalition; (d) a strong degree of coordination among coalition members; (e) the participation of a significant number of non-financial interest representatives to the anti-stringency coalition. I defined for each of these conditions the relevant data-indicators and qualitative criteria to be used to determine whether the condition was present or absent in each case.

I then applied *fs*QCA. Starting with an analysis of potential necessary conditions, I identified the presence of a large anti-stringency coalition or a high degree of regulatory complexity as two SUIN conditions for the presence of the outcome *successful lobbying*; that is, the outcome could not be observed without the presence of either a large anti-stringency coalition *or* a high degree of regulatory complexity. Through the analysis of necessity, I further identified the absence of a political commitment to stricter regulation as the second most relevant context condition. I then proceeded to the analysis of relations of sufficiency, identifying four configurations of conditions that were sufficient for the outcome *successful lobbying* to occur, and four configurations sufficient for its absence.

I interpret the four configurations of conditions sufficient for successful lobbying as evidence of the presence in the post-GFC reform of bank capital requirements, of two causal mechanisms that enabled European financial interest groups to ob-

tain significant concessions from the BCBS and the EU legislator to their calls for leniency.

I label the first of these two mechanisms "strength in numbers". In this mechanism, lobbying success was obtained due to the mobilisation of a large number of actors in favour of leniency. The support of a large number of actors to a lenient approach can be theorised as increasing the power of each individual coalition member by increasing policy-makers' perception of the representativeness of anti-stringency arguments. However this cause was permitted to produce its effect only in specific contexts. In a context characterised by the absence of a political commitment to strengthen regulation, a large coalition of actors calling for leniency was sufficient to obtain significant concessions without any other condition being necessary. Where the targeted issue was characterised by a high degree of complexity, a large coalition was able to produce successful lobbying regardless of any political commitment to stricter regulation if it included a significant number of non-financial actors and that its members coordinated their positions.

I call the second success-enabling mechanism "small but active coalition—quiet politics". Here again, the mechanism involved the presence of agential and contextual factors. The context is one characterised by the presence of regulatory complexity *and* the absence of a political commitment to stricter regulation. In such a context, if the financial interests in the coalition generally voiced their opposition to stringent reform proposals in strong words *or* if the members of the coalition coordinated their positions, then the coalition did not need to be large to obtain significant concessions. Indeed, the presence of complexity on the one hand and the low interest of high-level politicians on the other created a context in which information asymmetries reinforced the position of financial industry representatives, while the low politicisation implied little pro-stringency opposition. Concretely, this scenario corresponds to a collective action by a potentially small but motivated—vocal and/or coordinated—number of financial industry representatives targeting an issue that was discussed in expert circles only, a situation akin to the "quiet politics"

mechanism described by Culpepper (2011).

The four configurations of conditions sufficient for the absence of successful lobbying are also interpreted as evidence of the presence of two alternative causal mechanisms "preventing" financial interests from obtaining anything more than limited concessions. The first of those two mechanims, which I label "simple and politicised", involved the joint presence of two context conditions: the absence of regulatory complexity and the presence of a political commitment to stricter regulation. The joint presence of these two conditions was sufficient to produce the absence of the outcome *succesful lobbying*; that is, if the issue was simple and was signalled as a priority by political leaders, the causal force arising from anti-stringency lobbying was prevented by those contextual obstacles from producing the outcome *successful lobbying*, however strong the anti-stringency lobbying of financial interests and their allies.

The presence of an alternative "secondary issue" mechanism could be inferred from the sufficient configurations of conditions that involved the absence of a large coalition of actors together with the absence of a forceful opposition to stringency from financial interests and/or the absence of coordination among coalition members. The absence of success in those cases is theorised as resulting from the low success-producing causal force of the lobbying coalition: The low mobilisation of interest groups in support of an anti-stringency preference results in little challenge to reform proposals, which in turn results in no or only limited concessions being made to the anti-stringency side.

Two variants of this mechanisms are inferred from the configurations. In the first variant, none of the coalition conditions are present, that is, the lobbying coalition does not exhibit any feature that would reinforce at the collective level the individual lobbying efforts of its members. Such a weak coalition is unable to produce success, even where the context is the most favourable (complexity of the issue and absence of a political commitment to stricter regulation).

In the second variant, the coalition is small and either the financial interests in it are not making their concerns heard in a particularly forceful manner or the members of the coalitions did not coordinate their activities. In such cases, the weakness of the coalition results in a relatively low causal force, so that the absence of regulatory complexity—and attendant information asymmetry benefits—is sufficient to prevent it from producing success. The cases in which this mechanism was present generally targetted small components of the Basel framework, with little impact on banks, from which we may infer that the low degree of mobilisation was itself caused, in most of the cases concerned, by the perceived secondary importance of the policy issue.

7.1.4 Influence?

When, then, did financial interests "win" on post-GFC capital requirements? And when did they "lose"? From the causal mechanisms above, we can say that the obtention of significant to major concessions in the Basel III reform always required, in terms of agency, that financial interests mobilise collectively to support their shared preference for leniency. This collective mobilisation could take the form of a large (and diverse) coalition of actors, or a small-but-vocal/coordinated coalition, but where no such mobilisation could be observed, policy outcomes were never significantly less stringent than initial proposals.

Collective mobilisation was insufficient, however. For financial interests to attain their preferences, this collective mobilisation needed a favourable context, characterised by a high degree of regulatory complexity and/or low politicisation of the target policy issue. Absent such favourable context, lobbying efforts, however strongly financial interests mobilised, resulted in nothing more than limited moves towards less stringency could be extracted during the decision-making process.

What can we conclude from these findings regarding the *influence* of European financial interest groups on post-GFC bank capital requirements? Though we can-

not conclude about the influence of individual actors, we may consider the observed cases of success as cases of *collective* influence exerted by the financial industry. Since success was obtained only when financial interests mobilised—alone or with the support of non-financial actors—we see no case in which, at the collective level, financial interests were "lucky": they never obtained what they wanted without trying. Indeed on the three policy issues where no case of lobbying could be observed, there was no policy shift at all. This collective influence was however limited: Collective mobilisation could only produce its effects and result in successful lobbying in particular "success-enabling" contexts. In other words, contextual factors could act as "success limitators" that reduced the effect of collective mobilisation.

European financial interest groups should then only be seen as influential where their collective mobilisation is sufficiently strong to overcome the obstacles to success set by contextual factors. Proceeding by analogy, we may consider lobbying as a wave and the context as a seafront: whether a wave results in flooding depends on the force of the wave itself and the shape of the seafront. The number and diversity of coalition members, the forcefulness of the anti-stringency arguments and the degree of coordination define the force of the wave. Contextual obstacles—the simplicity of the issue that makes the debate accessible to non-experts and the presence of a political commitment to implement stricter standards—reduce the power of the wave. Where a very high flood barrier is in place, all waves are repelled ("simple and politicised" context). Lower barriers (only one contextual obstacle present) may repel weak waves ("secondary issue") but are unable to hold-off strong or very strong ones ("strength in numbers", "small but active coalition—quiet politics"), resulting in flooding (successful lobbying). And the absence of waves will result in the absence of flooding, whatever flood barriers are present on the sea front.

7.2 Scientific contribution, limitations, and avenues for future research

I have summarised in the previous section the findings of this dissertation and drawn conclusions regarding the influence of European financial interests in the psot-GFC reform of bank capital requirements. In this second section, I first reflect on how this dissertation contributes, from a methodological and theoretical perspective, to the existing literature on the power of the financial industry, before turning to the limitations of this study and possible avenues for future research.

7.2.1 Scientific contribution of the dissertation

This dissertation contributes to the existing literature on financial industry power in terms of methodology and theory. Methodologically, the research makes three contributions. First, this dissertation has presented an approach to interest group influence that formalises, following Goertz's (2020) "semantic" approach to concepts, and using set theory and Boolean algebra, the generally admitted but often implicit necessary-and-sufficient condition structure of influence.

Decomposing influence into its constitutive secondary dimensions, I could operationalise the concept as the intersection of the set of cases of lobbying success and the set of cases where the outcome of lobbying could be causally related to interest groups' activities. Conceptualising lobbying success itself as the joint presence of a significant policy shift and of a coincidence of this policy shift with an interest group's expressed preference, I laid out a three-stepped research design that could be applied to analyse the influence of European financial interest groups on post-GFC capital requirements.

I have shown how fuzzy logic and Boolean algebra could then be used to give a mathematical representation to these concept structures and define a measurement scale of lobbying success. That measurement scale enables me to convey both the

qualitative difference between cases where lobbying success is present and those where it is absent, but also differences in degrees among cases of successful lobbying and among cases where success is absent.

The conceptualisation of influence used in this study, while it suits the QCA approach that I have used to examine conditions of success, however does not precludes the use of other methodological approaches. Indeed, by dissociating the ontological discussion of the concepts—what influence and lobbying success *are*—from the methodological aspects of my reseach—how I suggested to measure and explain these phenomena in the cases of interests in my study—, I presented definitions of influence and lobbying success that are compatible with small-N, case study approaches as well as large-N quantitative analysis, and with "effects-of-causes" as well as "causes-of-outcomes" types of research questions (Goertz & Mahoney, 2012). Such an approach then can serve to connect the quantitative and qualitative approaches to influence research and support mix methods research in a conceptually sound manner.

Second, in this dissertation, I have used a text-as-data approach, relying on automated quantitative text analysis, to extract data from responses to public consultations on bank capital requirements. While the use of interest group position papers as data is quickly gaining ground in interest group studies, few studies have so far used such documents to extract data about policy preferences. In this study, I have presented an approach to the analysis of these documents that exploits researchers' prior knowledge of the policy area and the language used to discuss it in order to (partially) overcome the limitations of automated quantitative text analysis techniques and generate meaningful data that can be used to explore lobbying success and influence in a strictly defined context.

Third, in this dissertation, I have shown how QCA could be applied to explore causality in influence studies. This approach enabled me to make systematic cross-case comparisons across a set of cases that would have been too large for process-

tracing techniques and too small for regression analysis. What is more, the particular way in which QCA is equipped to handle conjunctural causation and equifinality enabled me to explore not only the various alternative causal pathways through which interest groups' lobbying produces lobbying success, but also how contextual factors interact with agency to enable or, conversely, prevent lobbying activities to produce success. I have therefore shown how the use of configurational approaches such as QCA could help solve some of the methodological challenges surrounding the empirical study of interest group influence.

At the theoretical level, the findings of this dissertation confirm prior theoretical arguments about the contingent nature of financial industry power. Whatever advantage financial interests may enjoy due to the centrality of financial intermediation (and bank credit in particular) in modern economies was insufficient on its own to obtain favourable outcomes in the reform of bank capital requirements: Some form of political activity was always necessary for financial interests' anti-stringency lobbying to be successful in this reform. That is not to say that the structural prominence of the financial industry did not play a role, however: under a context of "quiet politics", financial interests' threats of the "unintended consequences" of stringent capital requirements on economic growth—i.e., a reduction in the volume of credit to NFCs and households—were found to be sufficient to obtain significant concessions. The findings of this dissertation thus confort the view that *structural power*, rather than a constant, constitutes a resource for financial interests, which needs to be used strategically in order to contribute to lobbying success.

In terms of lobbying strategies, the findings of this dissertation confirm the nature of "lobbying as a collective enterprise" (Klüver, 2013a). The presence of a large coalition of actors sharing a preference for a lenient approach to capital requirements was found to be a crucial agential element of two of the four configurations of conditions leading to successful lobbying. Indeed where a large number of actors mobilised, significant concessions could be obtained even in relatively challenging contexts. Beyond the mere number of actors, this dissertation found that a high

degree of active coordination between members of a coalition could lead to success even where relatively few actors mobilised, under a context of "quiet politics".

The main theoretical contribution of this dissertation however lies in the theorisation of the ways in which agential and contextual factors interacted in the reform of bank capital requirements. Using QCA, which relies on a mechanismic approach to causality, I could theorise lobbying success and its absence as the outcomes of causal mechanisms whereby certain specific contexts permitted the causal force arising from actors' mobilisation to produce lobbying success while other contexts prevented the transmission of this causal force, resulting in the absence of success. The findings of this dissertation in particular highlight *what* contexts were necessary for particular types of lobbying coalitions to produce success in specific cases.

7.2.2 Limitations and avenues for future research

The first limitation that must be noted relates to the generalisability of my findings. This dissertation focused on a very specific, historically defined context—that of the post-GFC reform of bank capital requirements—which followed and was a response to a crisis of exceptional magnitude. Furthermore, my goal in this dissertation was to explain the lobbying success or absence of success of a particular set of actors: financial interest groups active in the EU policy-making context who expressed a preference for a lenient approach to bank capital requirements. The choice that I made to limit my research to this context and these actors made it possible to adopt a MSDO research design, whereby I could select a limited set of candidate conditions as potential "difference makers" explaining why in this context, financial interest groups sometimes obtained success, and sometimes not.

It however logically raises questions about the generalisability of my findings to other actors and to other instances of international, European or even national decision-making. Scholars analysing the success obtained by actors other than financial interests, in policy areas other than financial regulation and/or in time periods

other than the post-GFC years are likely to find that, in their cases, the causal mechanisms explaining the (non-)occurrence of lobbying success are different from those I saw present in this dissertation.

The conditions that I have analysed here could be expected to be causally relevant for lobbying success on many areas of economic regulation. The contextual factors of high salience and political commitment to stricter regulation may be expected to be present, under different guises, wherever a regulatory initiative follows a human-induced crisis. All crises, not only financial ones, increase public scrutiny and trigger politicians' promises to better regulate the negative externalities of economic activities. Similarly, while bank capital requirements may be at times particularly complex, as we have seen, they are not the only policy areas where regulators pile up detailed standards with many alternative scenarios to consider and complex mathematical formulas to be applied. How these contextual factors combine and interact with the particular forms of mobilisation of different types of actors is likely to vary greatly from one area to the next, though. Explaining the lobbying success of actors such as non-financial business or NGOs, would most likely involve analysing the causal relevance of a different set of conditions, even though the general approach would, I believe, remain valid.

A promising avenue for future research would be to assess the validity of the findings of this dissertation in other areas of financial regulation in the post-GFC context. The configurational comparative approach laid out in this dissertation could indeed be applied to an expanded data set, including financial regulation initiatives such as bank structural reform, bank resolution and recovery frameworks, the regulation of hedge funds and derivatives markets, or the prudential regulation of insurance activities.

Besides questions of generalizability of findings, two methodological limitations need to be discussed. First, in this dissertation, I focused on how much more or less stringent the final Basel III standards and their transposition are compared to

initial reform proposals issued by the BCBS, but the study does not systematically assess the extent to which these initial proposals themselves were more stringent than the Basel II framework. This raises questions regarding the comparability of cases of non-success. Indeed, the absence of any observable policy shift on an issue where the initial draft standards were significantly more stringent than their Basel II equivalents does not have the same significance, empirically, as no policy shift on an issue where initial drafts only introduced small changes with little effects on stringency: While the former constitutes a lobbying failure, the latter may be seen by anti-stringency interest groups as mostly irrelevant. In this regard, the limited concessions made on the leverage ratio or the G-SIB framework—issues on which no requirement existed in Basel II—should be considered more of a failure than the absence of any noticeable change on the treatment of expected losses and provisions under IRB, where the proposals for reforms were limited in the first place.

This dissertation does not account for such variations in terms of initial reform ambition: Where the BCBS only proposed little or no change to the Basel II rules, was it the result of a genuine assessment that these standards did not need strengthening, or was it the result of influence exerted at the agenda-setting stage? Future research could refine the policy shift element of the measure of lobbying success presented in this disseration by integrating in a systematic way this variation in terms of initial reform ambition. This would require a systematic comparison of Basel II provisions with initial draft standards mirroring the paragraph-by-paragraph comparison with Basel III that I used to assess the presence of policy shifts. Such a comparison would then enable an extension of the analysis of lobbying success to the *second face* of power (Bachrach & Baratz, 1962) and consider success-generating mechanisms applying *before* regulatory initiatives are formally issued.

Second, I shall note the limitations of automated text analysis in the context of a case-based research approach. In this dissertation, I extracted the preferences expressed by interest groups on bank capital requirements from the position papers that they submitted to BCBS and EC public consultations using automated text

analysis techniques. This choice had some clear advantages, which I mentioned in previous chapters. In particular, relying on written documents rather than on interviews or surveys offered a guarantee against the failures of human or organisational memory and against potential post-hoc "corrections".

Using automated text analysis to analyse these documents, rather than a manual content analysis, made it possible to analyse a large quantity of text in a systematic way and at relatively low cost. Such techniques rely on statistical models of associations between words to identify semantic relations within a corpus, models which themselves involve a series of assumptions regarding the use of language (Grimmer & Stewart, 2013). Despite recent innovations, such approaches still entail a significant risk of measurement error, particularly when analysing texts that, like responses to consultations, use a specialised language with many context-specific terms that may not conform to the common use of the English language, from which most of the assumptions of such models are derived (Bunea & Ibenskas, 2015).

This risk of measurement error is problematic for a case-based research approach such as QCA, which is by design sensitive to individual cases. This meant that, in this dissertation, I had to make conservative analytical decisions in terms of the selection of cases (e.g. excluding individual cases of lobbying for which less than 15 sentences could be found) and in terms of how fine-grained the measurement scales used to define set membership scores could be. I thus found individual sentiment scores to be insufficiently reliable to determine the presence of a strong opposition to stringency at the level of individual cases, but averages across members of a lobbying coalitions to be sufficiently robusts to define coalition-level conditions.

I am confident that future research on natural language processing and future software development will soon provide researchers with tools that are sufficiently reliable. Future research on financial interest groups may then try to implement better automated text analysis techniques to the corpus that I have studied here and make comparisons at the level of individual interest groups. In the meantime,

caution is warranted.

Finally, this dissertation leaves unexplored a number of potential alternative explanatory factors. In this dissertation, I treated those factors identified as "context" conditions as exogenous to the activity of interest groups, working under the assumption that the presence/absence of a high degree of salience of financial regulation issues or of a high-level political commitment to stricter regulation were not themselves the result of some actor's lobbying.

By doing so, I left unexplored the possibility that the absence of such conditions may be caused by the political activities of financial interests or their opponents. This represents a potential endogeneity problem in my findings. Indeed, while it is unlikely that financial interest groups' activities would have pushed political leaders to commit to stricter regulation—a condition that, as we saw, limited their possibilities to obtain favourable policies—it is possible that the silence of the G20 on particular issues or the Hangzhou declaration—which called on the BCBS not to increase capital requirements further—were the result of financial interest groups advocating restrain to individual political leaders in each of the G20 country. It may be difficult to find convincing evidence of a causal relation between financial interest lobbying and the *silence* of political leaders. Were it to be found, however, it would require a re-interpretation of the observed configurations of conditions into different causal mechanisms.

This dissertation furthermore left largely unexplored the role played by advocates of a more stringent approach to regulation in causing the absence of lobbying success for financial interest groups. The primary reason for this neglect was that few advocates of stringency participated in public consultations. The mobilisation of opponents to financial interests is indeed more likely to take the form of "outside lobbying", appealing to public opinion (Dür & Mateo, 2014, 2016). Again, though indirect, such a mobilisation, if it existed, may in theory have affected the presence of conditions that were analysed in this dissertation. Successful outside lobbying

may have increased the news coverage of financial regulation issues, and led political leaders to paint themselves as supporters of regulation. Both media coverage and politicians' strategies are determined by a wide array of factors most of which are beyond the control of interest groups. As a consequence, I consider unlikely that the presence of a context of high salience or the presence of political commitment that I observed in several issues of the reform of bank capital requirements could themselves be the result of pro-stringency lobbying. Nevertheless, these two examples illustrate how future research may be warranted to refine the suggested causal mechanisms using, in particular, process-tracing approaches to establish with more certainty the relations between conditions and identify possible missing elements of the mechanisms (see, e.g. Schneider & Rohlfing, 2013). The problematic case of the leverage ratio, which is not fully explained by my findings, would be a good candidate for such in-depth, within-case inference.

7.3 Concluding remarks: Financial industry power and banking sector stability

Reaching the end of this dissertation, we may reflect on the political implications of its findings. As we have seen, prudential regulation is of paramount importance to reduce the likelihood and magnitude of banking crises. It is not a coincidence that all major waves of regulation immediately followed episodes of bank failures and systemic financial instability. The policy response to the GFC was a typical example.

However, despite the important advances in terms of limiting banks' excessive risk-taking that were introduced with the Basel III framework, the international banking system remains fragile. If anything, the TBTF problem has worsened in the years since the GFC. As larger banks absorbed smaller, more fragile ones in the aftermaths of the crisis, banking sector concentration has *increased*: the weighted

average of the share of the five largest banks in national banking sectors across the euro area, which already reached 44% in 2008, now exceeds 50% (Figueiras et al., 2021). This, in turns, implies an increase in the implicit guarantees that governments provide to such oversized banks (International Monetary Fund [IMF], 2014, Chapter 3). Furthermore, asset price bubbles of the kind that developed in the US and in several euro area economies before the GFC are still with us: In November 2021, the European Central Bank noted that "growing signs of overvaluation for the euro area as a whole render residential real estate [...] markets more prone to a correction, in particular in countries with more elevated valuation levels" (European Central Bank, 2021). The post-crisis prudence seems to be vanishing as the memory of the GFC is receding:

> Lending standards like loan-to-income and loan-to-value ratios had eased prior to the pandemic and there is some indication that they have eased further, adding to concerns about household and bank resilience going forward (European Central Bank, 2021).

The over-optimistic valuations of real-estate assets that fuelled the pre-GFC boom then seem to be back.

Strong capital requirements only constitute one part—albeit an important one—of a solution to ensure financial stability. Although due to the reform banks are better capitalised than they were before the GFC, more capital is insufficient to fundamentally address the root causes of endogenous banking sector instability: increasing the quantity and quality of bank capital did little to reduce conflicts of interests characteristic of the universal banking business model that developed from the 1970s and produced an oversized international financial sector dominated by TBTF banks (Scialom, 2019).

What is more, post-crisis regulatory safeguards are under threat. In the US, the provisions of the Dodd-Frank Act have been under constant pressure from Republican critics, particularly under the Trump administration (Paletta, 2017). But

in Europe too, there is political pressure to reduce the requirements adopted after the GFC and reluctance to faithfully implement the remaining elements of Basel III (Lautenschläger, 2018). As we have seen in this dissertation, when analysing the commitment of high-level political leaders to implement stricter standards (see Section 6.2.3), politicians' attitudes towards banking regulation have changed over the years since the GFC: initial calls for a strict regulation of banking and other financial activities have progressively ceded ground to concerns for economic growth in G20 statements.

International political economy has shown how policy-makers—elected officials in particular—tend to perceive that trade-offs need to be made between reinforcing financial stability through stricter standards and fostering short-term economic growth through bank credit (Howarth & Quaglia, 2013, 2016a). Years of sluggish economic growth and the limited success—in the short-term at least—of initiatives to develop alternatives to bank credit may make the anti-stringency arguments developed by financial interests more and more appealing to governments that may as a consequence be tempted to reduce requirements. The Hangzhou declaration, where G20 members called on the BCBS to finalise Basel III without significant increase in capital requirements must be seen in this context: As the memory of the last crisis fades, strict financial regulation is increasingly seen as a burden rather than a necessary safeguard.

On September 21, 2015, Mark Carney, then Governor of the Bank of England, laid out in a speech what he called the "the Three Lies of Finance" (Carney, 2015). Those three lies are that "this time is different", that "markets always clear" and that "markets are moral". The first of the three—"this time is different"—corresponds to the belief that technological and financial innovation enables us to better manage risk, to the point that we could be rid of the infinite cycle of booms and busts that has characterised finance for the past eight centuries (Reinhart & Rogoff, 2009). The second belief—that "market always clear"—implies that financial markets automatically return to equilibrium, therefore market prices always reflect economic

fundamentals and, provided the price discovery process is not impaired by the interference of regulation, asset price bubbles are impossible. The third belief—that "markets are moral"—takes for granted that financial markets naturally work for the greater good by offering investment opportunities to savers and businesses with excess capital, and funding to firms and households in need of such capital.

The combination of these three beliefs leads to the conclusion that regulation is unnecessary and that financial markets make a greater contribution to social welfare when left to their own devices. Financial interest groups contributed importantly to spreading these beliefs from the 1970s (Harnay & Scialom, 2016). All three beliefs were blatantly contradicted by the experience of the GFC. Yet, like Mr. Carney, we can be confident that "with time, the Three Lies of Finance will come to enjoy widespread credulity again" (Carney, 2015, p. 9), and lead, again, to expectations of effortless, continued prosperity and deregulation that will, in all likelyhood, end in another financial crisis. Unless, maybe, the context in which financial regulation is discussed changes: instead of assuming that financial regulation is a technical, complex matter, better left to be discussed in exclusive circles of experts and industry representatives behind closed doors, we may recognise the highly political nature of financial regulation, look behind the "mystique" of finance and expose to public scrutiny the respective merits and weaknesses of pro- and anti-stringency arguments.

With geopolitical instability rising and an ecological crisis that seems increasingly inevitable, an already fragile financial sector will become exposed to new, unforeseeable risks. When these materialise, governments will have to manage the consequences of armed conflicts and natural disasters. The question is: will they be able to manage a concomittant financial crisis? More than ever, we need to talk about finance.

Appendices

Appendix A

Evolution of Basel III issues at the Basel and EU level

Definition of eligible capital (IS01)

Evolution at Basel level

Inputs: BCBS164, BCBS174, BCBS189 (BCBS, 2009c, 2010a, 2010e).

Output: Basel framework chapter CAP10.

Period of works: First proposals issued in 2009; Standards mostly settled in 2010.

Evolutions:

- **Eligibility criteria for common equity Tier 1 (CET1):** The 14 criteria that a capital instrument must meet to be eligible as CET1 are exactly the same as those initially proposed in BCBS164 (BCBS, 2009c, p. 18). As soon as BCBS164, a footnote (no.19) mentioned the necessity to adapt these criteria to the particular constitutions and structures of non-joint stock banks (mutuals, cooperatives, etc.).
- **Additional Tier 1 and Tier 2:** Very limited change. The proposals initially put foward by the Basel Committee on Banking Supervision (BCBS) have been maintained, notably the requirement that capital instruments have a mandatory contractual write-down or conversion mechanism to be eligible as either additional Tier 1 or Tier 2 capital, a requirement announced in BCBS164, fleshed out in BCBS174 (BCBS, 2010e) and integrated in BCBS189 (BCBS,

2010a). Only one divergence make the final rules slightly less stringent than the original proposals: the possibility to include in additional Tier 1 and Tier 2 instruments that are redeemable within 5 years of issuance only in case regulatory or tax events that were unforeseeable at issuance occur (the original proposals excluded all instruments redeemable within the first five years, without exception).

- **Minority interests:** Where the original proposal on minority interests in BCBS164 explicitly required the deduction of *all* minority interests (i.e., common shares subscribed by minority shareholders in subsidiaries) from a banking group's consolidated amount of CET1 capital, the final rules permit banks to include a portion of these minority interests, subject to conditions and within the limit of 10% of the group's CET1 capital amount. This represents an important concession, as even a partial inclusion makes it easier for large banking groups to reach their capital adequacy requirements at consolidated level.

Overall, the Basel rules on the definition of capital became less stringent to an important extent due to the re-introduction of minority interests in CET1. Even capped, this inclusion inflates banks' CET1 amounts by up to 10% compared to the original proposal.

EU transposition

Output: Capital Requirements Regulation (CRR) (Regulation (EU) No 575/2013, 2013, Part two, Title I).

Findings:

- **Criteria for CET1 eligibility:** The general criteria were faithfully transposed in the CRR I (and untouched by CRR II), but Art. 29 of the CRR, which adapts the criteria to non-joint stock banks defines more flexible criteria, which the BCBS's Regulatory Consistency Assessment Programme (RCAP) team found to exceed the degree of flexibility allowed by the Basel framework (BCBS, 2014h, p. 17). While the RCAP team noted that cooperatives and mutuals constitute "well understood capital structures [that] have proven resilient in times of stress" and that some of these banks also partly rely on the issuance of publicly listed ordinary shares, the CRR rules enable them to report as CET1 instruments which may be "redeemable, non-loss absorbing in liquidation, and paying a distribution based on the face value", which "goes beyond the limits of permissible flexibility in Basel III".

- **Criteria for additional Tier 1 and Tier 2:** The eligibility criteria for additional Tier 1 and for Tier 2 were faithfully transposed. The RCAP team did not find any material nor potentially material deviation.

- **Minority interests:** The Basel III provisions were closely transposed in Articles 81-88 CRR; the scope of eligible minority interests was extended by CRR II, which amended articles 81 and 82 to include—besides capital instruments of subsidiaries subject to Capital Requirements Directive (CRD)-CRR requirements by virtue of national law—subsidiaries that are financial holding companies in third countries subject to equivalent prudential requirements.

Overall, the European Union (EU) transposition makes the definition of CET1 less constraining for non-joint stock banks, but only marginally (their capital instruments still must meet the 14 criteria for CET1, the additional flexibility only relates to a limited set of instruments); and the inclusion of minority interests, even though more of them are eligible, is still constrained by the cap at 10% of consolidated CET1.

IS01: Summary of evolutions

	Direction	**Extent**
BCBS	Less stringent	Important
EU	Less stringent	Limited

Regulatory adjustments (IS02)

Evolution at Basel level

Inputs: BCBS164 and BCBS189 (BCBS, 2009c, 2010a).

Output: Basel framework chapter CAP30.

Period of works: First proposals in 2009; standards settled by December 2010.

Evolutions:

- **Deferred tax assets (DTAs) and mortgage servicing rights:** Instead of the full deduction of these assets, as initially proposed in BCBS164 (BCBS, 2009c, p. 24), the final rules (CAP30.8 to 30.10 and 30.32 to 30.34) allow a partial inclusion under the so-called "threshold deduction" system, whereby DTAs, mortgage servicing rights and investments in the capital of non-consolidated financial entities (see below) can be included, within the limit of 10% of CET1 for each of the three category individually, and subject to an aggregate cap of 15% of CET1. In other words, *ceteris paribus*, CET1 under BCBS164 would have been up 15% lower than under the final rules.
- **Investments in the capital of certain banking, financial and insurance entities which are outside the scope of regulatory consolidation:**

- *Reciprocal cross-holdings of capital instruments and Total Loss-Absorbing Capacity (TLAC) liabilities:* BCBS164 initially mandated the full deduction of holdings of capital that formed part of any reciprocal cross-holding agreement or investments in affiliated institutions on a corresponding basis. The final rules limit this to reciprocal cross-holdings "designed to artificially inflate the capital position of banks" (CAP30.21), leaving other arrangements out, but it also extends it to reciprocal cross-holdings of TLAC liabilities, to be deducted from Tier 2.
- *Holdings of capital instruments and TLAC holdings in financial entities where the bank does not own more than 10% of the issued common shares of the financial entity (i.e., not a "significant investment"):* CAP30.26 mandates that if the total of all such holdings exceeds 10% of the bank's CET1, then the portion in excess is to be deducted from regulatory capital on a corresponding basis. This is more stringent than the original BCBS164 (BCBS, 2009c, p. 24), which mandated this deduction if the total of held *common shares only* was to exceed 10% of the bank's CET1.
- *Significant investments in the capital/TLAC of certain financial entities (the bank owns more than 10% of the issued common shares or the entity is an affiliate of the bank):* While BCBS164 mandated the full deduction of common shares, CAP30.31 allows a partial recognition, capped at 10% of the bank's CET1. Note that all non-common share capital instruments still are to be fully deducted.

- **Investments in own shares:** The BCBS164-mandated deduction of all of a bank's investments in its own shares was extended by BCBS189 (BCBS, 2010a) to all capital instruments and, in the final rules (CAP30.20) to holding of own TLAC liabilities.

Overall, the 'threshold deduction' system is a concession that makes the regulatory adjustments for DTAs, mortgage servicing rights and investments in the common equity of financial entities outside the scope of consolidation less demanding on banks (they will have to deduct less from their CET1 amounts, then it is easier for them to meet their minimum capital requirement). The partial recognition of common equity investments in financial entities is particularly beneficial for (large) universal banks, which have a potentially large number of such investments. Then the 10%-of-CET1 cap is still limiting but better than a full deduction. Conversely, the extension of the deduction regime to TLAC holdings beyond capital instruments increases the total amounts to be deducted for all banks.

EU transposition

Output: CRR 1 (Regulation (EU) No 575/2013, 2013, Part two, Title I, Chapter 2, sections 2 and 3, Chapter 3 section 2, Chapter 4, section 2).

Findings: The BCBS' RCAP team found the EU transposition of rules on regulatory adjustments to be "largely compliant" with the Basel III framework (BCBS,

2014h, pp. 16–18). Several deviations were identified, but only one of these was considered materially non-compliant and potentially reducing amounts of capital requirements. This deviation concerns article 49 of the CRR, which permits banks that are part of a financial conglomerate to consolidate rather than deduct equity investments in insurance and other financial entities, and calculate consolidated capital requirements under the Financial Conglomerates Directive (FICOD) regime. While this possibility is not forbidden under Basel III, the international standard requires that banks be allowed to use this possibility only if the resulting capital requirements are at least as conservative as the normal Basel III requirements. The CRR provisions do not include such a limitation, and, according to the RCAP team's assessment, the application of the FICOD ratio could reduce capital requirements for *some* European banks that are part of financial conglomerates (BCBS, 2014h, pp. 29–30). This possibility is however limited to a tiny minority of European banks and the European Commission (EC) contested the RCAP's assessment.

IS02: Summary of evolutions

	Direction	Extent
BCBS	Less stringent	Somewhat significant
EU	Less stringent	Limited

Calculation of minimum risk-based capital requirements (IS03)

Evolution at Basel level

Sources: BCBS164, BCBS189, D306, D424 (BCBS, 2009c, 2010a, 2014d, 2017c).

Period of works: First proposals in 2009 for the solvency ratios and in 2014 for the output floor; Standards settled in 2010 for the solvency ratios and in 2017 for the output floor.

Evolutions: Minimum risk-based capital requirements refer to the minimum level that the ratios of a bank's various components of regulatory capital to its risk-weighted assets (RWA) must reach to allow that bank to operate as a bank. Those minimum ratios are often called 'solvency ratios', that is, below those minimum CET1-to-RWA, Tier 1-to-RWA and total capital-to-RWA ratios, the bank is considered as at risk of insolvency. The Basel III reform of the calculation of minimum risk-based capital requirements proceeded in two steps: A discussion of the minimum level of the ratios, first, discussed in the early stages of the Basel III reform (2009-2010) together with the composition of numerator (regulatory capital, see above); and a reform of the aggregation method for RWA discussed later in the process (2014-2017), with the introduction of a new 'output floor' applied to RWA amounts calculated using internal models-based approaches.

- **Solvency ratios:** The three solvency ratios defined in RBC20.1—CET1, Tier 1 and total capital to be at least equal to 4.5%, 6% and 8% of RWA, respectively—were set very early in the process. In BCBS164 (BCBS, 2009c, §§82-83), the BCBS redefined the architecture of the solvency ratios, establishing the three explicit minima, but reserved proposals for the precise calibration of the ratios until after its quantitative impact study (QIS). It is then only in BCBS189 (BCBS, 2010a, §50 and §94) that the 4.5%, 6% and 8% calibrations appeared. They have not changed ever since.

- **Calculation of total RWA:** The definition of the numerator of the solvency ratios, that is, the total RWA amount, has undergone a major reform with the introduction of a new aggregate 'output floor'. Concretely, an output floor on total RWA sets a lower bound where a bank uses internal models to calculate at least part of its RWA. This lower bound is set relative to the amount of RWA calculated for the same asset portfolios but using only standardised approaches. An output floor existed under Basel II, which was based on Basel I RWA calculations, but was supposed to be transitional, destined to be removed once the effect of introducing the use of internal models for regulatory capital purposes could be better assessed. This Basel I-based floor was made permanent in the immediate aftermaths of the global financial crisis (GFC) (BCBS, 2009a). The initial Basel III proposals for the calculation of minimum risk-based capital requirements retained the Basel I-based floor, but in D306 (BCBS, 2014d), the BCBS suggested a reform that would set the limit relative to RWA amounts calculated using the new Basel III revised approaches.

  The system proposed in D306 was retained in the final Basel standards: a bank using an internal internal-model based approach to calculate risk-weighted assets for credit risk and/or market risk (there is no more internal-model based approach for operational risk) will also have to calculate its RWA using the corresponding standardised approach and its total RWA will be floored at an amount equal to 72.5% of the amount resulting from the standardised calculation (note that in D306, the BCBS did not formulate any proposal regarding the precise calibration, which only came with the adoption of the standards in D424 (BCBS, 2017c)).

  In terms of the effects on minimum capital requirements, the BCBS (2017b, p. 11) assessed the change in banks' minimum regulatory capital net of existing national transpositions of the Basel I-based output floor (which the EU never transposed). It found that the introduction of the output floor would lead to an average increase of minimum regulatory capital for Group 1 banks (i.e., large, internationally active banks) and for the global systemically important banks (G-SIBs) among them of 1.9% and 1.3%, respectively, but a decrease of -1.9% for Group 2 banks (all other banks). Furthermore, it found that while only 19.7% of Group 1 banks and 11.1% of Group 2 banks were constrained by the Basel I-based floor, the new output floor would constrain 32.4% of the former and 22.2% of the latter. The reform of the output floor then represents a significant move towards a more stringent framework, albeit one that only applies to banks using internal models-based approaches.

Overall, while the solvency ratios remained unchanged since the initial inputs, the introduction of a new, more constraining output floor makes the calculation of risk-based capital requirements more stringent for large banks.

EU transposition

At the time of writing, the EU has not transposed the new aggregate output floor into the CRR. This should be part of the legislative proposal for the finalisation of the Basel III reform in the EU, expected in the autumn of 2021.

IS03: Summary of evolutions

	Direction	Extent
BCBS	More stringent	Somewhat significant
EU	NA.	NA.

Capital buffers above the regulatory minimum (IS04)

Evolution at Basel level

Input: BCBS164, BCBS172, BCBS189 (BCBS, 2009c, 2010a, 2010d).

Output: Basel framework chapter RBC30.

Period of works: First proposals in 2009, finalised by December 2010.

Evolutions: Banks are required to constitute two additional buffers above the regulatory minimum: a capital conservation buffer (CCB) and a countercyclical capital buffer (CCyCB). As regards the CCB, very limited change can be observed between the first proposal put forward in BCBS (2009c, §§256-259) and the final rules (RBC30). The overall system and parameters remained the same as were proposed in the initial proposal. The exact calibration (2.5% of RWA) was not part of BCBS164 (BCBS, 2009c) (it was still to be defined), nor was the requirement that the buffer be composed of CET1 capital instruments; those requirements were set in BCBS189 (BCBS, 2010a). The formulation of §259 in BCBS164 (BCBS, 2009c) may let us think that originally the BCBS intended for the buffer to be composed of both CET1 and additional Tier 1 ("needs to be capable of absorbing losses on a going concern basis"), but that is not confirmed. The only subsequent changes were adaptations to the integration of requirements on TLAC holdings elsewhere in the Basel framework.

The CCyCB was only sketched in BCBS164 (BCBS, 2009c), the first fully fleshed proposal was issued in BCBS172 (BCBS, 2010d). The current rules (RBC30) have not changed since BCBS189 (BCBS, 2010a) and are mostly identical to the initial proposals in BCBS172. The only changes relate to two points that make the framework marginally more demanding:

- **Pre-announcement of decisions on buffer sizes:** Where the initial proposal required national authorities to pre-announce their decisions to increase the size of the CCyCB by 12 months, the final rules permit authorities to reduce this pre-announcement period, potentially leaving less time for banks to adapt.
- **'Grace period' to remedy breach:** Where under the BCBS172 proposal BCBS (2010d, p. 10), banks whose capital levels would fall below the level required by the CCyCB requirement would have a 12 months 'grace period' to remedy the breach before restrictions on distributions of profits and dividends would apply, RBC30.5(4) mandates that the remediation plan is to be negotiated with the supervisor, who may require a shorter remediation timetable.

Overall, these two changes only marginally impact the stringency of the rules: supervisors *may* impose shorter periods for constituting CCyCBs but, unless exceptional circumstances demand a quick increase, they are more likely to give as much time as possible to banks to raise fresh capital.

EU transposition

Output: CRD (Directive 2013/36/EU, 2013, Title VII, chapter 4).

Findings: The EU requirements on the setting of banks' capital capital conservation buffers (Article 129 CRD) and on restrictions of distributions (Article 141 CRD) faithfully transpose the requirements established in RBC30.

The EU requirements on the setting and communication of designated authorities' CCyCB rates, the calculation of institution-specific CCyCB rates and the application of restrictions on distributions in case of failure to meet the CCyCB requirement are conform to the requirements set under RBC30. The CRD further explicitly allows designated authorities to set CCyCB rates beyond the 2.5% upper bound (although other countries' authorities may choose not to recognise these decisions), which is not foreseen by Basel III, but authorised under the general permission for national regulators to set higher-than-Basel requirements. This may lead, in very few cases, to requirements that are more stringent than under Basel III.

	Direction	Extent
BCBS	Neutral	Null
EU	Neutral	Null

G-SIBs and D-SIBs identification and buffers (IS05)

Evolution at Basel level

Input: BCBS201, BCBS207, BCBS255, D402 and D445 (BCBS, 2011b, 2011c, 2013f, 2017e, 2018b) on G-SIBs; BCBS224 and BCBS233 on (BCBS, 2012b, 2012c) on domestic systemically important banks (D-SIBs).

Output: Basel framework chapters SCO40, SCO50 and RBC40.

Period of works: On G-SIBs, a first phase of works in 2011-2013 and a set of revisions in 2017-2018; On D-SIBs, consultation and standard both published in 2012.

Evolutions: The 'assessment methodology' to identify G-SIBs and D-SIBs relies on a series of indicators related to the size of a bank's activities in different areas, supposed to capture the impact that the failure of that bank would have on the (inter)national financial system and wider economy. The indicators are weighted and grouped into five 'categories'. A bank's scores in each of the category are summed up into a 'systemic importance score', which determines in which 'bucket' of systemic importance the bank is located.

- **Introduction of a cap in the 'substitutability' category:** A cap introduced in BCBS255 (BCBS, 2013f) limits the score a bank can receive for this category of systemic importance indicators to 500 basis points (b.p.), in order to limit the impact of the substitutability indicators on banks "that are dominant in the provision of payment, underwriting and asset custody services" (BCBS, 2013f, p. 26). As a consequence of the cap, a bank's score in the substitutability category can make it move no more than one bucket up in the scale of systemic importance. The D402 (BCBS, 2017e) proposal to remove the cap (because it "reduc[es] incentives to become less important") was abandonned; the cap was re-established in D445 (BCBS, 2018b), without even a mention of the proposal to remove it. This constitute an important concession, i.e. a move towards less stringency.
- **Inclusion of groups' insurance activities in several of the indicators:** Introduced in D402 (BCBS, 2017e, p. 5), the inclusion of groups' insurance activities that are outside the scope of regulatory consolidation in the calculation of several of the indicators of systemic importance makes the framework more

stringent by closing-up an opportunity for regulatory arbitrage (banks can no longer move parts of their activities to non-consolidated insurance subsidiaries to reduce their systemic importance score).

- **Replacement of the wholesale funding ratio (WFR) indicator with a 'securities outstanding indicator':** From BCBS255 (BCBS, 2013f), the WFR of the original proposal was replaced with a completely different indicator. The BCBS explained the replacement as a response to stakeholders' fear that the WFR would become an additional liquidity requirement. Even though the replacement does not appear to significantly affect banks' systemic importance score, this should be considered as a minor concession.

- **Inclusion of an additional 'trading volume indicator' in the substitutability category:** A late addition (BCBS, 2017e), this new indicator should be considered as making the methodology more stringent, since it means that another part of banks' activities now contributes to their systemic importance score. However, this indicator is given a relatively low weight, and counts towards the one category of indicators where scores are capped. It is therefore only marginally making the rules more stringent.

- **Exclusion of high-quality liquid assets (HQLAs) from the 'trading and available for sale' indicator:** Exclusion mentionned for the first time in BCBS255 (BCBS, 2013f), it reduces the amounts contributing to banks' systemic importance score from this category. The effect is however limited since HQLAs represent only a fraction of the amount captured by the indicator.

- **Possibility to identify as D-SIBs branches of foreign banks:** Not originally mentioned in BCBS224 (BCBS, 2012b), permission was explicitly given to national authorities in BCBS233 (BCBS, 2012c, §8) to apply the D-SIB identification methodology not only to consolidated groups and subsidiaries but also to *branches* of foreign banks. As a consequence, a banking group can no longer change the legal structure of its establishment in a foreign country to avoid a potential D-SIB additional capital charge.

The inclusion of insurance subsidiaries' activities, the addition of the 'trading volume indicator' and the permission to identify branches as D-SIBs, which make the framework slightly more stringent, do not outweigh the concession made by capping substitutability score. Overall, then, the BCBS methodology to assess the systemic importance of banking groups at global and national level was made less stringent. However, the changes only affect small parts of the systemic importance methodology, most of which remained unchanged from initial proposals to final rules.

As regards the higher loss absorbency (HLA) requirement, that is, the supplementary buffer of regulatory capital that banks identified as G-SIBs and D-SIBs must constitute:

- **HLA requirement for G-SIBs:** No material change. The final rules text is almost identical to the text originally proposed in BCBS201 (BCBS, 2011b).

- **HLA requirement for D-SIBs:** No change in the principles that national authorities have to respect in setting up their HLA requirement for D-SIBs since the original 2012 proposal (BCBS, 2012b).

Overall, then, the G-SIB and D-SIB frameworks have been made less stringent due to the changes in the assessment methodology, but only to a limited extent.

EU transposition

Output: CRR and CRD (Directive 2013/36/EU, 2013; Regulation (EU) No 575/2013, 2013)

Findings: The EU transposed the Basel methodology for the identification of G-SIBs and D-SIBs—global systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIs) in the EU terminology—in the CRR I and CRD IV of 2013. The latest amendments to the methodology have not been transposed yet. Assessing the transposition of the earlier rules, the BCBS' RCAP team assessed the EU rules as compliant with Basel III (BCBS, 2016c).

Similarly, the EU transposed the Basel rules on the HLA requirements for G-SIBs and D-SIBs in the CRR I and CRD IV of 2013. The BCBS's RCAP team found the transposition compliant (BCBS, 2016c).

IS05: Summary of evolutions

	Direction	Extent
BCBS	Less stringent	Limited
EU	Neutral	Null

Individual exposures in the Standardised approach to credit risk (SA-CR) (IS06)

Evolution at Basel level

Inputs: D307, D347, D424, D425 (BCBS, 2014j, 2015d, 2017c, 2017h).

Output: Basel framework chapter CRE20.

Period of works: First proposals for the revised standardised approach to credit risk (SA-CR) issued in 2014; Standard finalised in 2017.

Evolutions:

- **Exposures to sovereigns:** The treatment of exposures to sovereigns—a category covering central governments, central banks and public sector entities (PSEs)—was left aside of the general review of the SA-CR and discussed separately in D425 (BCBS, 2017h). In D425, the BCBS proposed to increase the risk-weights (RWs) generally applicable to exposures to central governments, including AAA-rated central governments and including the governments in banks' home countries. It furthermore proposed to remove the national discretion whereby a regulator may allow banks in its jurisdiction to apply a lower (usually 0%) RW to sovereign exposures denominated and funded in the domestic currency and, where other countries have made use of this discretion, to extent the lower RW to domestic banks' holdings of this third-country debt. D425 also included proposals for due diligence requirements to assess sovereign risk exposures, using additional, non-rating-based indicators of creditworthiness. Finally, the BCBS suggested to distinguish between different types of PSEs. All these proposals, which would have significantly tightened the SA-CR treatment of sovereign exposures were discarded. Instead, the final rules under CRE20 as regards exposures to sovereigns were kept unchanged from Basel II.

- **Exposures to banks:** On the methodological side of things, the reform discarded the proposal initially formulated in D307 (BCBS, 2014j) for a system entirely free of external ratings to determine RWs for exposures to banks, which would have been more demanding on banks in terms of operational costs. Furthermore, the applicable RWs in CRE20 are lower than in the D307 proposals (the minimum and maximum RWs were 30% and 300%, respectively, in D307; they are set at 20% and 150%, respectively in CR20.18). The RWs for short-term interbank exposures were also lowered: the difference is above 20 percentage points (p.p.) for exposures rated BBB+ to B-, and the final RWs for all exposures rated above BB+ are lower than the originally proposed 30% floor.

- **Exposures to corporates:** For these exposures too, the BCBS rolled back its proposal to replace external ratings with alternative risk drivers, and RWs applicable to senior corporate exposures and specialised lending exposures are significantly reduced.

- **Subordinated debt, equity and other capital instruments:** For equity holdings, the final rules distinguish between a general 250% RW and a higher 400% RW applicable to 'speculative' holdings. In D307 (BCBS, 2014j, p. 34), the general RW was 300% and applied only to holdings of *listed* equity, while the higher 400% RW was to be applied to *all* holdings of unlisted equity, regardless of their 'speculative' nature. Furthermore, a preferential 100% RW was introduced for equity holdings made pursuant to certain national legislated programmes, although the criteria to apply this preferential RW make this addition less important in terms of overall stringency. As regards subordinated debt and other non-equity capital instruments, the applicable flat RW was lowered from 250% in D307 (BCBS, 2014j, p. 34) to only 150% in CRE20.60.

- **Retail exposure class:** Compared to the original D307 proposals, we should note the introduction in D347 (BCBS, 2015d, pp. 9–10, 33) of a preferential RW (-30 p.p.) for regulatory retail exposures arising from exposures to so-called 'transactors' (basically, credit card holders who pay their credit card bills in time and clients who do not use their overdraft facilities).

- **Real-estate exposure class:** Important changes were made to the treatment of real-estate exposures between the original proposals in D307 and D347 and the final rules (CRE20.69 to 20.91), with softer criteria for applying preferential RWs, generally lower RWs and a 'loan splitting' approach that may permit reducing the overall RWA amount related to some loans. Furthermore, while real-estate exposures the performance of which is materially dependent on the economic performance of the property would have been treated as unsecured lending under D307 and applied a RW of at least 120%, in the final CRE20, the applicable RWs for these exposures vary between 30% and 105% for residential real-estate, and between 70% and 110% for commercial real-estate.

- **Exposures with a currency mismatch:** The proposal, formulated in D342 (BCBS, 2015e, pp. 14–15, 37), to extend to corporate exposures the RW multiplier that was introduced in D307 for retail and residential real-estate exposures where there is an unhedged currency mismatch was abandoned.

- **Off-balance sheets:** Credit conversion factors (CCFs) were lowered compared to D307 (BCBS, 2014j, p. 39) for note issuance facilities and revolving underwriting facilities (-25 p.p.) as well as for commitments (-35 p.p.). All other CCFs remained unchanged.

- **Defaulted exposures:** Several derogations were introduced, compared to D307, were the general 150% RW is lowered to 100%.

- **Other assets:** Some exceptions to the normal 100% RW were introduced in D347, were 0% and 0% RWs are applied.

Overall, with the accumulation of significantly reduced RWs and preferential treatments introduced or expanded, the application of the final SA-CR results in a much lowered amount of RWA, *ceteris paribus*, compared to the initial proposals for reform.

EU transposition

The EU has not transposed the final *revised* Basel III SA-CR yet (EC legislative proposal expected for the autumn of 2021). The current SA-CR provisions in the CRR are a transposition of the *provisional* Basel III SA-CR, that is, of the *Basel II* SA-CR.

	Direction	Extent
BCBS	Less stringent	Very important
EU	NA.	NA.

Use of external ratings in the SA-CR (IS07)

Evolution at Basel level

Inputs: BCBS164, BCBS189, D347, D424 (BCBS, 2009c, 2010a, 2015d, 2017c).

Output: Basel framework chapter CRE21

Period of works: First proposals issued in 2009; Standard mostly settled in 2009.

Evolutions: The current Basel III chapter CRE21 is largely based on the corresponding Basel II provisions (BCBS, 2006a, pp. 27–31). The limited proposals for amendment formulated in 2009 (BCBS, 2009c) remain in the final text. Later proposals (BCBS, 2015d, pp. 41–45) only marginally modified the requirements.

EU transposition

Output: CRR (Regulation (EU) No 575/2013, 2013, Title II, Chapter 2, sections 3 and 4)

Findings: The corresponding CRR provisions are materially compliant with CRE21, mostly owing to the fact that CRE21 is essentially a legacy from Basel II.

IS07: Summary of evolutions

	Direction	Extent
BCBS	Neutral	Null
EU	Neutral	Null

Credit risk mitigation (CRM) (IS08)

Evolution at Basel level

Inputs: BCBS245, D307, D347, D424 (BCBS, 2013h, 2014j, 2015d, 2017c).

Output: Basel framework chapters CRE22.

Period of works: First proposals issued in 2014; standard almost entirely settled by 2015.

Evolutions: The credit risk mitigation rules have been relatively stable since the first D307 proposals (BCBS, 2014j), although a few changes do tilt the framework towards less stringency.

- For transactions subject to counterparty credit risk, the final rules allow the use of the internal models method (IMM) instead of the standardised approach to counterparty credit risk (SA-CCR) in a few cases, while D307 did not. We can expect that, given the choice, banks would choose to use the IMM if there is a capital advantage, but this permission only applies to a limited number of situations.
- The final rules (CRE22.75) allow the partial recognition of credit derivatives that do not cover the restructuration of the underlying obligation as eligible hedges, while these would not have been recognised at all under the D307 proposal.
- The formula for calculating the counterparty credit risk (CCR) capital charge for securities financing transactions (SFTs) covered by a netting agreement has been changed to recognise diversification benefits.
- The proposal to recognise the cost of credit protection purchased but not yet recognised in earnings as an exposure of the bank and apply it a 1250% when above a materiality threshold, put forward in BCBS245 (BCBS, 2013h) was abandoned.

Overall, these changes do represent a move towards a less stringent framework. They all are, however, limited in terms of their scope of application and in terms of their potential effects.

EU transposition

The EU has not transposed the revised Basel III credit risk mitigation (CRM) framework yet (a legislative proposal is still to be tabled by the EC). The current CRM provisions in the CRR (Part three, Title II, Chapter 4) are a transposition of the *provisional* Basel III CRM framework, that is, of the *Basel II* CRM regime.

IS08: Summary of evolutions

	Direction	**Extent**
BCBS	Less stringent	Limited
EU	NA.	NA.

Internal ratings-based (IRB) approach to credit risk (IS09)

Evolution at Basel level

Inputs: D362, D424 (BCBS, 2016b, 2017c).

Output: Basel framework chapters CRE30, CRE31, CRE32, CRE33, and CRE36.

Period of works: First reform proposals issued in 2016; Standard settled in 2017.

Evolutions: The internal ratings-based (IRB) approach to credit risk offers banks two ways to calculate their amounts of credit RWA: the foundation internal ratings-based approach (F-IRB), which only requires banks to produce estimates of probability of default (PD) for each exposure, and the advanced internal ratings-based approach (A-IRB), which requires own estimates of PD, loss-given-default (LGD) and exposure at default (EAD). The use of each of these approaches is conditional upon banks meeting a set of criteria, specified in CRE36. The general structure of the IRB framework was retained from Basel II, albeit reforms of key elements have been proposed by the BCBS.

- **Bans on the use of IRB approaches for specific asset classes:** The D362 (BCBS, 2016b) proposals to forbid the use of IRB approaches to calculate RWA amounts related to certain assets classes have been significantly amended:
  - While D362 suggested to forbid all IRB approaches (both F-IRB and A-IRB) for non-equity exposures to banks and other financials, the final rules only forbid the use of A-IRB; non-equity exposures to banks can be treated under F-IRB.
  - Both F-IRB and A-IRB remain available for a large number of corporate non-equity exposures that would have been excluded under D362 (disappearance of the prohibition for non-equity exposures to corporates with total consolidated assets > EUR 50bn; no more prohibition of A-IRB for non-equity exposures to corporates with consolidated revenues between EUR 200mln and EUR 500mln). 3) Specialised lending exposures can be treated with either F-IRB or A-IRB while D362 suggested restricting available approaches to SA-CR and the supervisory slotting approach under F-IRB.
- **Risk components:** Regulatory defined parameters (for F-IRB) and parameter floors (for both F-IRB and A-IRB) were slightly lowered for several exposures classes compared to D362 (e.g. LGD under F-IRB for unsecured corporate exposures was reduced from 45% in D362 to 40% in CRE32; the haircuts applied to receivables, commercial and residential real-estate as well as other physical collateral were reduced from 50% to 40%; LGD parameter floors under

A-IRB for corporate secured exposures were lowered by 5 p.p.; LGD parameter floors for secured retail exposures under A-IRB were reduced by 5 p.p.; the treatment of partially secured residential real-estate under A-IRB was aligned on the more favourable treatment for fully secured residential real-estate), but these changes are relatively limited and, the final rules in CRE32 are close to the amendments to the Basel II parameters proposed in D362.

- **Risk-weight functions:** The RW functions to be used under IRB are mostly unchanged from Basel II, apart from a few minor adaptations. These were not dealt with in D362 nor D424, there is then no evidence of any discarded reform proposal.

- **Supervisory slotting approach:** Chapter CRE33, which details the "supervisory slotting approach" for specialised lending under IRB is entirely inherited from Basel II. No reform proposal under Basel III was identified.

- **Minimum requirements to use the IRB:** On the set of minimum requirements that banks must meet to be allowed to use the IRB, there is very little difference between Basel II and Basel III. No reform proposal under Basel III was identified.

Overall, the reform proposals regarding the IRB attached mostly to two issues: the bans on the use of IRB approaches for certain asset classes; and the recalibration of certain supervisory parameters and parameter floors. On the first of these two issues, we can see that, although the proposed bans are not completely reversed, the final rules are less ambitious than the D362 proposals, enabling banks to seek capital advantages through the use of internal models for a larger set of exposures than the proposed reform would have allowed. On parameters, the amendments made to the initial proposals make the IRB framework less stringent than original proposals only to a limited extent: the reductions concern only some supervisory parameters or parameter floors and constitute limited, not drastic, adjustments.

EU transposition

The reform of the IRB approach to credit risk has not been transposed into EU law yet. The current CRR provisions on the IRB approach to credit risk are transposing the interim Basel III rules, i.e. they are based on the Basel II IRB. A legislative proposal to amend the CRR and transpose the Basel III reform of the IRB into EU law is still to be released by the EC.

IS09: Summary of evolutions

	Direction	**Extent**
BCBS	Less stringent	Somewhat significant
EU	NA.	NA.

Treatment of expected losses and provisions under IRB (IS10)

Evolution at Basel level

Inputs: D385, D386, D401 (BCBS, 2016d, 2016e, 2017g).

Output: Basel framework chapter CRE35.

Period of works: First proposal issued in 2016; Standard settled in 2017.

Evolutions: The IRB treatment of expected losses and provisions in Basel III is almost completely identical to that in Basel II. This corresponds to the BCBS proposal, announced in D385 and D386 not to change the *prudential* treatment of expected losses and provisions under IRB, despite the IFRS 9 reform of their *accounting* treatment.

EU transposition

Output: CRR (Regulation (EU) No 575/2013, 2013, Part three, Title II, Chapter 3, section 3)

Findings: The EU transposition of the Basel rules on the treatment of expected losses and provisions in IRB banks faithfully transpose the Basel II rules that were retained in Basel III chapter CRE35. The process for calculating expected losses and the treatment of expected loss amounts under the CRR are the same as under Basel III, and the RCAP team did not notice any material deviation (BCBS, 2014h).

IS10: Summary of evolutions

	Direction	Extent
BCBS	Neutral	Null
EU	Neutral	Null

Securitisation framework (IS11)

Evolution at the Basel level

Inputs: BCBS236, BCBS269, D303, D343, D374, D413, D442 (BCBS, 2012e, 2013j, 2014i, 2015a, 2016g, 2017d, 2018a) for the main securitisation framework; D504 and D511 (BCBS, 2020b, 2020c) on the securisation of non-performing loans (NPLs).

Output: Basel framework chapters CRE40, CRE41, CRE42, CRE43, CRE44, CRE45.

Period of works: First reform proposals in 2009; Standard mostly settled in 2017.

Evolutions: The Basel rules on the credit risk treatment of securitisation exposures include a series of different approaches and a set of common provisions. However, contrarily to the SA-CR and IRB for credit risk, the different approaches do not constitute independent, alternative frameworks but are organised as a hierarchy of approaches, the choice of which is determined, for each securitisation exposure by the characteristics of the securitisation transaction itself. In the course of the Basel III reform process, the BCBS always conducted its works on the several approaches together and we can identify a number of important changes as regards both the general provisions and each of the approaches:

- **Hierarchy of approaches:** The proposals for a new hierarchy of approaches were completely revamped between BCBS236 (BCBS, 2012e) and BCBS269 (BCBS, 2013j), with a different set of approaches and different criteria to apply each specific approach. On this point, the BCBS itself noted that "[r]esponses received [to BCBS236] on these hierarchies suggested that the number of approaches, their ordering in the hierarchy and their implementation would be excessively complex" (BCBS, 2013j, p. 10). We can see there a significant change intended to reduce the operational burden related to the securitisation framework.

- **Introduction of a preferential treatment for simple, transparent and comparable (STC) securitisations:** From D343 (BCBS, 2015a), a preferential regime was proposed, to be applied to a specific set of securitisation exposures identified as STC securitisations on the basis of a set of criteria. The creation of this specific regime for 'high quality' securitisation was not foreseen in the original proposals for the securitisation framework and, because it sets lower parameters to be applied in the calculation of RWA for eligible securitisation exposures, it effectively shields these exposures from the general increase in capital requirements related to the Basel III reform of the securitisation framework. The eligibility criteria themselves were marginally relaxed between D343 and the final rules in CRE40, e.g. on asset performance history, relations between originator and servicer and the granularity of the asset pool).

- **Standardised approach for securitisation (SEC-SA):** The SEC-SA is to be compared with the simplified supervisory formula approach (SSFA) proposed in BCBS236 (BCBS, 2012e), since, "the Standardised approach is a revised version of the SSFA proposed in the first consultative document" (BCBS, 2013j, p. 13). Key changes reduce the capital requirements resulting from the approach:

- The "parameter p", which plays a key role in the formula, was reduced from 1.5 in BCBS236 to only 1 in the final rules.
- The RW floor for securitisations other than resecuritisations was lowered from 20% to 15%.
- For the alternative treatment for STC securitisations, the specific parameter p is set at 0.5, slightly below the range proposed in D343 (0.6 to 0.8).

Conversely, the addition of a 100% RW floor for resecuritisations, which did not exist in BCBS236 nor BCBS269, constitutes a move towards more stringency, but the scope of which is limited to a fraction of all securitisations.

- **External ratings-based approach (ERBA):** The ERBA requires significantly lower RWs to be applied, across the spectrum, than the revised ratings-based approach (RRBA) proposed in BCBS236, of which the ERBA is supposed to be a revised version. For securitisations with short-term ratings, only the highest-rated securitisations (above BBB-) see a significant reduction of RWs, but for securitisations with long-term ratings, RWs are significantly lowered for all rating grades, all maturities and all thicknesses (differences up to 615 p.p.). The RWs applicable under the special treatment of STC securitisations were also lowered, compared to the first proposed version in D343 (BCBS, 2015a), but to a much more limited extent (5 to 10 p.p.). Finally, the final version of the ERBA dropped the initially proposed requirement that banks must have two eligible external credit assessments to be allowed to use the approach.

- **Internal assessment approach (IAA):** The IAA under Basel III is a pure legacy from Basel II. There was no proposal to amend it, and no change was identified.

- **Internal ratings-based approach (IRBA):** The IRBA is the internal models-based approach which occupies the top of the hierarchy of approaches, that is, if a bank is allowed to use internal models for credit risk and that the underlying pool of assets of the securitisation comprises almost exclusively assets that can be assessed using the IRB for credit risk, then the bank *must* use the IRBA. The IRBA is a much revised version of the modified supervisory formula approach (MSFA) proposed in BCBS236, with significant methodological changes. In terms of operational costs, the extension of the 'top-down' approach to estimate the PD and LGD—originally limited to eligible purchased receivables—to all assets for which "it would be an undue burden on a bank to assess the default risk of individual obligors" (CRE44.6) reduces the burden of obtaining data on each single underlying exposure in its portfolio of securitisations. Beyond these changes, the capital requirements resulting from the IRBA are generally lower than under the MSFA proposal (BCBS, 2013j, pp. 16–18). The change of approach therefore brought benefits not only in terms of operational costs, but also in terms of RWA amounts. Finally, as regards the special treatment of STC securitisations, the 'scaling factor' which reduces the parameter p (and the resulting capital requirements amount) for these securitisations is lower in the final rules than in the D343 proposal.

- **Securitisation of NPLs:** A late amendment to the securitisation framework introduced the short CRE45 chapter, which creates specific requirements for securitisations of NPLs. These are subject to a RW floor of 100%, a ban on the use of F-IRB parameters for the calculation of capital requirements under IRBA, and a fixed 100% RW for the most senior tranche of a NPL securitisation. These three specific requirements set a more demanding treatment for NPL securitisations than the normal regime, but one that applies to only a small segment of the securitisation market.

Overall, the proposals for a revised securitisation framework have undergone a significant amount of change—change of hierarchy, redefinition of approaches, recalibration of parameters, etc.—some of which introduced more demanding requirements, but most of which reduced the cost of regulation for banks, both by reducing the operational burden of implementing the rules by reducing the resulting amount of RWA arising from securitisation exposures.

EU transposition

Output: CRR (Regulation (EU) No 575/2013, 2013, Parth three, Title II, chapter 5).

Findings: No material nor potentially material deviations from the Basel securitisation framework could be found in the EU's transposition of the general provisions, of the four approaches and of the criteria for the assignation of the STC securitisation label.

IS11: Summary of evolutions

	Direction	**Extent**
BCBS	Less stringent	Important
EU	Neutral	Null

Standardised approach to counterparty credit risk (SA-CCR) (IS12)

Evolution at Basel level

Inputs: BCBS254, BCBS279 (BCBS, 2013g, 2014k).

Output: Basel framework chapters CRE50, CRE51, and CRE52.

Period of works: Initial proposals issued in 2013; Standard settled in 2014.

Table A.1: Output of SA-CCR under BCBS254 and BCBS279 for a set of four example netting sets

Example / Version	**BCBS254**	**BCBS279**	Change
Ex. 1	EAD = 539	EAD = 569	+5.6%
Ex. 2	EAD = 224	EAD = 381	+70.1%
Ex. 3	EAD = 4 228	EAD = 5 406	+27.7%
Ex. 4	EAD = 762	EAD = 936	+22.8%

Source: BCBS (2013g, pp. 24–31) and BCBS (2014k, pp. 22–30)

Evolutions: The SA-CCR was originally proposed in BCBS254 as the 'non-internal model method' (NIMM) for calculating CCR exposures and has retained most of the original proposal. However several important changes were made in the parameters for the calculation of the replacement cost (RC) and potential future exposure (PFE) for derivative contracts and SFTs, that is, for the two main elements of the SA-CCR:

- **RC calculation:** The final rules permit netting transactions "subject to any legally valid form of bilateral netting" (CRE52.7) while the BCBS254 proposal did not permit it, a significant concession.
- **Calculation of the PFE add-on:**
  - In the calculation of effective notionals, the term "remaining maturity", which was floored at one year is replaced with a "supervisory duration" floored at only ten business days (i.e., 10/250 of a year).
  - In the supervisory delta adjustments for options, the assigned factors were replaced with a series of formulas, which result in significantly higher EAD amounts for a given portfolio.
  - The final rules halve the "supervisory factors" for so-called "basis transactions" but multiply them by 5 for "volatility transactions". Furthermore, supervisory factors were *increased* for a series of transactions, including credit derivatives and commodity derivatives, which represent a significant part of the market.

Overall, the final SA-CCR remains very close to the proposals formulated in BCBS254. However, this apparent stability hides changes in the calibration of key parameters. In BCBS254 (BCBS, 2013g, pp. 24–31) and BCBS279 (BCBS, 2014k, pp. 22–30), the BCBS provided the calculation of exposure amounts under the SA-CCR for five examples. Of these five, four start from the same sets of trades, allowing a comparison of the effects of changes. The comparison (see Table A.1) reveals that the changes made to the SA-CCR, at least for these four examples, actually *increase* significantly the exposure amount, and, consequently, the RWA amounts for these exposures.

EU transposition

Output: CRR (Regulation (EU) No 575/2013, 2013, Part three, Title II, chapter 6), as amended by the CRR II (Regulation (EU) 2019/876, 2019).

Findings: The EU version of the SA-CCR introduced as articles 274 to 281 CRR faithfully transposes the Basel requirements. The only exception is the introduction of a 'simplified' SA-CCR, not provided for in the Basel framework, under article 281 CRR, which lightens the operational burden of applying the SA-CCR for banks with limited capacities and smaller portfolios. However, this derogatory regime only applies to a fragment of the derivatives and SFT market and can therefore be considered as a marginal change.

IS12: Summary of evolutions

	Direction	**Extent**
BCBS	More stringent	Important
EU	Neutral	Null

Internal models method (IMM) for CCR (IS13)

Inputs: BCBS164, BCBS189 (BCBS, 2009c, 2010a).

Output: Basel framework chapters CRE50, CRE51, CRE53

Period of works: Reform proposals issued in 2009; Standard settled by December 2010.

Evolutions: The IMM for CCR under Basel III is based on the Annex 4 of Basel II (BCBS, 2006a), amended by BCBS189 (BCBS, 2010a), which enacted the reform proposals put forward in BCBS164 (BCBS, 2009c). Most of the changes to the Basel II rules suggested in BCBS164 remain in the final IMM framework. Some backtesting requirements that were suggested in BCBS164 disappeared, alleviating the operational burden and potentially making it easier to validate a model. Conversely, additional documentation and reporting requirements were added and other reinforced to allow supervisors to verify the soundness of models. We can therefore say that, compared to the framework resulting from BCBS164, there have been only very limited changes in both directions, without significant influence on the overall strigency of the IMM framework.

EU transposition

Output: CRR (Regulation (EU) No 575/2013, 2013, Part three, Title II, chapter 6)

Findings: The reforms to the IMM were transposed into the EU as articles 283 to 294 CRR. On all points, the EU transposition closely follows the Basel standard.

IS13: Summary of evolutions

	Direction	Extent
BCBS	Neutral	Null
EU	Neutral	Null

Bank exposures to Central counterparties (CCPs) (IS14)

Evolution at Basel level

Inputs: BCBS190, BCBS206, BCBS227, BCBS253, BCBS282 (BCBS, 2010c, 2011a, 2012a, 2013d, 2014e).

Output: Basel framework chapter CRE54.

Period of works: First proposals issued in December 2010; Standard finalised in 2014.

Evolutions: The framework to calculate capital requirements for bank exposures to central counterparties (CCPs) is a novelty of Basel III, replacing a blanket 0% RW for these exposures under Basel II. In terms of changes:

- Significant changes affect the calculation of K_{CCP} and K_{CMi}, that is, the two key terms of the formula to calculate banks' capital requirements for their default fund exposures to CCPs.
  - Of these, the changes to the calculation of K_{CCP} arise from the reforms of the SA-CCR and the credit risk mitigation framework, on which the calculation of K_{CCP} relies to the extent that it needs a measure of CCPs' CCR exposures to their clearing members. Changes in K_{CCP} then should not be considered as an evolution of the exposures-to-CCPs rules *per se*.
  - Conversely, the calculation of K_{CMi} was the object of a significant rewriting which cannot be ascribed to changes in other parts of Basel III.

Although the BCBS never published the results of its QIS, the International Organization of Securities Commissions (IOSCO)'s disclosure requirements that apply to CCPs mandate that CCPs publish their K_{CCP} on a quarterly basis. Some of them, like Chicago Mercantile Exchange Group (CME Group), disclose their K_{ccp} calculated following both the formula in BCBS227 (BCBS, 2012a, i.e., the interim standard) and the formula in BCBS282 (BCBS, 2014e, i.e., the final standard, which is identical to CRE54). Table A.2 below shows the numbers published by CME Group for the first quarter of 2020 (Chicago Mercantile Exchange Group, 2020). From these numbers, we can already see a significant increase in K_{ccp}, consistent with the higher EADs resulting from the SA-CCR (note that K_{ccp} is not an actual but an *hypothetical* CCP capital requirement).

Now, let's calculate K_{CMi} for a hypothetical clearing member with a pre-funded default fund contribution of USD 20 mln to CME Group's futures & options default fund. The CCP's prefunded own funds and financial resources (DF_{CCP}), as communicated in the CME Group's 2020, Q1 report is USD 100 mln and the sum of prefunded default fund contributions from all members is USD 4 167 452 334:

  - Under the original formula, (BCBS, 2010c, pp. 12–13), using the BCBS227 version of CME Group's K_{CCP}[1], we arrive at a K_{CMi} of USD 320 000.
  - Under the final formula, using exactly the same terms (including the lower BCBS227 version of K_{CCP}), we arrive at only USD 70 798. However, with the updated K_{CCP}, the final result capital requirement for our hypothetical clearing member increases to USD 315 810, slightly lower but within the same order of magnitude than under the original formula.

- Other changes only marginally tilt the balance in terms of stringency:

  - The addition, from BCBS206 (BCBS, 2011a) of a three-month 'grace period' for banks to adjust their calculations of when a CCP ceases to qualify as qualifying central counterparty (QCCP) marginally reduces the operational burden. The extension of the range of 'client exposures' slightly expands the scope of transactions between clearing members and their own clients that benefit from a lower RW as exposures to CCPs than as bilateral trades. Finally, the more favourable treatment of clearing member banks' exposures to clients (reduced margin period of risk, the possibility to recognise initial margin posted by clients as a mitigant of the clearing member's exposure to its client) reduces the total amount capital requirements, but to a limited extent.
  - Conversely, the final rules tighten the requirements related to the burden of proof to include transactions in the framework (and benefit from the lower RWs applicable to centrally-cleared trades), and requires a more frequent calculation of capital requirement amounts. However, there too, the overall effect is marginal.

[1]The result is the same if we use the BCBS282 version of the K_{CCP}, since in both cases, $K_{CCP} \leq DF_{CCP}$.

Table A.2: CME Group's K_{ccp} under BCBS227 and BCBS282

Example / Version	**BCBS227**	**BCBS282**	Change
CME Group - Futures & Options	USD 15 106 476	USD 67 385 325	+346%
CME Group - Interest rate swaps	USD 23 698 750	USD 51 456 704	+117%

Data: Chicago Mercantile Exchange Group (2020).

Overall, we see that in terms of stringency, the framework to calculate capital requirements for banks' exposures to CCPs remained stable from original proposals to final rules.

EU transposition

Output: CRR (Regulation (EU) No 575/2013, 2013, Part three, Title II, chapter 6) as amended by the CRR II (Regulation (EU) 2019/876, 2019).

Findings: No inconsistencies could be found between the EU transposition (articles 300 to 311 CRR) and the Basel standards. The Basel requirements are transposed faithfully into EU law.

IS14: Summary of evolutions

	Direction	**Extent**
BCBS	Neutral	Null
EU	Neutral	Null

CCR in the trading book (IS15)

Inputs: BCBS219, BCBS265, D305, D352 (BCBS, 2012d, 2013e, 2014f, 2016a)

Output: Basel framework chapter CRE55

Period of works: First proposals issued in 2013; Standard settled in 2013.

Evolutions: The issue was dealt with as part of the fundamental review of the trading book (FRTB), but was not covered in the first FRTB consultation (BCBS, 2012d). The final rules in CRE55 are identical to the initial proposals put forward in BCBS265 (BCBS, 2013e).

EU transposition

The new Basel standard has not been transposed into EU law yet. Article 299 CRR is a legacy from Basel II.

IS15: Summary of evolutions

	Direction	Extent
BCBS	Neutral	Null
EU	NA.	NA.

Minimum haircut floors for SFTs (IS16)

Evolution at Basel level

Inputs: D340, D424 (BCBS, 2015b, 2017c).

Output: Basel framework chapter CRE56

Period of works: First proposals issued in 2015; standard settled in 2017.

Evolutions: This standard imposes higher capital requirements for non-centrally-cleared SFTs with haircuts traded below the haircut floors set by the Financial Stability Board (FSB). The CRE56 rules are quasi-identical to the D340 (BCBS, 2015b) proposal, no material difference could be identified.

EU transposition

This new part of the Basel framework has not been transposed into EU law yet. There are currently no EU law provisions on this issue.

IS16: Summary of evolutions

	Direction	Extent
BCBS	Neutral	Null
EU	NA.	NA.

Equity investments in funds (IS17)

Evolution at Basel level

Inputs: BCBS257, BCBS266 (BCBS, 2013b, 2013c).

Output: Basel framework chapter CRE60.

Period of works: First proposals issued in 2013; Standard settled in 2013.

Evolutions: The original proposals under BCBS257 (BCBS, 2013b) were retained almost in full the final rules. Where the BCBS257 proposals offered a choice between a more conservative and a less conservative option, the final rules systematically retained the less conservative option (e.g. on leverage adjustment). The only notable change beyond these choices is a slight extension of the scope of the 'look-through approach' (LTA), which may result in slightly lower RWs for a limited portion of banks' equity investments in funds, but this is unlikely to have a material impact on resulting levels of RWA or on operational costs.

EU transposition

Output: CRR 2 (Regulation (EU) 2019/876, 2019, which replaces articles 132 and 152 CRR and inserts articles 132a to 132c).

Findings: The EU transposed the revised Basel III standards for the calculation of RWA arising from banks' equity investments in funds ("own fund requirements for exposures in the form of units or shares in collective investment units", in EU jargon) with the CRR 2 (Regulation (EU) 2019/876, 2019), which amends provisions related to these exposures in the SA-CR and IRB in the CRR. These amended CRR provisions faithfully transpose the Basel III CRE60 chapter in terms of the hierarchy of approaches and requirements to use them, calculation of RWA and excluded instruments.

IS17: Summary of evolutions

	Direction	Extent
BCBS	Neutral	Null
EU	Neutral	Null

Capital treatment of unsettled transactions and failed trades (IS18)

Evolution at Basel level

Inputs: NA (no reform proposal on this issue).

Output: Basel framework chapters CRE70

Period of works: NA.

Evolutions: The Basel III chapter on the capital treatment of unsettled transactions and failed trades is a legacy from Basel II. The identified differences between the Basel II version (BCBS, 2006a) and the CRE70 can all be ascribed to reforms in other parts of the Basel framework that required limited changes in wording.

EU transposition

Output: CRR (Regulation (EU) No 575/2013, 2013, Part three, Title V)

Findings: The three articles in Title V of Part three of the CRR faithfully transpose the treatment prescribed in CRE70.

IS18: Summary of evolutions

	Direction	Extent
BCBS	Neutral	Null
EU	Neutral	Null

Boundary between the banking book and the trading book (IS19)

Evolution at Basel level

Inputs: BCBS219, BCBS265, D305, D352 (BCBS, 2012d, 2013e, 2014f, 2016a).

Output: Basel III chapter RBC25.

Period of works: First consultation on the issue in 2012, first draft rules text in 2013; Standard settled by 2016.

Evolutions:

- **Definition of the boundary between the banking book and the trading book:** The final rules for the designation of assets to the banking book or to the trading book are generally less demanding for banks, in terms of operational burden, than the BCBS219 (BCBS, 2012d) proposal for a 'trading evidence-based boundary' (less evidence of the intent and capacity to trade to

be produced, inclusion of 'general presumptions' that certain types of assets belong to one or the other book, no need to prove ability to access markets and actively trade on them, etc.). But the final boundary generally meets the criteria for an effective boundary set in BCBS219 (including more supervisory powers, restrictions on switching instruments across books, restrictions on regulatory arbitrage). In other words, the boundary is only marginally less stringent than the original proposal.

- **Treatment of internal risk transfers (IRTs):** The treatment of IRTs was not discussed in the first two consultations; it seems that the issue arose from stakeholders' requests for clarification. No change was observed between the first proposals on this issue in D305 (BCBS, 2014f) and the final rules in RBC25.

Overall, the final rules setting the boundary between the banking book and the trading book have become less demanding on banks, but only to a limited extent.

EU transposition

Sources: CRR (Regulation (EU) No 575/2013, 2013, Part three, Title IV) as amended by the CRR II (Regulation (EU) 2019/876, 2019)

Findings:

- **Boundary between the banking book and the trading book:** The CRR (articles 102 to 104) requires banks to have precise policies and procedures in place and to show evidence of a trading intent, but the rules are less precise than RBC25 with regards to specific asset classes being automatically included in/excluded from the trading book, leaving banks more leeway. The rules constraining the re-designation of assets after initial designation (CRR art. 104a) are conform to RBC25 rules.

- **Treatment of IRTs:** The new article 106 CRR faithfully transposes the RBC25 rules on IRTs.

IS19: Summary of evolutions

	Direction	Extent
BCBS	Less stringent	Limited
EU	Less stringent	Limited

Definition of trading desk (IS20)

Evolution at Basel level

Inputs: BCBS219, BCBS265, D305, D352, D408, D436, D457 (BCBS, 2012d, 2013e, 2014f, 2016a, 2017i).

Output: Basel III chapter MAR12.

Period of works: First proposals on the topic in 2012; standard mostly settled by 2016.

Evolutions: Very limited change. Most of the requirements regarding the scope of trading desks, staffing, reporting and documentation of procedures set out in BCBS219 (BCBS, 2012d) and BCBS265 (BCBS, 2013e, first rules text) still apply. The only changes relate to a few more detailed (i.e., more stringent) reporting requirements and the possibility to assign traders to more than one desk, subject to conditions (less stringent), but these changes only marginally affect the overall stringency of the trading desk definition.

EU transposition

Output: CRR II (Regulation (EU) 2019/876, 2019).

Findings: The new article 104b CRR is conform to the requirements for trading desks in chapter MAR12 of the Basel framework.

IS20: Summary of evolutions

	Direction	Extent
BCBS	Neutral	Null
EU	Neutral	Null

Standardised approach to market risk (SA-MAR) (IS21)

Evolution at Basel level

Inputs: BCBS219, BCBS265, D305, D352, D408, D436, D457 (BCBS, 2012d, 2013e, 2014f, 2016a, 2017i, 2018d, 2019b).

Output: Basel III chapters MAR20 to MAR23, plus MAR40.

Period of works: First reform proposals issued in 2012; Standards finalised in 2019.

Evolutions: Under the standardised approach to market risk (SA-MAR), the calculation of RWA for market risk is calculated as 12.5 times the sum of capital requirements (not to be confused with the minimum regulatory capital requirements) calculated under three items: the sensitivities-based method (SbM) that captures delta, vega and curvature risks; the default risk capital (DRC) requirement that captures the risk of a jump to default for assets held in the trading book and; the residual risk add-on (RRAO) that, as the name suggests, captures the remaining risks not captured by the first two.

- **Sensitivities-based method (SbM):**
  - Change of methodology: The methodology based on the sensitivities of assets to risk factors replaced, from D305 (BCBS, 2014f) the 'cash flow-based approach' initially put forward by the BCBS, a change that "reduced the implementation cost" for banks (BCBS, 2014f, p. 7).
  - Changes within the SbM (changes since D305): Several changes were made to the definitions of risk factors and to the formulas used to calculate sensitivities (for delta equity repo rates, delta commodity, delta foreign exchange (FX) risk), the effect of which are difficult to assess. The RWs for delta general interest rate risk (GIRR) were reduced: the general RWs were substantially increased (roughly doubled) between D305 (BCBS, 2014f) and D352 (BCBS, 2016a) only to be reduced again to a level that, in MAR21, is slightly higher than in D305. However, together with the higher general RWs was introduced in D352 a possibility to divide the applicable RW by $\sqrt{2}$ (approximately 1.41) for so-called 'specified currencies' (EUR, USD, GBP, AUD, JPY, SEK, CAD, as well as the bank's reporting currency). This differentiation, together with the reduced calibration of the general RWs means that the RWs for instruments denominated in a bank's domestic currency and in the currencies most widely used in international markets are now substantially lower than they were in D305. We can also note that this distinction is contrary to the original intention of the BCBS to have "a single risk weight, regardless of currency" (BCBS, 2013e, p. 37).

    RWs for delta credit spread risk (CSR) non-securitisation sensitivities were reduced by 50 to 800 b.p. (the largest reductions targeting exposures to sovereigns and assimilated, telecommunications and technology, and covered bonds). RWs for delta CSR securitisation sensitivities in the correlation trading portfolio (CTP) were reduced by 39 to 272 b.p.. RWs for delta CSR securitisation non-CTP sensitivities were reduced by 550 to 4920 b.p., with 'additional risk-sensitivity' for residential

mortgage-backed securities (RMBSs), commercial mortgage-backed securities (CMBSs), asset-backed securities (ABSs)-student loans and collateralised loan obligations (CLOs) resulting in major reductions for each of these classes of securitisations.

For delta FX risk, the abandoned bucketing per maturity (buckets are now only defined per currency pairs) implies more possibilities to offset short and long positions, reducing the net amounts used as inputs in RWA calculation. The flat RW remained unchanged (15%), but here again, a possibility was introduced to divide it by $\sqrt{2}$ for 'specified currency pairs' and first-order crosses between those (i.e., all interest rates between the major international currencies) results in a preferential RW (around 10.61%) being applied to instruments involving FX risk between most internationally-used currencies.

As regards RWs for vega risk, the 'liquidity horizons' (i.e., the key parameter for the calculation of vega RWs) were reduced for five out of the eight risk classes (halved for four of them).

- **Default risk capital (DRC) requirement:** Very little change on the DRC requirement. The general approach remained unchanged, as did the hedging recognition rules, and the RWs remain aligned on the treatment of securitisation in the banking book as announced in BCBS265 (BCBS, 2013e). The only material change is the extension of maturity scaling to long positions with a maturity of less than one year, which only has a limited effect (less stringency) on the overall requirement.

- **Residual risk add-on (RRAO)**: The RRAO constitutes a supplementary capital requirement added in D352 (BCBS, 2016a) to complete the market risk coverage. As such, it should be considered as contributing to making the SA-MAR more stringent. However, since only a small fraction of trading book assets are subject to a RRAO, the move towards more stringency is limited.

- **Introduction of a simplified standardised approach (SA):** The 'simplified' SA to market risk was first proposed in D408 (BCBS, 2017i), offering smaller banks and banks with limited trading book activities an alternative to the revised SA that would be much less computationally demanding, thereby reducing operational costs. The introduction of this alternative is in itself an important concession made to these banks with regards to the general SA-MAR. The eligibility criteria for banks to be allowed to use the simplified SA were relaxed between D408 (§204) and the final rules (MAR40), making the simplified SA available to more banks. In particular, all the bank size-related criteria were removed, thereby theoretically making it possible for a large bank with a limited trading business to use this simplified approach. The contents of the simplified SA have also changed importantly: the 'reduced-SbM' proposed in D408 was replaced from D436 (BCBS, 2018d) with a return to the Basel II SA for market risk (which avoids banks the costs arising from moving to a new regulatory framework), applying to the resulting capital requirements a 'scaling factor' increasing the final capital requirement amounts. These scaling factors were themselves reduced in D457 (BCBS, 2019b) for two of the four

risk classes: 1.30 instead of the proposed 1.50 to 2.00 in D436 for interest rate risk, and 1.20 instead of 1.25 to 1.50 for commodity risk.

Overall, even with the addition of the RRAO, the final Basel III SA-MAR is less demanding on banks—both in terms of operational burden and resulting RWA amounts—than the original reform proposals would have been. The replacement of the "cash flow-based method" with the SbM, the lower calibration of the parameters of the SbM—which constitutes the core of the SA-MAR—together with the introduction of the simplified SA constitute very important changes making the framework altogether less stringent.

EU transposition

Nota: *The transposition reviewed here is that made by the CRR 2 (Regulation (EU) 2019/876, 2019), which introduced the new Basel III approaches to market risk before their finalisation by the BCBS. The EU legislator then introduced these new approaches as alternative approaches to be used for reporting purposes only, alongside the old approaches. The finalisation of the market risk regime is included in the legislative proposal adopted by the EC in October 2021, which is still to be adopted by the European Parliament and Council.*

Output: CRR (Regulation (EU) No 575/2013, 2013, Part three, Title IV, Chapter 1a) inserted by the CRR II (Regulation (EU) 2019/876, 2019) and the delegated regulation on market risk (Delegated Regulation (EU) 2021/424, 2021).

Findings:

- **SbM:** The requirements set by the CRR as 'alternative' SA-MAR for the SbM are conform to MAR21. The level of specific parameters are set in a delegated regulation (Delegated Regulation (EU) 2021/424, 2021) that faithfully transposes the settings in MAR21.
- **DRC requirement:** The CRR requirements are an almost perfect transposition of MAR22, except for the introduction of more favourable correlation parameters across buckets of non-securitisation assets where one of the buckets is composed of euro-denominated assets, and the attribution of the most favourable possible RW to exposures to central governments and central banks of EU member states, regardless of the country's credit rating.
- **RRAO:** Not transposed yet. The RRAO was introduced in Basel III after the adoption of the CRR II.
- **Simplified SA:** The simplified SA was introduced in the Basel framework *after* the EU adopted the CRR II and has therefore not been transposed yet.

IS21: Summary of evolutions

	Direction	Extent
BCBS	Less stringent	Very important
EU	Less stringent	Limited

Internal models approach (IMA) to market risk (IS22)

Inputs: BCBS219, BCBS265, D305, D352, D436, D457 (BCBS, 2012d, 2013e, 2014f, 2018d, 2019b).

Output: Basel III chapters MAR30 to MAR33

Period of works: First proposals in 2012, first rules text in 2013; Finalised standards adopted in 2019.

Evolutions:

- **Model requirements:** On the specification of market risk factors, very few changes can be found between the BCBS219/BCBS265 (BCBS, 2012d, 2013e) proposals and the final rules in MAR31. In particular, the proposed ban on using the internal models approach (IMA) for securitisation exposures in the trading book was maintained. The added requirement that internal models should include all risk factors included in the SA-MAR is unlikely to have more than a marginal effect, since bank models are likely to already include all or very nearly all of these risk factors if they are to satisfy model performance requirements.

  The section on the model eligibility of risk factors was for the most part added in D436 (BCBS, 2018d), adding a set of operational requirements regarding the process to assess risk factors and calibrate expected shortfall (ES) models. These requirements are unlikely to result in significant increases of capital requirements or operational costs, but they introduce limitations on banks' freedom to define their internal models and can as such be considered as contributing to a moderately more stringent framework.

- **Backtesting and P&L attribution (PLA) test requirements:** The backtesting and PLA test requirements are key elements of the IMA, since they determine whether individual trading desks may or not use internal models for regulatory capital purposes. Although the general principles remain unchanged since BCBS219, several amendments make the framework less stringent:

  - The added possibility to exclude from the bank-wide backtesting exceptions those related to non-modellable risk factors (NMRFs) (subject to conditions and supervisory approval), and the added possibility for a bank to align input data for a trading desk's risk-theoretical P&L (RTPL) and hypothetical P&L (HPL) in the PLA test (also subject to conditions and approval) may make it easier for banks to validate borderline internal models, but only to a limited extent.
  - The creation of a the PLA test 'amber zone' transformed what used to be a pass/fail test to include an intermediate zone where model accuracy is unsatisfactory but not sufficiently bad to forbid the use of the model, and is compensated by a capital surcharge.
  - The "model-independent risk assessment tool", proposed in BCBS265, which was in essence a trading desk-level leverage ratio requirement to be met before the use of an internal model could be permitted, was abandoned. It would have forced banks to use the SA-MAR for an additional set of trading desks. That removes a potentially highly constraining requirement.

- **Capital requirements calculation under the IMA:** A number of parameters that are important for the calculation of RWA for market risk under IMA have been lowered between BCBS265 (BCBS, 2013e, first detailed rules text) and the final rules in MAR33:

  - Liquidity horizons were significantly reduced for fifteen out of the twenty-six risk classes, and a specific—reduced—liquidity horizon was created for interest rate risk and FX risk arising from instruments referencing the 'specified currencies' and currency pairs, as well as those referencing the bank's reporting currency. Since liquidity horizons are a key input parameter in the calculation, those reductions directly result in lower capital requirements (and RWA) amounts.
  - For NMRFs, where correlation and hedging benefits were originally entirely de-recognised, the final rules permit some recognition of these across non-idiosyncratic NMRFs, slightly reducing the capital requirements arising from these NMRFs.
  - Finally, in the aggregation formula for IMA-approved desks, the multiplication factor m_c, which enters into the computation of capital requirements, was reduced from 3 in BCBS265 to 1.5 in MAR33, and the 'plus' for poor internal model performance is now limited to 0.5 instead of 1, resulting in a maximum amount of capital requirements for approved desks being significantly lower, *ceteris paribus*, in the final rules than in the original proposal.

Overall, the cumulative changes made by the BCBS to its original proposals for the reform of the IMA—softening of the backtesting and PLA test requirements, changed in parameters—result, for a same trading book, in a major reduction of RWA amounts under the final rules compared to the original proposals.

EU transposition

Nota: *The transposition reviewed here is that made by the CRR 2 (Regulation (EU) 2019/876, 2019), which introduced the new Basel III approaches to market risk before their finalisation by the BCBS. The EU legislator then introduced these new approaches as alternative approaches to be used for reporting purposes only, alongside the old approaches. The finalisation of the market risk regime is included in the legislative proposal adopted by the EC in October 2021, which is still to be adopted by the European Parliament and Council.*

Outputs: CRR (Regulation (EU) No 575/2013, 2013, Part three, Title IV, chapter 1b) inserted by the CRR II (Regulation (EU) 2019/876, 2019), EBA draft Regulatory Technical Standards (RTSs) (EBA, 2020a, 2020b, 2020c).

Findings: The transposition of the new IMA for market risk into the CRR as results from the CRR II (Regulation (EU) 2019/876, 2019) is faithful to the Basel reform. Details of the requirements on the modellability of risk factors, on liquidity horizons and on the back-testing and PLA test are referred to a set of delegated regulations, which the European Banking Authority (EBA) drafted and delivered to the EC in March 2020 but have not yet been adopted. The EBA proposals themselves closely follow the Basel standards and although these proposals may be modified by the EC, they indicate a general direction that is to align the EU rules on the BCBS ones.

IS22: Summary of evolutions

	Direction	**Extent**
BCBS	Less stringent	Very important
EU	Neutral	Null

Credit valuation adjustment (CVA) (IS23)

Inputs: BCBS164, BCBS189, D325, D424 (BCBS, 2009c, 2010a, 2015c, 2017c).

Output: Basel III chapter MAR50.

Period of works: Works in two steps: elaboration of the 'interim rules' in 2009-2010, and a complete recast in 2015-2017.

Evolutions: The rules on credit valuation adjustment (CVA) risk have been completely overhauled twice: a first time between the original proposals in BCBS164 (BCBS, 2009c) and the adoption of the interim rules in BCBS189 (BCBS, 2010a); a second time with the review launched in D325 (BCBS, 2015c). On both occasion, the approach to calculate the CVA capital charge changed completely, making comparisons of the final provisions difficult with proposals earlier than D325.

- **Enlarged scope of CVA hedges:** More instruments qualify as CVA hedges under MAR50 (50.17 to 50.19 and 50.37 to 50.39) than under the original BCBS164 proposals (BCBS, 2009c) and the interim rules (BCBS, 2010a), making it easier for banks to hedge their CVA risk and reduce their CVA risk capital charge.

- **Reduction of key parameters in the calculation of the CVA capital charge:** Under both the basic approach (BA-CVA) and the standard approach (SA-CVA), key parameters have been reduced, compared to D325 (BCBS, 2015c), resulting in lower capital capital charges.

  Under the BA-CVA:

  - Supervisory RWs have been lowered.
  - The β supervisory parameter (which enters into the calculation of the term K_{full}) was reduced from 0.5 in D325 (BCBS, 2015c) to 0.25 in MAR50.20, and the extension of its role in the formula results in a further reduction of K_{full} (and, *ceteris paribus*, a lower CVA capital charge);
  - Furthermore, a so-called 'discount scalar' (set at 0.65 and which did not exist in D325) was introduced in D424 (BCBS, 2017c), reducing the overall capital charge to 65% of its D325 level, for a same portfolio.

  Under the SA-CVA:

  - Lower RWs are applied for interest rate risk, FX risk, counterparty credit spread, reference credit spread, equity risk (limited to vega risk) and commodity risk (limited to vega risk).
  - In the formula for across-bucket aggregation, the terms K_b and K_c are replaced with variables S_b and S_c, which are themselves capped at K_b and K_c, respectively. The aggegated capital requirements for CVA risk can then be lower but never higher under MAR50 than under D325.
  - The m_{cva} multiplier, which is applied to the aggregate CVA capital requirements is reduced from 1.5 under D325 to 1 under MAR50, reducing the final aggregate amount of CVA capital requirements by a third.

- **Withdrawal of the internal models approach to CVA:** The withdrawal of the internal models approach could be considered a move towards a more stringent framework to the extent that it reduces banks' wiggle room to seek a capital advantage on CVA risk. However, it is unlikely to cancel out the very substantial softening of the basic and standard approaches.

Overall, the CVA capital charge resulting from the final rules is significantly lower than that resulting from the proposals under D325. That plus the expanded scope of eligible CVA hedges makes the CVA framework less stringent to a very important extent.

EU transposition

The final Basel standards on CVA have not been transposed into EU law yet. It is part of the legislative proposal adopted by the EC in October 2021.

IS23: Summary of evolutions

	Direction	Extent
BCBS	Less stringent	Very important
EU	NA.	NA.

Operational risk framework (IS24)

Evolution at Basel level

Inputs: BCBS291, D355, D424 (BCBS, 2014g, 2016h, 2017c).

Outputs: Basel framework chapters OPE10, OPE25.

Period of works: First proposals in 2014; Standards finalised in 2017.

Evolutions: The Basel III reform of the operational risk framework replaced three standardised approaches and one internal model approach with a brand new standardised measurement approach (SMA). Calculation of RWA under the SMA relies on two key inputs, the business indicator (BI)—a bank size-related indicator of the extent to which banks are exposed to operational risk—and the loss component (LC)—a ten year history of banks' past operational risk losses. The BI is used to compute the business indicator component (BIC), and both BI and LC enter into the calculation of the internal loss multiplier (ILM). The operational risk capital charge (ORC), finally, is the product of the BIC and the ILM.

- **Withdrawal of the advanced measurement approaches (AMA):** While BCBS291 (BCBS, 2014g) initially suggested only a reform of the standardised approaches to operational risk and announced an upcoming eview of the advanced measurement approaches (AMA), in D355 (BCBS, 2016h), the BCBS suggested to simply withdraw any possibility to use internal models for the

calculation of RWA for operational risk (i.e. withdrawing the AMA) and replacing all existing approaches with the new SMA, i.e., the revised standardised approach.

In the statistical annex of the BCBS's QIS results report (BCBS, 2017b, p. 38), Table B.16 details the changes in ORC for Group 1 banks, the G-SIBs subset, and Group 2 banks, distinguishing those banks migrating from the AMA and those migrating from other approaches. We can then observe that the average change for Group 1 banks and G-SIBs migrating from AMA is a reduction (-30.8% and -34.9%, respectively) of ORC *greater* than for Group 1 banks and G-SIBs migrating from other approaches (-10.1% and -14.8%, respectively). Conversely, Group 2 banks migrating from AMA experience, on average, an increase (+14.0%) greater than the increase experienced by Group 2 banks migrating from other approaches (+5.4%). Looking at maximum increases, we can see that only among the G-SIB subset is the greatest increase experienced by an AMA bank; among Group 1 and Group 2 banks, the greatest increases happen in banks migrating from other approaches. The withdrawal of the AMA then cannot be considered as making the operational risk framework more stringent *generally*, although it limits the wiggle room that banks used to have, individually, to seek capital advantages.

- **Changes to the BI components and their aggregation formula:** Changes in its composition overall slightly extent the scope of activities contributing to the BI. However, important changes made to the way in which two of the three component of the BI—namely the interest, lease and dividend component (IDLC) and services component (SC)—are aggregated result in important reductions of banks' BI amounts (and, at the end of the line, of their ORC).
  - IDLC capped: A cap was set on the IDLC in D355, whereby the contribution of the interest and lease items (income and expenses) could not exceed 3.5% of the bank's amount of interest earning assets; this "linear normalisation ratio" was thereafter reduced to 2.25%, lowering the cap. While the possibility of capping the IDLC was already contemplated in BCBS291 (without calibration proposal), the proposal for a floor was, conversely, abandonned.
  - SC reduced: Instead of the simple sum of fee income, fee expenses, other operating income and other operating expenses (four amounts) as proposed in BCBS291, the SC as per OPE25.5 is the simple sum of only two of these amounts: the maximum of fee income and fee expenses, plus the maximum of other operating income and other operating expenses. This drastically reduces the contribution of the SC to the BI.
- **Calculation of the BIC:** The marginal coefficients applied to BI amounts to calculate the BIC were drastically reduced for all amounts above EUR 100 millions, resulting in a major reduction of the BIC that is particularly pronounced for large banks. These reduced BIC amounts have a major direct and indirect (through the ILM) effect on banks' ORCs.
- **ILM reduced:** Change in the ILM formula itself (insertion of a 0.8 exponent),compared to the first proposal for the ILM in D355 (BCBS, 2016h),

> reduces the ILM for all banks with a history of relatively high operational losses. Changes to the formula for the LC of the ILM reduce the relative weight of large loss events. Furthermore, a national discretion was introduced, enabling national regulators to set the ILM to 1 (i.e. cancelling the effects of operational loss history on the calculation of RWA for operational risk). In its impact study for the upcoming transposition in the EU, the EBA estimated that, should this discretion be used by the EU, "the impact of the operational risk framework would be more than halved, and the total impact in terms of Tier 1 MRC change would be reduced by around 1.2 p.p." (EBA, 2019, p. 53). Finally the criteria for internal loss data set in OPE25 allow more events to be excluded, thereby reducing the amounts of losses entering into the calculation of the LC.

Overall, multiple changes applied to every step in the calculation of the ORC results a priori in a major reduction of banks' RWA for operational risk. The reduction is particularly important for the largest banks and banks with important fee-based businesses: In its cumulative impact study, the BCBS thus estimates that:

> the final operational risk framework generates an aggregate decrease of operational risk MRC of approximately 25.0% for all Group 1 banks and 30.2% for G-SIBs while there is an increase of 6.9% for the Group 2 banks in the sample (BCBS, 2017b, p. 26).

EU transposition

The EU has not transposed the new operational risk framework into the CRR yet. A legislative proposal including this issue is expected from the EC in the autumn of 2021.

IS24: Summary of evolutions

	Direction	**Extent**
BCBS	Less stringent	Very important
EU	NA.	NA.

Leverage ratio framework (IS25)

Inputs: BCBS164, BCBS189, BCBS251, BCBS270, D365, D424, D451, D467 (BCBS, 2009c, 2010a, 2013i, 2014a, 2016f, 2017c, 2018c, 2019a).

Output: Basel framework chapters LEV10, LEV20, LEV30 and LEV40.

Period of works: First proposals in 2009; standard mostly finalised in 2017.

Evolutions: The leverage ratio requirement is composed of three main elements that are set in the LEV section of the Basel framework: a measure of banks' regulatory capital (capital measure), a method to calculate the extent of their balance sheet and off-balance sheet exposures disregarding the risk profiles of portfolios (exposure measure), and a minimum ratio of the former to the latter (the leverage ratio). Most of the changes made to the leverage ratio framework relate to the exposure measure.

- **Leverage ratio level and capital measure:** The capital measure (Tier 1 capital) and level of the ratio (3%) were set in BCBS189 (BCBS, 2010a) and have not changed since. In BCBS164 (BCBS, 2009c), the Committee considered the use of a more restrictive capital measure (i.e. CET1), an option that was discarded, but since in BCBS164 the calibration of the ratio was not set it is impossible to say that this more restricted capital measure would have entailed a more demanding leverage ratio requirement.
- **Relaxation of the 'no-netting approach' for derivatives and SFTs:** Instead of a complete prohibition of netting—as initially proposed in BCBS164—the final rules in LEV30 apply netting rules comparable to those applicable under the risk-based capital requirements framework, which enables banks to reduce their total exposure amounts, albeit to a limited extent.
- **Credit equivalent of off-balance sheet (OBS) items:** CCFs were reduced for some items (note issuance facilities, revolving underwriting facilities, certain transaction-related contingent items, commitments, short-term, self-liquidating trade letters of credit arising from the movement of goods, commitments that are unconditionally cancellable at any time by the bank), reducing their contribution to the aggregate exposure measure. The share of those very specific items in the total of banks balance sheet and OBS exposures being, however, limited, the effect of these reduced CCFs is minor.

Additionally, the leverage ratio framework includes a specific "leverage ratio buffer requirement" for G-SIBs, designed on the basis of the capital conservation buffer (CCB). Concretely, G-SIBs must meet the general 3% leverage ratio requirement to be authorised, but at that level they are forbidden to distribute dividend or bonuses. These distribution restrictions are progressively eased (like in the CCB, CCyCB and HLA) as their leverage ratio increases, and are completely lifted when it reached 3% plus half of their HLA requirement ratio (e.g., if a G-SIB is required to maintain a 2% HLA buffer its "leverage ratio buffer" is 1%, so it is free to distribute dividends when its leverage ratio reaches 4%). The idea of an additional leverage ratio requirement for G-SIBs appears in D365 (BCBS, 2016f, pp. 8–11), where the BCBS consults on the general idea and sketches some policy proposals, but without specifics. The first rules texts on the matter appear in D424 (BCBS, 2017c, pp. 140–141). The final rules in LEV40 are identical to these set out in D424 and correspond to the proposals put forward in D365.

Overall, the leverage ratio framework went through only limited changes between the first proposals in 2009 to the finalisation of the standard in 2017. The general architecture of the framework remained unchanged, as did the general approach to

balance sheet items, SFTs, derivatives and OBS items. The changes made to the exposure measure calculation do reduce the stringency of the standard, but this reduced stringency only relates to a small fraction of banks' exposures. Per se, the additional leverage ratio requirement for G-SIBs constitutes a late addition to the framework that makes it more stringent. However, the design of this requirement is such that it is unlikely to be constraining for banks which, by virtue of the HLA requirement in the risk-based part of the framework, should already have higher levels of regulatory capital than the non-G-SIBs.

EU transposition

Output: CRR (Regulation (EU) No 575/2013, 2013, Part seven) as amended by the CRR II (Regulation (EU) 2019/876, 2019).

Findings: The EU's version of the leverage ratio framework is generally conform to the Basel version, with one exception: the EU's version permits banks to exclude more assets from the exposure measure than the rules in LEV30 (article 429a CRR vs. LEV30.3 to 30.5 and 30.7, 30.8). The additional 'leverage ratio buffer requirement' for G-SIIs was added to article 92 CRR in a way that is equivalent to the requirements under LEV40.

IS25: Summary of evolutions

	Direction	Extent
BCBS	Less stringent	Limited
EU	Less stringent	Limited

Liquidity coverage ratio (LCR) (IS26)

Change at the Basel level

Inputs: BCBS165, BCBS188, BCBS238 (BCBS, 2009b, 2010b, 2013a).

Output: Basel framework chapters LCR10, LCR20, LCR30, LCR31 and LCR40.

Period of works: First proposals in 2009; standard finalised by 2013.

Evolutions: The liquidity coverage ratio (LCR) requirement is composed of three main elements: a definition of what categories of asset are eligible as HQLAs for the purpose of constituting liquidity reserves; an estimate of banks' net cash outflows over one month in a period of stress; and a requirement that banks have an amount

of HQLAs sufficient to cover this estimate of stress-period net cash outflows (i.e. a minimum ratio of the former to the latter set at 100%).

- **General approach and scope of application:** No change occurred in the general approach nor the scope of application. The only potentially significant amendment is the deletion of the mention that, where national authorities decide to apply the LCR at entity-level for banking groups, no preferential treatment should be granted to intra-group transactions (BCBS, 2009b, §133).

- **HQLAs:** Several changes were made in the requirements for assets to be eligible as HQLAs and the list of eligible asset classes.

  - While changes on the 'fundamental' and 'market-related' characteristics of HQLAs generally cancel each others out in terms of stringency, on the 'operational requirements' there has been a general tendency to impose more demanding requirements on banks to make sure that they will be able to monetise their assets during times of stress. These result in more reporting and may marginally reduce the range of assets that a bank can include in its HQLA buffer, but the overall effect is likely to be limited.
  - The definition of HQLAs (i.e., the list of asset classes eligible for inclusion in the buffer), by contrast, was expanded in a way that makes the final rules significantly less stringent than the original definition put forward in BCBS165. Where originally, the buffer was to be composed at 100% of the most liquid assets—those that now constitute so-called 'Level 1' assets—since BCBS188 (BCBS, 2010b), a two-tier system allows banks to include up to 40% of 'Level 2' assets (less liquid). This 'Level 2' category was subsequently sub-divided, into 2A and 2B, were Level 2B assets, capped at 15% of the HQLA buffer, include even less liquid assets. This means that banks now can use, to meet their LCR requirement, up to 40% of assets that originally were deemed not liquid enough to constitute safety reserves of liquid assets. That concession is hardly compensated by the more stringent operational requirements.

- **Alternative liquidity approaches (ALAs) :** In BCBS188, the BCBS introduced the ALAs, which permit banks in specific jurisdictions to use liquid assets other than those listed under the general regime to constitute their HQLA buffer. This derogatory regime constitutes a concession, but the scope of which is tightly limited. Furthermore, the final rules in LCR31 make eligibility criteria for jurisdictions to use the ALAs even stricter than under BCBS188, the reduction in stringency is then likely to be marginal.

- **Cash outflows assumptions:** A series of changes in the parameters to calculate cash outflows results in reduced amounts of total expected cash outflows:

  - Generally reduced run-off and draw-down rates (i.e. assumptions regarding the portion of accounts or credit/liquidity facilities that different types of clients are likely to withdraw in the event of a market-wide stress event) for all retail funding, unsecured wholesale funding from small business

customers, non-financial corporates (NFCs), sovereigns, central banks, PSEs and multilateral development banks (MDBs).

  - Reduced run-off rates (15% or 50% instead of 100%) for funding transactions secured by assets eligible as Level 2A/B HQLAs.
  - Reduced draw-down rates on committed credit and liquidity facilities, in particular those extended to sovereigns and assimilated, as well as to banks and other institutions.

- **Cash inflow assumptions:** By contrast, the main change made on the calculation of cash inflow is a potentially highly constraining one. In BCBS188, the BCBS introduced a cap on a bank's amount of expected inflows whereby the amount of inflows cannot exceed 75% of total expected outflows. The result of this cap is that a bank's HQLA buffer must at all times cover at least 25% of its total expected cash outflows. By contrast under BCBS165, in theory, where inflows exceed outflows, a bank's required amount of HQLAs could fall to 0.

Overall, despite the important constraining effect of the cap on inflows, the cumulated effects of the changes on the definition of HQLAs and on the calculation of expected cash outflows make the final version of the LCR substantially less stringent than its original version.

EU transposition

Output: CRR (Regulation (EU) No 575/2013, 2013, Part six) and Commission delegated act on the LCR (Delegated Regulation (EU) 2015/61, 2015).

Findings: In its assessment of the EU's transposition of the Basel LCR, the BCBS's RCAP team found:

> one material deviation and four potentially material deviations that significantly overstate or may overstate the LCR for some banks in the EU and, in turn, may thus affect fairness and comparability both between EU banks and vis-à-vis other banks in jurisdictions that subscribe to the Basel framework (BCBS, 2017f, p. 8).

- **HQLAs:** The EU authorises banks to include into Level 1 HQLAs high-quality covered bonds and other assets (referred to as "extremely high-quality liquid assets" in the EU legislation) issued by other banks, which is dilutes the strict definition of Level 1 HQLAs in Basel III (LCR30.40 and 30.41).

  The high-quality covered bonds that the EU authorises in Level 1 assets are subject to conditions (minimum issue size, an external credit rating that would result in a 10% RW) and their inclusion is capped at 70% of HQLA, with a 7% haircut (those latter two provisions being, admittedly, generous). The other

extra assets added by the EU to Level 1 HQLAs are assets issued by banks established or incorporated by central or regional governments of Member States, or local authorities, provided that the government or authority has a legal obligation to guarantee the financial viability of the bank, as well as assets issued by promotional lenders. Finally, the EU added to the list assets issued by banks which have received a public guarantee before June 30, 2014 Overall, as the BCBS notes, these categories of assets constitute only a limited proportion of European banks' stock of HQLAs but the materiality of the deviation arises from the possibility that banks increase their reliance on these assets in the future to the detriment of more liquid assets (BCBS, 2017f, pp. 13–14).

Furthermore, the BCBS's RCAP team considered as "potentially material" the extension of the definition of Level 2B HQLAs to ABSs backed by assets other than residential mortgages, and to other high-quality covered bonds. Again, the proportion of these assets in European banks' HQLAs was marginal at the time of the RCAP (2017f), but could increase in the future (level 2B being capped at 15% of total HQLAs).

Overall, however, the BCBS's RCAP team has assessed the EU's HQLA definition as "largely compliant" with Basel (BCBS, 2017f, pp. 9–10) and the deviations contribute to a limited extent to making the overall framework less stringent.

- **Cash inflows and outflows:** The EU's version permits a more favourable treatment of operational deposits than the Basel rules: Basel mandates a 25% outflow rate and a 0% inflow rate (LCR40.26 to 40.36 and 40.78), that is the bank must assume that it will not be able to access its own operational deposits at other banks but that its own clients will withdraw 25% of the operational deposits they have at the bank. By contrast, the EU permits the recognition of 25% inflow where the bank can be sure that the receiving bank does treat these deposits as operational, and 5% where it cannot. 25% or 5% recognised inflows instead of no inflows at all, the EU's version then allows banks to recognise more inflows and makes it easier to meet the LCR requirement. The BCBS recognises that it "is not able to quantify the materiality of this issue" due to lack of data and classified the issue as "potentially material" (BCBS, 2017f, p. 17).

IS26: Summary of evolutions

	Direction	**Extent**
BCBS	Less stringent	Important
EU	Less stringent	Somewhat significant

Net stable funding ratio (IS27)

Inputs: BCBS165, BCBS188, BCBS271, D295 (BCBS, 2009b, 2010b, 2014b, 2014c).

Output: Basel framework chapters NSF10, NSFR20 and NSF30.

Period of works: First policy proposals in 2009; standard finalised in 2014.

Evolutions: The net stable funding ratio (NSFR) requirement, briefly stated, is a requirement for banks to match their liquidity needs for the upcoming year with the sources of liquidity available to them over that same period. The latter is called available stable funding (ASF), in the Basel terminology, the former is called required stable funding (RSF). In mathematical terms, the NSFR standard requires banks to maintain a ratio of ASF to RSF above 100%. The ASF and RSF amounts are calculated applying supervisory ASF and RSF factors to a banks' assets and liabilities. The setting of these factors then is key in determining the level of stringency of the NSFR.

- **ASF factors:** ASF factors were increased (i.e. more available funding is recognised) for retail and small business customers' deposits. Furthermore, the final rules (NSF30) recognise 50% ASF from several important categories of liabilities for which the initial proposals (BCBS165) did not recognise any (operational deposits, funding from sovereigns, PSEs, MDBs, national development banks with remaining maturity under 1 year, all funding with residual maturity between 6 months and 1 year).
- **RSF factors:** Compared to BCBS165, a number of RSF factors have been lowered (less stable funding is required, less stringent), while others have been increased (requiring more stable funding, more stringent):
  - Lower RSF factors are applied to unencumbered loans to retail and small business customers (50% instead of 85%); unencumbered performing loans that do not qualify for a 35% or lower RW under SA-CR with residual maturity above 1 year, unencumbered not-in-default non-HQLA securities with residual maturity above 1 year, not-in-default non-HQLA exchange-traded equities and physical traded commodities (85% instead of 100%);
  - Higher RSF factors are applied to loans to non-bank financial institutions (50% instead of 0% in BCBS165), to HQLAs encumbered for a period between 6 months and 1 year (50% instead of 0%), to interbank lending for a period between 6 months and 1 year (50% instead of 0%), to non-renewable loans to non-bank financial institutions and non-HQLA securities with residual maturity under 1 year (50% instead of 0%) and to gold (85% instead of 50%);
  - A lower RSF factor is applied to OBS irrevocable and conditionally revocable credit and liquidity facilities (5% instead of 10%).

Overall, more stable funding is recognised from funding sources, which makes it easier for banks to meet the NSFR requirement. A BCBS monitoring report (BCBS,

2017a, p. 52) displays the average NSFR ratio and aggregate shortfalls for a constant sample of banks from end-December 2012 to end-December 2016, calculated under the different versions of the NSFR framework. Graph 50 in that report clearly show that the 2014 revisions resulted in higher NSFR ratios (10 to 15 p.p. higher) and reduced shortfalls (by approximately EUR 1 000 bn for group 1 banks, by approximately EUR 100 bn for group 2 banks). We can therefore conclude that the changes made to the NSFR framework made the standard less stringent to an important extent.

EU transposition

Output: CRR (Regulation (EU) No 575/2013, 2013, Part six) as amended by the CRR II (Regulation (EU) 2019/876, 2019).

Findings:

- **ASF factors:** The transposed rules (articles 428i to 428o CRR) are conform to NSF30.
- **RSF factors:** While the general provisions are the same (articles 428p and 428q), RSF factors applied under EU law (articles 428r to 428ah) are generally lower than under the Basel framework. A few examples: Unencumbered assets eligible as Level 1 HQLAs are applied a 5% in NSF30, but only 0% (7% for "extremely high quality covered bonds") in the CRR; securitisations eligible as Level 2B assets receive a preferential 25% or 35% RSF factor under the CRR vs. 50% under NSF30. Furthermore, where NSF30 only includes 8 different levels of RSF factors, the CRR includes 17 different levels, moving several types of assets to lower intermediary levels.
- **Preferential treatment within a group or within an institutional protection scheme:** Under CRR article 428h, competent authorities may authorise banks to apply higher ASF and lower RSF factors to liabilities/assets when the counterparty is a member of the same institutional protection scheme (IPS), or the central body/affiliated credit institution of a cooperative network or group. That discretion does not exist under Basel III: as regards intra-group transactions, Basel is silent since the framework is intended to be applied at consolidated level, and any implementation at subconsolidated/entity level is up to national regulators; as regards members of a same IPS or cooperative network, no such discretion is foreseen.
- **Addition of a 'simplified calculation' of the NSFR for small and non-complex institutions:** Such simplified approach is naturally not foreseen by Basel III, which is intended to be applied to large international banks, and the materiality of this derogation is difficult to assess, but we can guess that it lightens the operational burden of the NSFR calculation for the many small-sized banks in Europe, notably cooperative banks.

Overall, the EU transposition of the NSFR deviates from the Basel III NSFR mainly with the assignation of lower RSF factors to a series of asset classes—which makes it easier for banks to reach the minimum level of the ratio—and marginally through the addition of a discretion to apply preferential ASF and RSF factors for intra-group transactions and transactions between members of a same IPS or cooperative network, as well as with the creation of a 'simplified calculation' of the NSFR for small and non-complex institutions.

IS27: Summary of evolutions

	Direction	Extent
BCBS	Less stringent	Important
EU	Less stringent	Important

Large exposures (IS28)

Evolution at Basel level

Inputs: BCBS246, BCBS283, D425 (BCBS, 2013k, 2014l, 2017h).

Output: Basel framework chapters LEX10, LEX20, LEX30 and LEX40.

Period of works: First reform proposals put forward in 2013; standard settled in 2014.

Evolutions:

- **Definition of large exposures (LE):** The proposal (in BCBS246) to lower the threshold for an exposure to be designated as a 'large exposure' from 10% to only 5% of a bank's eligible capital was abandonned.
- **LE limits and reporting:** The generally applicable LE limits and reporting requirements are unchanged in LEX20 compared to the initial BCBS246 proposals. For the limit specifically applicable to G-SIBs (LEX40), the BCBS chose the least stringent of the two options that it had put forward for comments in BCBS246, but the final limit (15%) still is in the range proposed in BCBS246.
- **Concentration risk on sovereign exposures:** The proposal to impose marginal risk-weight add-ons for large exposures to sovereigns (D425) was abandoned. Even though the rates for these add-ons would have been small, they would have been applied to potentially very large amounts of bank holdings of domestic sovereign debt and would have made the LE framework significantly more stringent.

- **Preferential treatment for covered bonds:** In the final rules on the calculation of exposures, covered bonds have been granted a preferential treatment which the initial proposals did not foresee, whereby their exposure amount is reduced to only 20% of their nominal value (instead of 100%).

Overall, despite the general stability of the LE regime from initial reform proposals to final rules, we can that two proposals that would have make the framework significantly more stringent have been discarded and one preferential treatment introduced. This altogether translates into a somewhat significantly less stringent final LE regime.

EU transposition

Output: CRR (Regulation (EU) No 575/2013, 2013, Part four) as amended by the CRR II (Regulation (EU) 2019/876, 2019).

Findings:

- **LE limits:** While the general limit is the same (25% of CET1), the CRR includes an exception where the client is a regulated financial institution (or where the group of connected clients includes a regulated financial institution). In those cases, the limit is the higher of 25% of the bank's CET1 or EUR 150 million, which effectively sets an absolute floor to LE limits for the benefit of small banks (those for which 25% of CET1 is less than EUR 150 million).

  Furthermore, the CRR provides for a possibility to exceed the LE limit for exposures in the trading book, while under Basel III LE limits apply to all banks, regardless of the book to which exposures are designated. Even accompagnied by specific capital requirements, this possibility represents a material deviation from Basel III making the European framework more accommodating.

- **Exempted exposures:** The CRR list of exposures exempted from the LE regime (article 400 CRR) is broader than in Basel. In particular, more interbank exposures are exempted.

- **Exposures arising from mortgage lending:** Article 402 CRR allows banks to reduce the exposure value of exposures arising from mortgage lending. No such preferential treatment is foreseen under LEX30.

Overall, the EU's transposition of the Basel LE framework includes derogations and exceptions that make the regime less constraining for banks to an important extent.

IS28: Summary of evolutions

	Direction	Extent
BCBS	Less stringent	Somewhat significant
EU	Less stringent	Important

Margin requirements for non-centrally cleared derivatives (IS29)

Evolution at Basel level

Inputs: BCBS226, BCBS242, BCBS261, D317, D475, D499 (Basel Committee on Banking Supervision & International Organization of Securities Commissions, 2012, 2013a, 2013b, 2015, 2019, 2020).

Output: Basel framework chapters MGN10 and MGN20.

Period of works: First proposals issued in 2012; standard settled by 2013 (subsequent amendments update the implementation timetable).

Evolutions: This standard requires banks to exchange initial and variation margin with their clients for derivative contracts that are not cleared through a CCP. It is thus not a capital or liquidity requirement *per se* but a separate section of prudential requirements. The general approach remains unchanged between the initial proposals in BCBS226 and the final rules, but a series of change affect the stringency of the requirements:

- A *de minimis* rule on minimum transfer amounts was introduced in BCBS242, then the maximum level of this *de minimis* threshold was increased from EUR 100 thousand to EUR 500 thousand (MGN20.6).
- Introduction of a minimum level of non-centrally-cleared derivatives activity under which banks are not subject to initial margin requirements (set at EUR 8 billion, gross notional amounts; MGN20.7), benefiting smaller banks with little derivative business.
- Recognition of netting benefits in schedule-based calculation of initial margin amounts (MGN20.17). This is likely to benefits mostly smaller institutions (those not exempted from margin requirements as per the threshold above), since the larger ones are more likely to use internal models to calculate initial margin amounts.
- Generalisation of the additional 8% haircut for currency mismatches between derivatives and collateral (MGN20.34). The effect is however limited, since it applies only to cases where contract and collateral are denominated in different currencies.
- Introduction of a limited possibility to re-use or re-hypotheticate collateral (MGN20.41 to 20.43). Considering the conditions for using this possibility, the effects are likely to be very limited

Overall, changes made on this standard between initial proposals and final rules create accommodating exceptions and exemptions but those are very limited in scope.

EU transposition

The EU has not transposed this section of the Basel framework into EU law yet.

IS29: Summary of evolutions

	Direction	Extent
BCBS	Less stringent	Limited
EU	NA.	NA.

Appendix B

Corpus and interest group population

B.1 List of organisations

Table B.1: List of organisations with assigned identifiers

Organisation ID	Organisation name
Organisations in the EU Transparency Register	
ABBL_LUX	Association des Banques et Banquiers du Luxembourg
ABI_GBR	Association of British Insurers
ABI_ITA	Associazione Bancaria Italiana
ABN Amro_NLD	ABN Amro
ABN Clearing_NLD	ABN Amro Clearing Bank
AccEur_EUR	Accountancy Europe; Federation of European Accountants
ACT_INT	Association of Corporate Treasurers
AEA_EUR	Association of European Airlines
AEB_ESP	Asociación Española de Banca
AECM_EUR	European Association of Mutual Guarantee Societies
AEIP_EUR	European Association of Paritarian Institutions
AFG_FRA	Association Française de la Gestion Financière
AFGI_GBR	Association of Financial Guaranty Insurers
AFMA_AUS	Australian Financial Markets Association
AFME_EUR	Association for Financial Markets in Europe
AFTE_FRA	Association Française des Trésoriers d'Entreprise
AGC_INT	Association of Global Custodians
AIMA_INT	Alternative Investment Management Association
ALFI_LUX	Association of the Luxembourg Fund Industry
Allianz_DEU	Allianz
AmEx_USA	American Express
Amundi_FRA	Amundi
ANCE_ITA	Associazione Nazionale Costruttori Edili
Aon Benfield_USA	Aon Benfield
APB_PRT	Associação Portuguesa de Bancos
APG_NLD	Algemene Pensioen Group
ASF_FRA	Association Française des Sociétés Financières
ASIFMA_ASIA	Asia Securities Industry and Financial Markets Association

Table B.1: List of organisations with assigned identifiers *(continued)*

Organisation ID	**Organisation name**
Assifact_ITA	Associazione Italiana per il factoring
ASSILEA_ITA	Associazione Italiana Leasing
ASSOSSIM_ITA	Associazione Intermediari Mercati Finanziari
Aviva_GBR	Aviva
AXA-IM_FRA	AXA Investment Managers
BAFT_INT	BAFT-IFSA; Bankers Association for Finance and Trade
BAK_AUT	Arbeiterkammer; Bundesarbeitskammer
Barclays Capital_GBR	Barclays Capital
Barclays_GBR	Barclays
Bayer_DEU	Bayer AG
BBA_GBR	British Bankers Association
BBVA_ESP	Banco Bilbao Vizcaya Argentaria
BdB_DEU	Bundesverband deutscher Banken
BDEW_DEU	Bundesverband der Energie- und Wasserwirtschaft
BDI_DEU	Bundesverband der Deutschen Industrie
BDL_DEU	Bundesverband Deutscher Leasing-Unternehmen
BFW_DEU	Bundesverband Freier Immobilien- und Wohnungsunternehmen
BIV_DEU	Bundesverband Investment und Asset Management
BlackRock_USA	BlackRock
BMEClear_ESP	BME Clearing
BMW_DEU	BMW Group
BNP Paribas_FRA	BNP Paribas
BNY Mellon_USA	Bank of New York Mellon
BoAm_USA	Bank of America
Boeing Cap_USA	Boeing Capital Corporation
BPCE_FRA	BPCE
BPE_ITA	Banca Popolare Etica
BPF_GBR	British Property Federation
BPI_FRA	BPI France
Brevan Howard_CHE	Brevan Howard Investment Products
BSA_GBR	Building Societies Association
BusinessEurope_EUR	BusinessEurope
BVCA_GBR	British Private Equity & Venture Capital Association
BVMW_DEU	Bundesverband mittelständische Wirtschaft
BVR_DEU	Bundesverband der Deutschen Volksbanken und Raiffeisenbanken
bwf_DEU	Bundesverband der Wertpapierfirmen
CaissesEpargnes_FRA	Groupe Caisses d'Épargne
Caixa_ESP	La Caixa
Capgemini_FRA	Capgemini
Cargill_USA	Cargill
Caterpillar Fin_USA	Caterpillar Financial Services
CBA_CZE	Česka Bankovní Asociace
CBI_GBR	Confederation of British Industries
CBOE_USA	Chicago Board Options Exchange
CCFA_FRA	Comité des Constructeurs Français de l'Automobile
CDC_FRA	Caisse des Dépôts et Consignations
CDP_ITA	Cassa Depositi e Prestiti
CEA-PME_EUR	CEA-PME
CECA_ESP	Confederación Española de Cajas de Ahorros
CECAr_ESP	Confederación de Empresarios de la Construcción de Aragón
CFA Ins._INT	CFA Institute
CISI_GBR	Chartered Institute for Securities and Investment
Citigroup_USA	Citigroup
CMC_USA	Commodity Markets Council
CME Clearing_EUR	CME Clearing Europe

Table B.1: List of organisations with assigned identifiers *(continued)*

Organisation ID	**Organisation name**
CME_USA	CME Group
CML_GBR	Council of Mortgage Lenders
CNH_USA	CNH Capital
Commerzbank_DEU	Commerzbank
COSB_CZE	Československá Obchodní Banka
CredAgri_FRA	Crédit Agricole
CRFC_EUR	Commercial Real Estate Finance Council Europe
CRiF_ITA	CRiF
CS_CHE	Credit Suisse
DA_DEU	Deutsches Aktieninstitut
DACSI_NLD	Dutch Advisory Committee Securities Industry
Daimler_DEU	Daimler AG
Danske Bank_DNK	Danske Bank
DB_DEU	Deutsche Bank
DBRS_CAN	DBRS
Deere_USA	Deere & Company
Deloitte_USA	Deloitte
DeuBorse_DEU	Deutsche Börse Group
Dexia_BEL	Dexia
DexiaLdG_LUX	Dexia LdG Banque
DGB_DEU	Deutscher Gewerkschaftsbund
DIHK_DEU	Deutscher Industrie- und Handelskammertag
DK_DEU	Deutsche Kreditwirtschaft; Zentraler Kreditausschuss
DSA_NLD	Dutch Securitisation Association
DSGV_DEU	Deutscher Sparkassen und Giroverband
DTCC_USA	Depository Trust & Clearing Corporation
dwp Bank_DEU	Deutsche WertpapierService Bank
EA-CRAs_EUR	European Association of Credit Rating Agencies
EAA_EUR	European AVM Alliance
EACB_EUR	European Association of Co-operative Banks
EACH_EUR	European Association of CCP Clearing Houses
EACT_EUR	European Association of Corporate Treasurers
EAPB_EUR	European Association of Public Banks
EBF_EUR	European Banking Federation
EBIC_EUR	European Banking Industry Committee
ECBC_EUR	European Covered Bond Council
ECSA_EUR	European Community Shipowners' Associations
EDFI_EUR	European Development Finance Institutions
EFAMA_EUR	European Fund and Asset Management Association
EFBS_EUR	European Federation of Building Societies
EFET_EUR	European Federation of Energy Traders
EFR_EUR	European Financial Services Roundtable
EMF_EUR	European Mortgage Federation
ENCU_EUR	European Network of Credit Unions
Eon_DEU	E.On
EPF_EUR	European Property Federation
EPREA_EUR	European Public Real Estate Association
EPVVCA_EUR	European Private Equity & Venture Capital Association
Erste Bank_AUT	Erste Group Bank
ESBG_EUR	European Savings and Retail Banking Group; European Savings Banks Group
ESF_EUR	European Securitisation Forum
EUDHB_EUR	European Union of Developers and House Builders
EUFederation_EUR	EU Federation for the Factoring and Commercial Finance Industry
Eumedion_NLD	Eumedion

Table B.1: List of organisations with assigned identifiers *(continued)*

Organisation ID	**Organisation name**
Eurelectric_EUR	Eurelectric
EuroABS_GBR	EuroABS
Euroclear_BEL	Euroclear
Eurofinas_EUR	Eurofinas
EY_DEU	Ernst&Young
FBF_FRA	Fédération Bancaire Française
Febelfin_BEL	Febelfin
Federcasse_ITA	Federazione Italiana delle Banche di Credito Cooperativo Casse Rurali ed Artigiane
FedInvest_USA	Federated Investors
FESE_EUR	Federation of European Securities Exchanges
FFSA_FRA	Fédération Française des Sociétés d'Assurance
FIA_USA	Futures Industry Association
Fidelity_GBR	Fidelity International
Finanssiala_FIN	Finanssiala ry
FinDan_DNK	Finans Danmark
FinNor_NOR	Finans Norge
FinWat_EUR	Finance Watch
FirstRand_ZAF	FirstRand; Rand Merchant Bank
Fitch_USA	Fitch Ratings
FOA_EUR	Futures and Options Association
FoEE_EUR	Friends of the Earth Europe
Ford Credit_USA	Ford Motor Credit Company
ForPens_DNK	Forsikring & Pension
GDV_DEU	Gesamtverband der Deutschen Versicherungwirtschaft
GdW_DEU	Bundesverband deutscher Wohnungs- und Immobilienunternehmen
GE Capital_USA	GE Capital
GE_USA	General Electric
Generali_ITA	Generali
Genworth_USA	Genworth Financial
GFMA_INT	Global Financial Markets Association
Global Warning_FRA	Global Warning
GM Fin_USA	General Motors Financial Company
GolSachs_USA	Goldman Sachs
Grant Thornton_USA	Grant Thornton
GTI_FRA	Groupe GTI
HarleyDav Fin_USA	Harley-Davidson Financial Services
HBA_HUN	Hungarian Banking Association
Honda Fin_USA	American Honda Finance Corporation
HSBC_GBR	HSBC
Hyundai Cap_JAP	Hyundai Capital America
IACPM_INT	International Association of Credit Portfolio Managers
IBF_INT	International Banking Federation
ICAEW_GBR	Institute of Chartered Accountants in England and Wales
ICAP_GBR	ICAP
ICC_INT	International Chamber of Commerce
ICE DS_USA	ICE Data Services
ICE_USA	IntercontinentalExchange
ICI Global_INT	ICI Global
ICI_USA	Investment Company Institute
ICMA_AMIC_INT	ICMA Asset Management and Investors Council
ICMA_ERCC_INT	ICMA European Repo Council
ICMA_INT	International Capital Markets Association
ICMA-ECP_INT	ICMA Euro Commercial Paper Committee
ICMA-ERCC_INT	ICMA European Repo and Collateral Council

Table B.1: List of organisations with assigned identifiers *(continued)*

Organisation ID	**Organisation name**
IHS Markit_GBR	IHS Markit
IIF_INT	Institute of International Finance
IMMFA_INT	Institutional Money Market Funds Association
Infineon_DEU	Infineon Technologies
ING_BEL	ING Belgium
ING_NLD	ING
InsEur_EUR	Confédération Européenne des Assureurs; Insurance Europe
Insight Inv_GBR	Insight Investment
IntesaSp_ITA	Intesa Sanpaolo
InvestAsso_GBR	The Investment Association
IRSG_GBR	International Regulatory Strategy Group (City of London)
ISDA_INT	International Swaps and Derivatives Association
ISLA_INT	International Securities Lending Association
ITFA_INT	International Trade & Forfaiting Association
JD_USA	Jones Day
JPMorgan_USA	JPMorgan Chase & Co.
KBC_BEL	KBC Group
KfW_DEU	KfW Bankengruppe
Kommuninvest_SWE	Kommuninvest
KPMG_USA	KPMG
LCH_GBR	LCH.Clearnet
Leaseurope_EUR	Leaseurope
Linklaters_GBR	Linklaters
Lloyds_GBR	Lloyd's of London
LloydsBanking_GBR	Lloyds Banking Group
LMA_INT	Loan Market Association
LSE_GBR	London Stock Exchange Group
Lufthansa_DEU	Lufthansa
Markit_GBR	Markit
Marsh_GBR	Marsh
MEDEF_FRA	Mouvement des Entreprises de France
Mediobanca_ITA	Mediobanca - Banca di Credito Finanziario
MetLife_USA	MetLife
MFA_USA	Managed Funds Association
Mitsubishi Cred_USA	Mitsubishi Motors Credit of America
Mitsubishi_JPN	Mitsubishi UFJ Financial Group
MN_NLD	MN
Moodys_USA	Moody's Investors Services
MorgStan_USA	Morgan Stanley
MSCI_USA	MSCI
MuniFin_FIN	Municipality Finance
NAPF_GBR	National Association of Pension Funds
Nasdaq_USA	Nasdaq OMX
Nationwide_GBR	Nationwide Building Society
Natixis AM_FRA	Natixis Asset Management
Natixis_FRA	Natixis
NEFI_EUR	Network of European Financial Institutions for SMEs
NFU_EUR	Nordic Financial Unions
Nissan Fin_USA	Nissan Motor Acceptance Corporation
Nomura_JPN	Nomura
Nordea_SWE	Nordea
NordLB_LUX	NordLB Covered Finance Bank
NVB_NLD	Nederlandse Vereniging van Banken
NWB_NLD	Nederlandse Waterschapsbank
OTPP_USA	Ontario Teachers Pension Plan

Table B.1: List of organisations with assigned identifiers *(continued)*

Organisation ID	Organisation name
PCS_GBR	Prime Collateralised Securities
PensionsEur_EUR	Pensions Europe
PF_NLD	Pensioen Federatie
PGGM_NLD	PGGM
Prudential_GBR	Prudential plc
PwC_GBR	PricewaterhouseCoopers
Rabo Ag_USA	Rabo AgriFinance
Rabobank_NLD	Rabobank
Raiffeisen_AUT	Österreichischer Raiffeisenverband; Raiffeisen Bank International; Raiffeisen Bankengruppe Österreich; Raiffeisen Zentralbank Österreich
RBC_CAN	Royal Bank of Canada
RBS_GBR	Royal Bank of Scotland
RCI_FRA	RCI Banque
Realkredfor_DNK	Realkreditforeningen
Realkreditradet_DNK	Realkreditrådet
Risk Control_GBR	Risk Control
Rolls Royce_GBR	Rolls Royce
RWG_INT	Rail Working Group
S&P_USA	Standard & Poor's
Santander_ESP	Santander
Santander_USA	Santander Consumer USA
SBG_ZAF	Standard Bank Group
Schroders_GBR	Schroders
SFIL_FRA	Société de Financement Local
Shell_NLD	Shell
Siemens_DEU	Siemens
SIFMA_USA	Securities Industry and Financial Markets Association
SIFMA-AMG_USA	SIFMA Asset Management Group
SingapExch_SGP	Singapore Exchange
SocGen_FRA	Société Générale
SOMO_NLD	Stichting Onderzoek Multinationale Ondernemingen
Sparda Banken_DEU	Verband der Sparda-Banken
SparVerband_AUT	Österreichischer Sparkassenverband
StanChar_GBR	Standard Chartered
Standard Life_GBR	Standard Life Investments
State Street_USA	State Street
SvBankfor_SWE	Svenska Bankföreningen
Svenska Handelsbanken_SWE	Svenska Handelsbanken
Swedbank_SWE	Swedbank
SWIFT_BEL	SWIFT
TCH_USA	The Clearing House
Telefonica_ESP	Telefónica
Thomson Reuters_USA	Thomson Reuters
Toyota MCC_JAP	Toyota Financial Services; Toyota Motor Credit Corporation
TSI_DEU	True Sale International
TW_GBR	Towers Watson
UBS_CHE	UBS
UEAPME_EUR	European Association of Craft, Small and Medium Enterprises
UK Finance_GBR	UK Finance
UniCredit_ITA	UniCredit
VAD_DEU	Verband der Auslandsbanken in Deutschland
VdA_DEU	Verband der Automobilindustrie
vdp_DEU	Verband Deutscher Pfandbriefbanken
VEO_AUT	Verband der Elekritzitätsunternehmen Österreichs
VOB_DEU	Bundesverband Öffentlicher Banken Deutschlands

Table B.1: List of organisations with assigned identifiers *(continued)*

Organisation ID	Organisation name
Volkswagen_DEU	Volkswagen Bank; Volkswagen Credit
Volvo FSRA_SWE	Volvo Financial Services Region the Americas
WCCU_INT	World Council of Credit Unions
WFE_INT	World Federation of Exchanges
WKO_AUT	WKÖ
WKO-BV_AUT	WKÖ-Bank-Versicherung
Yorkshire BS_GBR	Yorkshire Building Society
ZBP_POL	Związek Banków Polskich
ZIA_DEU	Zentraler Immobilien Ausschuss
Organisations not in the EU Transparency Register	
1PLUSi_DEU	1 PLUS i
AA_DEU	Arbeitskreis der Banken und Leasinggesellschaften der Automobilwirtschaft
ABA_ASIA	Asian Bankers Association
ABA_AUS	Australian Bankers' Association
ABA_USA	American Bankers Association
ABC_USA	American Benefits Council
Absa_ZAF	Absa Bank
ACI_DEU	ACI Germany
ACLI_USA	American Council of Life Insurers
Admati_USA	Admati, Anat
AfFR_USA	Americans for Financial Reform
AFL_FRA	Agence France Locale
Ahluwalia_XXX	Ahluwalia, Karan
AIFIRM_ITA	Associazione Italiana Financial Industry Risk Managers
AII_USA	Association of Institutional Investors
Akros_ITA	Banca Akros
Alexander_USA	Alexander, Don
Algorithmics_CAN	Algorithmics
Alkhair_BHR	Bank Alkhair
Allen_AUS	Allen, David L.
AllenOvery_ITA	Allen & Overy
Ally_USA	Ally Financial
Ano1_XXX	Anonymous1
Ano2_XXX	Anonymous2
Ano3_XXX	Anonymous3
Ano4_XXX	Anonymous4
ANZ_AUS	Australia and New Zealand Banking Group
APEC-BAC_INT	APEC Business Advisory Council
APREA_ASIA	Asia Pacific Real Estate Association
ARB_RUS	Association of Russian Banks
Arino_XXX	Arino, Alex
Artzner_FRA	Artzner, Philippe, Freddy Delbaen & Karl-Theodor Eisele
Arvest_USA	Arvest Bank
ASB_GBR	Accounting Standards Board
ASBA_INT	Association of Supervisors of Banks of the Americas
ASCB_CHE	Association of Swiss Cantonal Banks
ASCBI_SWE	Association of Swedish Covered Bond Issuers
ASF_PRT	Portuguese Insurance and Pension Funds Supervisory Authority
ASFor_AUS	Australian Securitisation Forum
ASFor_USA	American Securitization Forum
ASSET_ESP	ASSET
ASX_AUS	ASX Clearing Corporation
AWG_INT	Aviation Working Group

Table B.1: List of organisations with assigned identifiers *(continued)*

Organisation ID	**Organisation name**
Bancaja_ESP	Bancaja
Banco Coop_ESP	Banco Cooperativo
Bangkok Bank_THA	Bangkok Bank
BankTrack_NLD	BankTrack
Barel_XXX	Barrell, Ray
Barnard_DEU	Barnard, Chris
Barron_USA	Barron Edward J.
Barucci and Del Viva_ITA	Barucci, Emilio & Luca Del Viva
BASA_ZAF	Banking Association of South Africa
Basel Club_THA	The Basel Club
Bayesic_GBR	Bayesic Asset Management
BB&T_USA	BB&T Corporation
BBS_GBR	Britannia Building Society
BC_IRL	Banc Ceannais na hÉireann
BCP_PER	Banco Credito del Perú
BdE_ESP	Banco de España
BdF_FRA	Banque de France
BdI_ITA	Banca d'Italia
BdP_PRT	Banco de Portugal
BdR_COL	Banco de la República
Bednarski_POL	Bednarski, Piotr
Benoit et al_FRA	Benoit, Sylvain, Christophe Hurlin & Christophe Pérignon
Berne Union_CHE	Berne Union
Better Markets_USA	Better Markets
BGF_GBR	Business Growth Fund
Bishop et al_USA	Bishop, David, Ethan Z. Liu, Patrick Murray & Tea Solomonia
Bishop_USA	Bishop, Graham
BMO_CAN	BMO Financial Group
BNB_BGR	Bulgarian National Bank
BNG_NLD	Bank Nederlandse Gemeenten; BNG
BNR_ROU	Banca Națională a României
BoA_ZAF	Bank of Athens
BoChina_CHN	Bank of China
BoCom_CHN	Bank of Communications
BoE_GBR	Bank of England
BOK_USA	BOK Financial
Bollenbacher_XXX	Bollenbacher, George
BoS_SVN	Bank of Slovenia
BoSing_SGP	Bank of Singapore
BoT_THA	Bank of Thailand
Brigo and Nordio_GBR	Brigo, Damiano and Claudio Nordio
Brit Insurance_GBR	Brit Insurance
BritColumbia_CAN	Province of British Columbia
BSC_RUS	Business System Consult
BSI_DEU	Bundesvereinigung Spitzenverbände der Immobilienwirtschaft
BSTDB_INT	Black Sea Trade & Development Bank
BTPS_GBR	BT Pension Scheme
BuBa_DEU	Deutsche Bundesbank
Buosky_XXX	Buosky, Daniel
CamWin_USA	Cambridge Winter
Canadian Western_CAN	Canadian Western Bank
CapGroup_GBR	The Capital Group
Capital One_USA	Capital One
Capteo_FRA	Capteo Strategy & Management Consulting
Cardano_GBR	Cardano Risk Management

Table B.1: List of organisations with assigned identifiers *(continued)*

Organisation ID	**Organisation name**
CarMax_USA	CarMax Business Services
CBA_CAN	Canadian Bankers Association
CBA_CHN	China Banking Association
CBC_CYP	Central Bank of Cyprus
CBKuw_KWT	Commercial Bank of Kuwait
CBoB_BHR	Central Bank of Bahrain
CBoE_EGY	Central Bank of Egypt
CCB_CHN	China Construction Bank
CCI_IND	Clearing Corporation of India
CCIM Institute_USA	CCIM Institute
CCP12_INT	CCP12
CDCC_CAN	Canadian Derivatives Clearing Corporation
CdI_ESP	Caja de Ingenieros
CEBS_EUR	Committee of European Banking Supervisors
Central bank_TUR	Central Bank of the Republic of Turkey
CEWG_USA	Commercial Energy Working Group
CFHLB_USA	Council of Federal Home Loan Banks
CFLA_CAN	Canadian Finance and Leasing Association
Chamber of Commerce_CZE	Czech Chamber of Commerce
Chappuis_GBR	Chappuis Halder & Co
Chen_CHN	Chen, Zhongyang
China Everbright_CHN	China Everbright Bank
CIEBA_USA	Committee on Investment of Employee Benefit Assets
CIMB_THA	CIMB Thai
Clifford Chance_USA	Clifford Chance
Close Brothers_GBR	Close Brothers Group
CLS_USA	CLS Bank International
CMB_CHN	China Merchants Bank
CMHC_CAN	Canada Mortgage and Housing Corporation
CMSA_USA	Credit Mortage Securities Association
CNB_CZE	Česká Národní Banka
COBA_AUS	Customer Owned Banking Association
Com-Valencia_ESP	Comunidad valenciana
Commonwealth Bank_AUS	Commonwealth Bank
CPR_PRT	Companhia Portuguesa de Rating
CRC_USA	Christofferson Robb & Company
CredFonc_FRA	Crédit Foncier
Credit Benchmark_GBR	Credit Benchmark
CreditSights_GBR	CreditSights
CredLibanais_LBN	Crédit Libanais
CredMut_FRA	Crédit Mutuel
CRFC_USA	Commercial Real Estate Finance Council
CRISL_BGD	CRISL
CSBS_USA	Conference of State Bank Supervisors
CVA Services_DEU	CVA Services GmbH
Daegu_KOR	Daegu Bank
Daiwa_JPN	Daiwa Securities Group
DAktion_DNK	Dansk Aktionaerforening
DBS Bank_SGP	DBS Bank
Delfiner_ARG	Delfiner, Miguel
Desjardins_CAN	Desjardins Group
Desrochers et al_CAN	Desrochers, Jean, Lise Godbout & Jacques Préfontaine
DFV_DEU	Deutscher Factoring Verband
Discover_USA	Discover Financial
DNB_DNK	Danmarks Nationalbank

Table B.1: List of organisations with assigned identifiers *(continued)*

Organisation ID	**Organisation name**
DNB_NLD	De Nederlandsche Bank
Doi_XXX	Doi, Yuji
Dornbirner_AUT	Dornbirner Sparkasse Bank AG
DSF_DNK	Danish Ship Finance
Duggal_IND	Duggal, Arun
Duttweiler_CHE	Duttweiler, Rudolf
Ebert_XXX	Ebert, Sebastian &Eva Lütkebohmert
EBRD_EUR	European Bank for Reconstruction and Development
ECB_EUR	European Central Bank
ECC_DEU	European Comodity Clearing
Ecology BS_GBR	Ecology Building Society
ECTG_DEU	Energy Commodity Traders Group
EEPK_LUX	Erste Europäische Pfandbrief- und Kommunalkreditbank in Luxemburg
EFRP_EUR	European Federation for Retirement Provision
EIB_EUR	European Investment Bank
EIF_EUR	European Investment Funds
EIOPA_EUR	European Insurance and Occupational Pensions Authority
Eken_NLD	Eken, Ziya
ELFA_USA	Equipment Leasing and Finance Association
Elliott_USA	Elliott, Douglas J.
Endurian_GBR	Endurian
EP_EST	Eesti Pank
Eskan_BHR	Eskan Bank
ESMA_EUR	European Securities and Markets Authority
ESRB_EUR	European Systemic Risk Board
Eurex_DEU	Eurex Clearing
Euribor ACI_EUR	Euribor ACI
EuroHypo_LUX	EUROHYPO Europäische Hypothekenbank S.A
EuroInvestors_EUR	EuroInvestors
Everest Re_BMU	Everest Re Group
FBB_BRA	Federação Brasileira de Bancos
FELABAM_LATAM	Federación Latinoamericana de Bancos
FIBA_USA	Florida International Bankers Association
Fifth Third_USA	Fifth Third Bank
FIG UK_GBR	Financial InterGroup UK
FIN-USE_EUR	Financial Services Users (FIN-USE)
Finansradet_DNK	Finansrådet
Finaxium_FRA	Finaxium Consulting
Fischer_USA	Fischer, Dov
FitProper_USA	Fit & Proper
FLA_GBR	Finance and Leasing Association
Flaherty_USA	Flaherty and Crumrine
FOA_GBR	FOA
Fortis_BEL	Fortis
Frenkel_DEU	Frenkel, Michael & Markus Rudolf
Frezal_XXX	Frezal, J.C.
FSA_ARE	Dubai Financial Services Authority
FSA_AUT	FMA Österreich
FSA_BEL	Commission Bancaire, Financière et des Assurances
FSA_CHN	China Banking Regulatory Commission
FSA_DEU	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)
FSA_DNK	Danmarks Finanstilsynet
FSA_EST	Finantsinspektioon
FSA_FIN	Finanssivalvonta Finansinspektionen

Table B.1: List of organisations with assigned identifiers *(continued)*

Organisation ID	Organisation name
FSA_FRA	Autorité de Contrôle Prudentiel; Autorité de Contrôle Prudentiel et de Résolution; Commission Bancaire
FSA_GBR	Financial Services Authority
FSA_HUN	Hungarian Financial Services Authority
FSA_IMN	Isle of Man Financial Supervision Commission
FSA_IRL	Irish Financial Services Regulatory Authority
FSA_JEY	Jersey Financial Services Commission
FSA_LBN	Banking Control Commission of Lebanon
FSA_MLT	Malta Financial Services Authority
FSA_NOR	Norges Finanstilsynet
FSA_POL	Komisja Nadzoru Finansowego
FSA_PRT	Comissão do Mercado de Valores Mobilários
FSA_SWE	Finansinspektionen
FSA_TUR	Bankacılık Düzenleme ve Denetleme Kurumu
FSB_ZAF	Financial Services Board
FSR_USA	Financial Services Roundtable
Galavielle_FRA	Galavielle, Christine
GBV_AUT	Österreichischer Verband gemeinnütziger Bauvereinigungen
GCIBFI_BHR	General Council for Islamic Banks and Financial Institutions
GIAJ_JAP	General Insurance Association of Japan
Gollakota_GBR	Gollakota, Prasad
Gordian Knot_USA	Gordian Knot
Greenpoint_USA	Greenpoint Global
Guan et al_USA	Guan, Sue, Xuan Gui & Beixiao Liu
Hassani_FRA	Hassani, Bertrand
HBA_GRE	Hellenic Bank Association
HCSF_FRA	Haut Conseil de Stabilité Financière
Heidorn et al_DEU	Heidorn, Thomas & Christian Schmaltz
Heikkinen_FIN	Heikkinen, Jukkal
Hellwig_DEU	Hellwig, Martin
Henrard_GBR	Henrard, Marc
Hermesh_XXX	Hermesh, Carmela
Hironari_JPN	Hironari, Nozaki
Hiroyuki_JPN	Hiroyuki, Ota
HKAB_HKG	Hong Kong Association of Banks
Hu_XXX	Hu, Quin
HypoPfand_LUX	Hypo Pfandbrief Bank International
Iason_IRL	Iason
IBA_IND	Indian Banks' Association
IBF_IRL	Irish Banking Federation
IBK_KOR	Industrial Bank of Korea
ICBA_USA	Independent Community Bankers of America
ICBC_CHN	Industrial and Commercial Bank of China
ICO_ESP	Instituto de Crédito Oficial
ICSA_INT	International Council of Securities Associations
IFA_GBR	Institute and Faculty of Actuaries
IIAC_CAN	Investment Industry Association of Canada
IIB_USA	Institute of International Bankers
IMA_GBR	Investment Management Association
IMF_INT	International Monetary Fund
Industrial Bank_CHN	Industrial Bank
IOR_GBR	The Institute of Operational Risk
IREM_USA	Institute of Real Estate Management
Ironshore_USA	Ironshore
iRuiz_GBR	iRuiz Consulting

Table B.1: List of organisations with assigned identifiers *(continued)*

Organisation ID	**Organisation name**
ISIWG_IRL	Irish Securitisation Industry Working Group
JBA_JPN	Japanese Bankers Association
JCCI_JPN	Japan Chamber of Commerce and Industry
Jend_USA	Jend, Somanshu
Jeonbuk_KOR	Jeonbuk Bank
JFMC_JPN	Japan Financial Markets Council
JPB_JPN	Japan Post Bank
JRI_JPN	Japan Research Institute
JSCC_JAP	Japan Securities Clearing Corporation
JSDA_JPN	Japan Securities Dealers Association
JSE_ZAF	Johannesburg Stock Exchange
KarntnerSpar_AUT	Kärntner Sparkasse AG
Karson_USA	Karson Collateral
Kas Bank_NLD	Kas Bank
KEB_KOR	Korea Exchange Bank
KeyCorp_USA	KeyCorp
KFB_KOR	Korea Federation of Banks
KFHB_BHR	Kuwait Finance House Bahrain
Klein_CHE	Klein, Fritz T.
Koetter and Tonzer_DEU	Koetter, Michael & Lena Tonzer
Kommunalbanken_NOR	Kommunalbanken Norway
Kondor et al_DEU	Kondor, Imre, F. Caccioli, G. Papp & M. Marsili
Kondor_DEU	Kondor, Imre
Kookmin_KOR	Kookmin Bank
Kou and Peng_USA	Kou, Steven & Xianhua Peng
Kremser_AUT	Kremser Bank und Sparkassen Aktiengesellschaft
Krentschker_AUT	Bankhaus Krentschker & Co Aktiengesellschaft
KromReu_DNK	Kromann Reumert
Kurowski_USA	Kurowski, Per
Lamy_FRA	Lamy, Mary-Florence
LBMA_GBR	London Bullion Market Association
Le Pan_XXX	Le Pan, Nick
Leabeater_XXX	Leabeater, Larry
Li_CHN	Li, Zhen
LIAJ_JAP	Life Insurance Association of Japan
LIBA_GBR	London Investment Banking Association
LSTA_USA	Loan Syndications and Trading Association
Lubberink_DEU	Lubberink, Martien
Macquarie_AUS	Macquarie Bank
Marfin_CYP	Marfin Popular Bank
Markel Corp_USA	President Markel Corporation
MARQ_AUS	MARQ Services
Matz et al_USA	Matz, Leonard, Robert E. Fiedler & Peter Neu
MBA_USA	Mortgage Bankers Association
MBB_MYS	Malayan Banking Berhad
Mehta_XXX	Mehta, Arpit
Mercedes-Benz Fin_USA	Mercedes-Benz Financial Services USA
MERS_USA	Municipal Employees' Retirement System of Michigan
MICA_USA	Mortgage Insurance Companies of America
Mitsui_JAP	Mitsui & Co Comodity Risk Management
Mittnik_DEU	Mittnik, Stefan
MNB_HUN	Magyar Nemzeti Bank
Mondrian_GBR	Mondrian
NAB_AUS	National Australia Bank
NACF_KOR	National Agricultural Cooperative Federation

Table B.1: List of organisations with assigned identifiers *(continued)*

Organisation ID	**Organisation name**
NAR_USA	National Association of Realtors
NAREIT_USA	National Association of Real Estate Investment Trusts
NASB_JPN	National Association of Shinkin Banks
Navistar_USA	Navistar Financial Corporation
NBG_GRE	National Bank of Greece
NBP_POL	Narodowy Bank Polski
NBS_SVK	National Bank of Slovakia
NCCMP_USA	National Coordinating Committee for Multiemployer Plans
NCGA_USA	National Corn Growers Association
NedBank_ZAF	NedBank
Nedelchev_BGR	Nedelchev, Miroslav
NEII_JPN	Nippon Export and Investment Insurance
Newedge_USA	Newedge
NGSA_USA	National Gas Supply Association
NIESR_GBR	National Institute of Economic and Social Research
NMHC_USA	National Multifamily Housing Council
NochuBank_JPN	Norinchukin Bank
Norges Bank_NOR	Norges Bank
Northern Trust_USA	Northern Trust
NRU-HSE_RUS	National Research University - Higher School of Economics
OCBC_CHN	Oversea-Chinese Banking Corporation
OG_AUT	Österreichischer Genossenschaftsverband
Ogweno_XXX	Ogweno, Lamex
Ojo_DEU	Ojo, Mariane
ONB_AUT	Österreichische Nationalbank
ONuallain_IRL	O'Nuallain, Ruairi
Oregon_USA	State of Oregon
Oric_GBR	Oric International
ORXA_CHE	Operational Riskdata eXchange Association
OSE_JAP	Osaka Securities Exchange
OSIS_NLD	Open Source Investor Services
OSSIAM_FRA	OSSIAM
Ostendorf_XXX	Ostendorf, Milko
P-Solve_GBR	P-Solve
Pagano_USA	Pagano, Joseph
ParkFitz_GBR	Parker Fitzgerald
PCBB_USA	Pacific Coast Bankers' Bancshares
PCBH_POL	Polish Chamber of Brokerage Houses
Pennachi et al_INT	Pennachi, George, Theo Vermaelen & Christian Wolff
Peterding_XXX	Peterding
Peters_GBR	Peters, Gareth W., Pavel V. Shevchenko, Bertrand Hassani & Ariane Chappelle
PFS_DEU	Porsche Financial Services
PIAC_CAN	Pension Investment Association of Canada
Pirotte_BEL	Pirotte, Hugues
PlainsCapital_USA	PlainsCapital Corporation
Platson_JPN	Platson Analytic
PNC_USA	PNC Financial Services
Porteous_GBR	Porteous, Bruce
PPF_GBR	Pension Protection Fund
Prefontaine_CAN	Préfontaine, Jacques
PRMIA_RUS	Professional Risk-Managers' International Association - Russian Chapter
Prometeia_ITA	Prometeia
QBA_AUS	QBE

Table B.1: List of organisations with assigned identifiers *(continued)*

Organisation ID	**Organisation name**
R&G_USA	Ropes & Gray
Radley_GBR	Radley & Associates
Ramchurun_IND	Ramchurun, Rajnish
Raphaels_GBR	Raphaels Bank
RBNZ_NZL	Reserve Bank of New Zealand
RegionsFin_USA	Regions Financial
RERT_USA	The Real Estate Roundtable
Reshko_XXX	Reshko
RII_JPN	Rating and Investment Information
Riksbanken_SWE	Riksbanken
Riksgalden_SWE	Riksgalden (Swedish National Debt Office)
Risk App_GBR	Risk Appetite
Risk Reward_GBR	Risk Reward
Riskcare_GBR	Riskcare
RiskMetrics_GBR	RiskMetrics Group
Rivast_GBR	Rivast
RMA_USA	Risk Management Association
Rossignolo_XXX	Rossignolo, Adrian
Roulet_FRA	Roulet, Caroline
Roy_IND	Roy, Shyamal
RPAC_CAN	Real Property Association of Canada
Russel_USA	Russel Investments
Sandler O'Neill_USA	Sandler O'Neill
Sauer_DEU	Sauer
Saving Co-op_HUN	Bank of Hungarian Saving Co-operatives Ltd; Hungarian Saving Co-operatives' Central Bodies
SBA_CHE	Swiss Bankers Association
SBA_SAU	Saudi Banking Association
SBI_IND	State Bank of India
SBoP_PAK	State Bank of Pakistan
Sciteb_GBR	Sciteb
Scotiabank_CAN	Scotiabank
Sella_ITA	Banca Sella
SFA_USA	Structured Finance Association; Structured Finance Industry Group
SFB_JPN	Shinkumi Federation Bank
SFCC_DEU	Signet Financial Communication and Consulting
SFEMC_SGP	Singapore Foreign Exchange Market Committee
SFJ_JPN	Securitization Forum of Japan
Shinhan Bank_KOR	Shinhan Bank
SIX_CHE	SIX Securities Services
Skafte_DNK	Skafte
Skipton BS_GBR	Skipton Building
Sp-Baden_AUT	Sparkasse Baden
Sp-Bregenz_AUT	Sparkasse Bregenz Bank AG
Sp-Feldkirch_AUT	Sparkasse der Stadt Feldkirch
Sp-Feldkirchen_AUT	Sparkasse FeldkirchenKärnten
Sp-Hartberg-Vorau_AUT	Sparkasse Hartberg-Vorau Aktiengesellschaft
Sp-Imst_AUT	Sparkasse Imst AG
Sp-Kirchschlag_AUT	Sparkasse Kirchschlag AG
Sp-Kitzbuhel_AUT	Sparkasse der Stadt Kitzbühel
Sp-Korneuburg_AUT	Sparkasse der Stadt Korneuburg
Sp-Kremstal-Pyhrn_AUT	Sparkasse Kremstal-Pyhrn AG
Sp-Lambach_AUT	Sparkasse Lambach Bank-Aktiengesellschaft
Sp-Mittersill_AUT	Sparkasse Mittersill Bank AG
Sp-Neuhofen_AUT	Sparkasse Neuhofen Bank AG

Table B.1: List of organisations with assigned identifiers *(continued)*

Organisation ID	Organisation name
Sp-Neukirchen_AUT	Sparkasse Neunkirchen
Sp-Oberosterreich_AUT	Sparkasse Oberösterreich
Sp-Pollau_AUT	Sparkasse Pöllau AG
Sp-Pottenstein_AUT	Sparkasse Pottenstein N.Ö.
Sp-Poysdorf_AUT	Sparkasse Poysdorf AG
Sp-Rattenberg_AUT	Sparkasse Rattenberg Bank AG
Sp-Reid-Haag_AUT	Sparkasse Ried-Haag
Sp-Scheibbs_AUT	Sparkasse Scheibbs AG
Sp-Schwaz_AUT	Sparkasse Schwaz AG
Sp-Steiermarkische_AUT	Steiermärkische Bank und Sparkassen AG
Sp-Waldviertler_AUT	Waldviertler Sparkasse von 1842 AG
Sp-Weinviertler_AUT	Weinviertler Sparkasse AG
Sp-Wiener_AUT	Wiener Neustädter Sparkasse
Sparkassen_AUT	Bank und Sparkassen AG
Spectrum_USA	Spectrum
Sungard_USA	Sungard
SunTrust_USA	SunTrust
Suomen Pankki_FIN	Suomen Pankki
Svensk Exportkredit_SWE	Svensk Exportkredit
Sveriges Riksbank_SWE	Sveriges Riksbank
Swiss Life_CHE	Swiss Life
TBA_THA	Thai Bankers' Association
TBB_TUR	Türkiye Bankalar Birliği
TCAC_CAN	Trust Companies Association of Canada
TCXIM_NLD	TCX Investment Management
TF_USA	TF Market Advisors
TheCoopBank_GBR	The Co-operative Bank
Thomas Murray DS_GBR	Thomas Murray Data Services
Tighe_XXX	Tighe, Paul
Toronto Dominion_CAN	Toronto Dominion
Treasury_AUT	Bundesministerium Finanzen
Treasury_BEL	SPF Finances
Treasury_CZE	Ministerstvo financí České republiky
Treasury_DEU	Bundesfinanzministerium
Treasury_DNK	Erhvervsministeriet
Treasury_ESP	Ministerio de Economía y Hacienda
Treasury_EST	Rahandusministeerium
Treasury_FIN	Valtiovarainministeriö
Treasury_FRA	Ministère des Finances
Treasury_GBR	HM Treasury
Treasury_HUN	Pénzügyminiszter
Treasury_IRL	Department of Finance
Treasury_ITA	Ministero dell' Economia e delle Finanze
Treasury_LUX	Ministère des Finances
Treasury_LVA	Finanšu Ministrija
Treasury_MLT	Ministry for Finance
Treasury_NLD	Ministerie van Financiën
Treasury_NOR	Finansdepartementet
Treasury_POL	Minister Finansów
Treasury_PRT	Ministério das Finanças
Treasury_SVK	Ministerstvo Financií Slovenskej Republiky
Treasury_SVN	Ministrstvo za Finance
Treasury_SWE	Regeringskansliet
TVA_USA	The Value Alliance
TWN Banks_TWN	Taiwanese Banks

Table B.1: List of organisations with assigned identifiers *(continued)*

Organisation ID	Organisation name
UBI_IND	Union Bank of India
Union Bank_USA	Union Bank
Union Inv._DEU	Union Investment
UOB_SGP	United Overseas Bank
USBancorp_USA	USBancorp
USCC_USA	U.S. Chamber of Commerce
USCDEU_USA	U.S. Coalition for Derivatives End-Users
USMI_USA	U.S. Mortgage Insurers
VDT_DEU	Verband Deutscher Treasurer
Veron	Véron, Nicolas
ViewPoint_USA	ViewPoint Bank
VTB_GBR	VTB Capital
Wells Fargo_USA	Wells Fargo
Wenger_DEU	Wenger, Thomas
Werner_GBR	Werner, Richard A.
Wersocki_XXX	Wersocki
Western Asset_USA	Western Asset
Westpac_AUS	Westpac Group
WGC_INT	World Gold Council
Wild_AUS	Wild, William
WMBA_GBR	Wholesale Markets Brokers' Association
WOF_USA	World Omni Financial
Woori_KOR	Woori Bank
World Bank_INT	World Bank Group
WSBI_INT	World Savings and Retail Banking Group; World Savings Banks Institute
WTCP_GBR	World Trade Capital Partners
WTW_USA	Willis Towers Watson
XL Catlin_GBR	XL Catlin
York MS_GBR	The York Management School
Zhi_SGP	Zhi, Sun

B.2 Coding of demographic information

Actor type Values for the "actor type" variables attached to the data set are defined as follows. The "associations" category includes "public interest organisations"—that is, private membership associations and non-governmental organisations (NGOs) whose stated purpose is to defend the interest of the general public—, "special interest organisations"—as sub-category including sectoral and peak trade associations and professional associations—and trade unions.[1]. The "institutions" category includes governments, central banks and financial supervisors (including the European Central Bank, Committee of European Bank Supervisors (CEBS) and European supervisory authorities (ESAs)), as well as "public sector financial institutions", that is all government agencies or fully-owned financial institutions whose purpose is either development finance or the management of the state's financial assets (this includes the European Investment Bank, the French *Caisse des dépôts*, the Swedish public

[1]The "associations" category also include an odd case, that is the Association of Bank Supervisors of the Americas, which then has its own sub-category as "supervisors".

debt management agency, etc.). The "institutions" category also includes international organisations (e.g., the International Monetary Fund), academic institutions and an "other" sub-category which gathers the British Accounting Standards Board and the EU's FIN-USE expert group. The "individual" category includes responses submitted by individual academic researchers in their own name ("academics" sub-category) and individual persons responding independently of any organisational affiliation ("private citizens" sub-category. The "firms" category does not have any sub-category.

Economic sector The coding scheme for attaching information about the economic sector of the respondent to the corpus uses a modified version of the Global Industry Classification Standard (GICS). The GICS constitutes a four-tiered hierarchical classification system of business activities whereby 158 "sub-industries" are gathered into 69 "industries", themselves constituting 24 "industry groups" in 11 "sectors". I modified it in order to make the classification scheme applicable to non-business respondents, inter alia public authorities and other institutions, NGOs and individuals, as well as peak business associations that do not fit any of the GICS categories. Concretely, I added three "sectors" to the regular GICS. The "Other business" sector includes only one "Cross-sectoral business representation" industry group and industry (levels 2 and 3) that contain all the peak, cross-sectoral business associations, and is divided at the sub-industry level into "Financial & non-financial business", "Non-financial business" and "Non-financial SMEs". The "Public sector" level 1 label is divided into a "Governments" industry group and industry, with eight sub-industries—"Central banks", "Financial supervisors", "Finance ministries", "National development banks", "Sub-national governments", "Other government agencies", "Advisory expert groups" and "Public financial guarantee schemes"—and an "International organisations" industry group and industry, which only include one "Multilateral development banks and international financial institutions" sub-industry. Finally, an "Other non-business" sector is subdivided into "Academia" ("Scientific research" at sub-industry level), "NGOs" (sub-divided at sub-industry level into "Public interest advocacy" and "Trade unions"), and "Private citizens".

Appendix C

Supplementary material: Interest group preferences

This appendix presents material used in the quantitative text analysis of interest groups' responses to BCBS and EC public consultations on bank capital requirements developed in Chapter 5.

Table C.1 first presents the dictionary of seed words used for topic classification.

Table C.2 then presents the dictionary of keywords used for the sentiment analysis.

Finally, Table C.3 details the coding scheme applied for manually coding the polarity of documents associated with a sample of interest group-policy issue pairs for assessing the validity of the dictionary-based sentiment analysis.

Table C.1: Regular expressions used as seed words for topic classification

Policy issue (ID)	**Seed regular expressions**
IS01	^limit_system$, definition_of_capital$, ^14_criteria$, ^minority_interests$, ^the_tier_1_capital_base$, ^quality_of_tier_1$, ^elements_of_capital$, ^included_in_regulatory_capital, ^gone-concern_capital$, (?<!own_)common_shares, ^stock_surplus(es)?$, ^share_premi\w{1,3}$, ^other_comprehensive_income$, ^in_the_predominant_form_of_tier_1, ^non-cumulative_prefer, ^non-cumulative_perpetual$, ^expectation_at_issuance$, ^most_subordinated_claim$, ^principal_is_perpetual$, ^paid_out_of_distributable_items$, ^paid_in_at_issuance$, ^no_preferential_distributions?$, ^paid_in_amount$, ^directly_issued_and_paid-up$, ^hybrid_capital_instruments$, incentive_to_redeem$, ^step-up_clauses?$, ^non-core_tier_1$, ^15_%_of_tier_1$, ^tier_3$, ^buy-backs?$, ^callable_at_the_initiative_of_the_issuer$, ^exercise_a_call$, ^exercise_a_call_option$, ^full_discretion_at_all_times$, ^dividends?_coupons?$, ^cancellation_of_coupons?, cancellation_of_payments?$, cancellation_or_deferral$, ^principal_loss_absor$, ^loss_absor(ption\|bency)_mechanisms?$, ^pre-specified_trigger, ^write-(down|off)_(feature|mechanism), ^write-(down|off)_or_conversion, ^(temporary|permanent|principal)_write, ^contingent_capital, ^modigliani
IS02	^prudential_filters$, ^goodwill, deferred_tax_assets?$, own_shares$, ^corresponding_deduction_approach$, unrealised_gains_and_losses, ^cash_flow_hedge_reserve$, ^shortfall_of_the_stock_of_provisions, ^defined_benefit_pension_fund, ^remaining_50_50_deductions?$, ^regulatory_adjustments$, ^mortgage_servicing_rights$, ^intangible_assets$, ^dtas?$, ^unused_tax_loss, ^unused_tax_credits$, ^current_tax_assets$, ^treasury_stock$, ^own_common_shares$, ^own_stock$, ^own_tlac, ^investments_in_the_capital_of_other$, ^investments_in_the_capital_of_certain_banking$, ^investments_in_the_capital_of_banking$, ^reciprocal_cross-holdings?, ^cross-holdings?_of, ^cross-holdings?_deduction, approach_to_cross-holdings?$, ^corresponding_basis$, holdings_of_common_stock$, ^non-significant_investments_in_the_capital_of$, ^underwriting_positions_held_for$, ^the_amount_above_10_%$, tlac_holdings?, ^tier_2_deduction_approach$, ^count\w+_as_tlac$, ^pari_passu_with_tlac, ^pari_passu_with_excluded_liabilities$, ^tlac_requirements?$, ^recognised_as_tlac$, ^changes_in_the_fair_value_of_liabilities$, ^changes_in_the_bank's_own_credit_risk$, ^paragraph_75$, ^net_dva$, deduction_of_dvas?$, ^bank's_own_creditworthiness$, ^its_own_creditworthiness$, ^deduction_at_trade_inception$, ^projected_cash_flows$, ^significant_investments_in_commercial_entities$, ^dva$

Table C.1: Regular expressions used as seed words for topic classification *(continued)*

Policy issue (ID)	**Seed regular expressions**
IS03	^limits_and_minima$, output_floors?$, capital_floor, ^predominant_form_of_tier_1$, system_of_limits, ^explicit_minima$, ^basel_1_floors?$, ^based_on_standardised_approaches$, ^rwa-based_floors?$, ^risk_category-based_floors?$, ^floors?_based_on_exposure_class$, rwa_inconsistency, additional_floors, risk_category_floors?, granular_floors
IS04	^capital_conservation_buffers?$, capital_conservation$, distribution_constraints?$, conservation_range$, ^conservation_standards$, ^discretionary_bonus_payments$, ^distributable_profits$, ^distributable_items$, ^the_buffer_range$, ^staff_bonus_payments$, ^earnings_retained$, ^rebuild(ing)?_their_capital_buffers$, ^depleted_their_capital_buffers$, ^distributions?_to_shareholders$, ^minimum_capital_conservation$, ^pay_out_dividends$, ^distributions?_of_capital$, restrictions?_on_distributions, ^distributable_amounts$, ^distributable_reserves$, ^distributing_dividends$, ^distributions_out_of_the_consolidated_group$, ^countercyclical_buffer, ^countercyclical_capital_buffer, ^excess(ive)?_credit_growth$, ^excess_aggregate_credit_growth$, ^build[-_]up_of_system-wide_risk$, ^credit_cycles$, ^system-wide_risk$, ^increase_in_system-?wide_risk$, ^macroprudential_tools, ^buffer_decisions^, ^national_countercyclical_buffers?$, ^weighted_average_of_the_buffers?$, ^weighted_average_of_the_add-ons$, ^weighted_average_buffers?$, ^geographic_composition_of$, ^geographic_location_of_the(ir)?$, ^macroeconomic_variables?$, ^credit_ha[sd]_grown_to_excessive_levels$, ^credit-to-gdp, ^its_long_term_trend$, ^(capital_)?buffer_add-ons?$, ^releas(e\|ing)_the_buffer$, ^release_of_the_buffer$, ^release_phase$, ^through[-_]the[-_]cycle_expected_loss, ^through[-_]the[-_]cycle_provision, ^ttc_provisioning$, ^ttc_expected_loss, ^dynamic_provision

Table C.1: Regular expressions used as seed words for topic classification *(continued)*

Policy issue (ID)	**Seed regular expressions**
IS05	^indicator-based_measurement_approach$, ^indicat(ors\|ive)_of_systemic_importance$, ^assess\w+_systemic_importance$, ^substitutability_indicators?$, ^trading_volume_indicators?$, ^interconnectedness_and_substitutability, ^wholesale_funding_ratio$, ^75_largest_global_banks$, ^threshold_scores$, ^systemic_importance_assessment$, ^categories_of_systemic_importance$, ^determin\w+_systemic_importance, ^measur\w+_systemic_importance, ^identifying_the_systemic_importance$, ^gauging_the_systemic_importance$, ^[dg]-sib_assessment, ^g-sib_indicators?, ^systemic_importance_scores?$, ^cross-jurisdictional_(activity\|indicators\|claims\|liabilities)$, ^substitutability, ^interconnectedness_and_(substitutability|complexity)$, ^indicator_scores?$, ^intra-financial_system_(assets|liabilities)$, ^securities_outstanding_indicator$, ^trading_and_available-for-sale$, stwf, ^cut-off_scores?$, ^ancillary_indicators?$, ^higher_loss_absorbency_requirements?$, ^hla_requirements?$, ^hla$, additional_loss_absorbency_requirements?$, ^empty_bucket$, ^d-sibs?_framework$, ^dealing_with_d-sibs$, ^calibrated_for_d-sibs$, ^d-sib_hla, ^d-sib'?s?_failures?$, ^failure_of_a_d-sib$, ^d-sib_buckets?$, ^risks?_posed_by\w+-sibs?$, ^extension_of_the_capital_conservation_buffer$, ^o-siis?_buffer, high[-_]trigger_contingent_capital, ^(pros|cons)_of_going[-_]concern_contingent_capital, ^magnitude_of_additional_loss_absorbency

Table C.1: Regular expressions used as seed words for topic classification *(continued)*

Policy issue (ID)	**Seed regular expressions**
IS06	^net_npa, ^risk_weights?_for_short-term_interbank, ^revenue_and_leverage, ^sme_supporting_factor$, ^introducing_the_specialised_lending_category$, ^adc_lending$, ^subordinated_debt_equity_and_other_capital_instruments$, ^regulatory_retail, loan_splitting$, ltv_ratios?$, ^dsc, ^lti$, ^currency_mismatch_add-on$, ^loans?_denominated_in_foreign_currenc, ^risk_weights?_for_sovereign, ^definition_of_sovereign, ^autonomy_criteria$, ^support_criteria$, ^two_risk_drivers$, ^risk_weight_tables?_for$, ^due_diligence_process$, ^due_diligence_analysis$, ^scra$, ^standardised_credit_risk_assessment, ^ecra$, ^external_credit_risk_assessment_approach$, ^net_non-performing_assets?$, ^treatment_(of|for)_short-term_interbank, ^incorporat(e|ing)_country_risk$, ^senior_corporate_exposures$, ^senior_corporate_debt_exposures$, ^proposed_risk_drivers$, ^leverage_driver$, ^additional_risk_drivers$, ^start-up_companies$, ^coverage_of_external_ratings$, ^unrated_corporate_exposures$, ^definition_of_investment_grade$, ^unrated_project_finance$, ^land_acquisition_development_and_construction$, ^risk_weight_for_subordinated_debt$, ^for_publicly_traded_equity, ^orientation_criterion, ^granularity_criterion, ^0.2_%_numerical_limit$, ^other_retail_exposures?$, ^loan-to-value_ratios?$, ^ltv_bucket, ^debt_service_coverage, ^loan-to-income$, ^risk_weight_treatment_for_exposures_secured_on_commercial, ^a_risk_weight_add-on$, ^50_%_risk_weight_add-on$, currency_of_the_borrower$, ^borrower's_income$, ^positive_risk_weights?$, ^denominated_and_funded_in, ^autonomous_sub-national_government$, ^other_sovereign_entities$, ^domestic_currency_sovereign_exposures?$, ^risk_equivalence_criteria$, ^fiscal_variables$, ^standardised_approach_treatment_for_sovereign_exposures$, ^capital_requirements_for_sovereign_exposures$, ^creditworthiness_of_sovereign_exposures?$, ^concept_of_ucc$, ^definition_of_uccs?$, ^cancellable_at_any_time_without_conditions?$
IS07	^code_of_conduct_fundamentals, ^recognition_of_ecais?$, ^eligibility_criteria_for_ecais?$, ^recognising_such_ecais?$, ^recognition_process$, ^the_use_of_ecais$, ^ecai_recognition$, ^on_a_non-selective_basis$, ^compensation_arrangements$, ^meaning_of_(each|the)_rating$, ^provided_free_of_charge$, solicited_ratings$, reliance_on_external_credit_rating, mapping_process, assigning_eligible_ecai's_ratings?, ^avoid_getting_exposures_rated$, ^paragraph_733$, ^recognition_of_external_ratings, ^recognising_ecais$, the_ecai_is_being, ^(an|the)_ecai_should$, ^ecais_should$, ^rating_process$, rating_methodology$, ^credit_rating_actions?$, ^used_by_the_ecai, ^ecais?_chosen_by_a_bank, ^(foreign\|domestic)_currency_ratings?$, ^short-term_rating*$, ^map\w+_into_a_risk_weight, ecai_eligibility_criteria

Table C.1: Regular expressions used as seed words for topic classification *(continued)*

Policy issue (ID)	**Seed regular expressions**
IS08	^revised_comprehensive_approach$, ^own_estimates?_of_haircuts$, ^eligible_guarantors$, ^core_market_participants?$, ^the_comprehensive_approach$, ^the_supervisory_haircuts_table$, ^to_define_eligible_financial_collateral$, ^requirement_for_eligible_financial_collateral$, ^universe_of_eligible_financial_collateral$, ^eligible_credit_protection_providers$, ^restructuring_credit_events?$, ^restructuring_as_a_credit_event$, ^external_ratings_in_the_crm_framework$, cost_of_credit_protection, cost_of_protection, credit_risk_mitigation_technique?, credit_risk_mitigation_framework, unfunded_risk_participation, purchased_credit_protection, ^effective_credit_risk_mitigation, ^meaningful_transfer_of_risk$, high[-_]cost(_credit)?_protection, purchase_of_credit_protection, commensurate_transfer_of_risk, first_loss_credit_enhancements?, ^the_simple_approach$, ^the_simple_and_comprehensive_approach(es)?$, eligible_financial_collateral$, universe_of_eligible_collateral$, current_crm_framework, recognition_of_crm, protection_buyer, protection_seller, crm_techniques?, credit_protection_costs?, ^buy\w{0,3}_credit_protection, ^risk_free_discount_rates, ^non-contingent_premiums$, ^multi-dimensional_haircut_matrix, ^haircut-based_comprehensive_approach, ^haircut-based_look-up_table, ^abusive_activity, ^present_value_of_the_premium, ^150_%_risk_weight_threshold, ^150_%_threshold, arbitrage_trades, abusive_transactions, arbitrage_transactions, 150_%_risk_weight, 150_%_risk_weight_criterion, rwa_relief, recognition_of_protection_costs, materiality_threshold, premium_payments, premiums_payables, premiums_present_value, incremental_exposure, pv_of_the_premi, present_value_of_the_premi, npv_methods_for_securitisation, cost_of_premium, credit_protection_is_bought

Table C.1: Regular expressions used as seed words for topic classification *(continued)*

Policy issue (ID)	**Seed regular expressions**
IS09	^revision_of_the_irb, ^remov(e|ing)_the_(a-)?irb, ^low-default_portfolios?$, irb_parameters$, ^parameter_floor, ^(reliable_)?estimat\w+_pd, ^(reliable_)?estimat\w+_lgds?$, ^model\w{0,3}_pds?$, ^model\w{0,4}_lgds?$, ^ccf_estimates$, ^ccf_modelling$, pd_estimat(e\|ion)s?, lgd_estimat(e\|ion)s?, ^(un)?secured_lgd, ^double_default_approach$, ^foundation_approach$, ^qualifying_revolving_retail, ^qrre, ^cohort_approach$, ^fixed_horizon_approach$, ^variable_horizon_approach$, ^treatment_of_purchased_receivables$, ^eligible_purchased_receivables$, ^remov(e|ing)_irb, ^limit_the_use_of_a-irb$, use_of_([af]-)?irb, use_of_the_(a-)?irb, ^advanced_irb_approach, ^foundation_irb_approach, ^revision_of_the_irb_approach, ^a-irb_approach(es)?$, ^f-irb_approach(es)?$, ^a-irb, ^f-irb, ^floors_to_pd$, ^pd_floors?$, lgd_floors?$, ^ead_floors?$, ^granularity_of_pds?$, ^downturn_lgd, ^long-run_average_lgd$, ^downturn_add-ons$, ^lgdu, ^ead_model(s|ling)$, ^fixed_maturity_(at\|of)_2\.5_years$, ^fixed_maturity_parameter$, ^input_floors$, ^low-default_exposures?$, ^supervisory_slotting, ^slotting_approach$, ^drawn_amount_at_default$, ^momentum_approach$, ^top-down_approach_for_purchased_receivables$, ^retail_receivables$, ^corporate_receivables$, ^purchased_retail_receivables$, ^eligible_receivables$
IS10	^ecl_accounting, ^regulatory_expected_loss, ^binding_definition_of_general_and_specific$, ^distinction_between_gp_and_sp$, ^cecl$, ^regulatory_treatment_of_accounting_provisions, ^tfp$, ^task_force_on_expected_loss_provisioning$, ^treatment_of_accounting_provisions$, ^ul$, ^rel$, ^treatment_of_excess_provisions$, ^regulatory_treatment_of_provisions$, ^gp_and_sp$, ^general_(and\|or)_excess_provisions$, ^current_expected_credit_loss, ^capital_add-back$, ^d385$, ^d386$, ^standardised_regulatory_el, ^regulatory_el, ^ecl_provisioning, ^ecls$, ^ecl_models?, ^standardised_el, el_rates?, accounting_ecl

Table C.1: Regular expressions used as seed words for topic classification *(continued)*

Policy issue (ID)	**Seed regular expressions**
IS11	^modified_supervisory_formula, ^msfa$, ^simplified_supervisory_formula, ^ssfa$, ^rrba$, ^rba$, ^backstop_concentration_ratio, ^bcra$, ^irba$, ^sec-irba$, ^external_ratings-based_approach$, ^erba$, ^internal_assessment_approach$, ^(at|de)tachment_points?$, ^tranche_maturity, ^kssfa$, ^parameter_p$, ^resecuritisations?$, risk_retention, ^simple_transparent_and_comparable, stc_criteria$, ^criterion_[a-d]\d{1,2}$, ^simple_transparent_and_standardised$, ^securitisations_of_non-performing_loans$, ^npl_securitisation, ^securitisations?_of_npls$, ^non-refundable_purchase_price$, ^tranched_structures?$, ^stratified$, tranched, ^junior_securitisation_tranches$, senior_tranches$, abcp_programme, abcp_conduit, originating_bank, ^irb_pools?$, ^mixed_pools?$, ^sa_pools?$, ^true_sale$, ^overlapping_exposures$, ^redemption_cash_flows?$, ^mezzanine_tranches?$, ^tranched_credit_protection$, ^weighted-average_life$, ^wal$, ^standardised_approach_for_securitisations?$, ^sec-sa$, ^delinquent_underlying, ^iaa$, ^ka$, ^concentration_ratio, ^ksa$, ^unrated_securitisation_exposure, ^tau_and_omega$, ^kirb$, ^crkirb$, ^calculate_kirb$, ^attach_detach_w_kirb$, ^non-kirb, ^portfolio-level_estimates_of_pd$, ^rmbs_write-down_mechanisms?$, ^stcs?$, ^stc_, ^non-stc, ^short-term_stc, ^sts$, ^sts_, ^additional_criteria_for_capital_purposes$, ^granularity_of_the_pool$, ^asset_performance_history$, ^asset_selection_and_transfer$, ^initial_and_ongoing_data$, ^non-performing_loan_securitisations?$, ^nrppd$, incentives_in_the_originate-to-distribute, net_economic_interest, loan_syndication, retain\w+_10_%, securitisation_issuances?$, risk_transfer_process, risk_transfer_products, securitisation_market$, ^securitisation_provided$, risk_transfer_mechanism, skin_in_the_game, originating_institutions, complex_securitisations, align_the_interests_of_the_investors, retention_requirement, ^risk_retention, the_10_%_requirement
IS12	^non-internal_models?_method$, ^nimm$, ^nimm_(approach|framework)$, ^supervisory_delta_adjustments$, ^net_independent_collateral_amount$, ^nica$, ^1\.4_alpha, ^margined_netting_sets?$, ^unmargined_netting_sets?$, ^pfe_add-ons?$, ^hedging_sets?$, ^adjusted_notional, ^supervisory_deltas$, ^actual_deltas$, ^time_risk_horizons?$, ^replacement_cost_for_(un)?margined$, ^formulation_of_replacement_cost$, ^rc_formula$, ^imm_shortcut_method$, ^alpha_scalar$, ^alpha_multiplier$, ^moneyness_multiplier$, ^optional_reinvestment_of_cash_collateral$, ^threshold_mta, ^mta_nica$, ^th_mta, ^th_and_mta, ^th_and_minimum_transfer_amount

Table C.1: Regular expressions used as seed words for topic classification *(continued)*

Policy issue (ID)	**Seed regular expressions**
IS13	^internal_models?_method$, ^imm$, ^imm-ccr$, ^(own-)?estimates_of_alpha$, ^epe_models?$, model_epe, ^imm_banks?$, ^imm_model, ^imm_framework$, ^model(ling)?_alpha$, ^stressed_effective_epe$, ^effective_epe_with_stressed, ^leptokurtosis$, ^collateral_management_unit$, ^ccr_management$, ^stress-testing_programme$, ^reverse_stress_test(s\|ing)$, ^alpha_times_effective_epe$, multiplier_of_1.25, avcs?_(for\|between)_financial_firms, shortcut_method, estimat\w+_effective_epe, basel_2's_annex_4, margin_call_disputes, ^(extend\|increase)_the_margin_period_of_risk$, increased_margin_period_of_risk, highly_leveraged_counterparties, counterparties_that_are_highly_leveraged, counterparty_credit_risk_model
IS14	exposures_to_ccps, default_fund, ^dfpref$, ^kccp$, trade_exposures_to_a_ccp, ^ccp_exposures$, ^hypothetical_capital$, ^hypothetical_ccp_capital$, df_contributions?$, ^dfcs?$, ^dfcm$, ^dfcover, ^cover_*$, ^dfccp$, ^reference_level_of_default_fund, ^rldf$, ^ebrmi?$, ^increase_the_use_of_ccps$, ^prefunded_default_resources, ^prefunded_resources$, ^prefunded_financial_resources, ^prefunded_contributions?, ^prefunded_and_unfunded, treatment_of_trade_exposures, ^risk_weight_to_trade_exposures, ^(non-)?qualifying_ccp, qccp, ^non-member_banks?$, clearing_member, ^cm('s)?$, ^cm_default, ^cm_risk_weight$, ^cm-to-ccp$, ^cm's_default, ^ccp_member, ^kcmi$, ^cpss-iosco, ^anet$, ^agross$
IS15	^counterparty_credit_risk_in_the_trading_book$, ^ccr_in_the_trading_book$
IS16	^haircuts_on_non-centrally-cleared, ^fsb_2014$, ^collateral_upgrades?$, ^in-scope_sfts$, haircuts_above_the_floors?$, ^cash_collateral_reinvestments?$, ^reinvestments?_of_cash_collateral, ^reinvestment_fund_or_account_subject_to$, ^haircuts_for_securities_financing_transactions, ^treat_sfts_as_unsecured_loans, ^treated_as_unsecured_loans$, ^unsecured_loan(_capital)?_treatment$, ^in-scope_transactions?, ^in-scope_counterparties, ^non-bank-to-non-bank_transactions, ^primary_motive_is_to_borrow_securities, ^sft_haircuts$, ^haircut_minimums, ^representations_by_securities_lenders$, ^security-for-security_transactions, ^table_of_minimum_haircuts$, haircut_floor, ^out-of-scope_transactions?, ^using_significant_leverage$, ^sft_regulation, ^minimum_haircut, ^incentivise_banks_to_adopt_the_floors$, ^actual_haircut, ^sfts_that_fail$, ^numerical_haircut, ^below-standard_haircuts$

Table C.1: Regular expressions used as seed words for topic classification *(continued)*

Policy issue (ID)	**Seed regular expressions**
IS17	^equity_investments_in_funds$, ^mandate-based_approach$, ^mba$, ^lta_and_mba$, ^fba$, ^leverage_adjustments?$, ^dlta$, ^fund's_investments?$, ^banks_exposures_to_funds$, ^fund's_underlying, ^fund's_mandate$, ^investments_in_funds$, ^one_notch_higher, ^direct_look_through_approach, exposures_to_funds, ^information_on_leverage, ^incorporat\w+_leverage, ^investments_in_funds, ^fund_leverage, ^existing_funds$, ^mandate_of_the(_second)?_fund$, ^all_types_of_funds$, exposures_to_other_funds$, invest\w+_in_private_equity, ^underlying_funds$
IS18	^risks?_associated_with_unsettled, ^unsettled_transactions_and_failed_trades$, ^delayed_settlements?$, ^transactions_that_have_failed$, ^starting_the_first_day, ^unsettled_exposure_amounts?$, ^unsettled_transactions?$, ^failed_trade
IS19	^boundary_between_the_banking_book, ^trading_book_banking_book_boundary$, ^trading_evidence-based, ^valuation-based_(boundary\|approach)$, ^revised_boundary, ^internal_risk_transfers?$, ^irts?$, ^alternative_boundary, ^current_boundary, ^intent_to_trade$, ^trading_intent-based, ^h[oe]ld_for_trading_purposes$, ^switching_instruments$, ^definition_of_the_trading_book$, ^intent(ion)?_to_trade$, ^trading_intent$, presumpti(on|ve)_list$, ^stale_positions$, ^initial_designation$, ^re-designate, ^permeability$, ^irt-eligible$, ^rules_on_irts?$, ^proposals_on_irts?, ^irt_process, definition_of_the_leverage_ratio
IS20	^definition_of_trading_desks?$, ^group_of_traders$, ^head_traders?, ^trading_desk_structures?$, ^trading_desk_requirements$, ^each_trader$, ^inventory_ageing_reports?$, ^multiple_desks$, ^more_than_one_trading_desk$, ^attributes_of_a_trading_desk$, ^a_trading_desk_must$, ^unambiguously_defined_group_of_traders_or_trading_accounts$, ^well_defined_business_strategy$, ^notional_trading_desks$, ^notional_desks$, ^trading_desk_definitions?$, ^a_trading_desk_for_the_purposes_of$, ^individual_trader_or_trading_account$, ^assigned_to_only_one_trading_desk$, ^the_desk_must$, ^clear_risk_management_structure$, ^definition_of_the_trading_desk$, desk_definitions$, ^key_element_#\d$

Table C.1: Regular expressions used as seed words for topic classification *(continued)*

Policy issue (ID)	**Seed regular expressions**
IS21	^standard_liquidity_horizons$, sensitivities-based, ^sensitivity-based, sbm, ^cash_flow-based$, ^partial_risk_factor(_approach)?$, ^prfa$, ^full(er)?_risk_factor(_approach)?$, ^frfa$, ^scenario_matrix$, ^extended_aggregation_approach$, ^risk_factor_sensitivities$, ^wts$, ^decomposition_approach$, ^residual_risk_add-on$, ^rrao$, ^simpler_trading_books$, standardised_approach_for_market_risk$, ^frtb_standardised_approach$, ^discount\w*_cash_flows?$, ^delta-equivalent, ^non-delta_risk, ^definition_of_sensitivities$, ^girr_framework$, ^opposite[-_]sign$, captur\w+_basis_risk$, ^pv01s$, ^sticky_delta$, ^net_sensitivit(y\|ies)$, ^risk-free_yield_curve$, ^basis_curves?$, ^term_structure, ^curvature_risk_capital, ^curvature_risk_charges?$, ^cvrk$, ^index_bucket$, ^frtb_sa$, ^residual_bucket$, ^residual_risk_bucket$, ^diversification_and_hedging_effects?$, ^diversification_and_hedging_benefits?$, jtd, ^sa-drc$, ^decomposed_single_name, ^rrao_charge$, ^exotic_underlying, ^simplified_alternative_to_the_standardised_approach, ^small_trading_books$, ^limited_trading_book_activit(y\|ies)$, ^trading_book_size$
IS22	^use_the_ima$, ^reduced_risk_factor, ^reduced_set_of_risk_factors$, es_model(s|ing)?$, es_calculations?$, ^es_estimates?$, ^historical_or_simulated, ^desk-level_approach$, ^granular_model_approval, ^risk_factor_eligibility_test$, ^rfet$, ^non-modellable_risk_factors?$, ^nmrf, ^model-independent_assessment$, p_&_l_attribution, ^pla$, ^pla_and_backtesting$, ^pla_test, ^profit_and_loss_attribution$, ^comprehensive_risk_measure$, ^imcc, ^partial_expected_shortfall, ^ima_surcharge$, ^cu$, ^default_risk_models?$, ^incremental_default_risk, ^internal_models_approach$, ^frtb_ima$, ^trading_desk's_risk_management_models?$, ^indirect_approach$, ^ess$, ^esfc$, ^esrs$, ^esrc$, expected_shortfall_measure$, ^current_expected_shortfall, ^expected_shortfall_model, ^calculating_es$, ^one-day_shocks$, ^stressed_es, ^long[-_]horizon$, ^liquidity[-_]adjusted$, ^desk_models?$, ^desk-level_models$, ^unapproved_desks?$, model_eligibility, modellable_risk_factors?$, ^real_price_observations?$, ^rpos?$, ^model-independent_approval_process$, theoretical_p_&_l$, ^rtpl$, ^hypothetical_p_&_l$, ^hpl$, ^input_data_alignments?$, ^align_input_data$, ^spearman, ^kolmogorov-smirnov$, ^ks_test$, ^chi-squared, ^standard_deviation_of_the_actual_p_&_l$, ^traffic_light_approach$, ^amber_zone$, ^prescribed_correlation, ^scaled_es, ^partial_es, expected_shortfall_charges?$, ^varfc$, ^mc$, default_simulation_model$, ^idr(_charge)?$, ^idr_models?$

Table C.1: Regular expressions used as seed words for topic classification *(continued)*

Policy issue (ID)	**Seed regular expressions**
IS23	^cva_risks?$, ^ba-cva$, ^sa-cva$, ^ima-cva$, ^frtb-cva$, ^regulatory_cvas?, ^accounting_cva, ^cva_hedg, cva_calculations?, ^basic_cva$, cva_sensitivit, credit_valuation_adjustment, variability_in_cva$, ^cva_variability$, ^calculat\w+_cva, capital_charge_for_cva, cva_model, cva_exposures?, ^cva_book$, cva_loss, ^captur\w{1,3}_cva$, ^bond-equivalent, ^cva_portfolios?$, ^kspread$, ^kee$, ^mcva, ^cva_positions?$, ^backtesting_multiplier$, ^accounting-based_cva$, ^frtb-cva_framework$
IS24	^operational_risk_capital, ^operational_risk_exposures$, ^operational_risk_data, ^standardised_measurement_approach$, ^advanced_measurement_approach$, ^opcar, ^business_indicator, ^interest_component$, ^services_component$, ^financial_component$, ^bic$, ^internal_loss_multiplier$, ^internal_loss_data, ^ilm$, loss_component$, operational_risk, ^sma$, ^sma_calculation, ^sma_loss_data, ^sma_methodology, ^basic_indicator_approach$, ^bia$, ^tsa$, ^alternative_standardised_approach$, ^asa$, ^ama$, ^ama_banks$, ^ama_model, ^orc$, ^gross_income$, ^gi$, ^bi$, ^bi_buckets$, ^bi_calculation$, ^bi_component$, ^bi_figures$, ^ildc$, ^other_operating_(income\|expenses)$, ^fee_and_commission_(income|expenses)$, ^business_indicator_component$, net_interest_margins?$, ^high_nim$, ^nim_cap$, ^normalisation_ratio$, ^lc$, ^lc_data_set$, ^operational_loss_events?$, ^use_of_loss_data$, ^loss_data, ^operational_loss_data

Table C.1: Regular expressions used as seed words for topic classification *(continued)*

Policy issue (ID)	**Seed regular expressions**
IS25	leverage_ratio_working_group, ^leverage_ratio_purposes$, calibration_of_the_leverage_ratio, denominator_of_the_leverage_ratio$, leverage_ratio_exposure_measure, leverage_ratio_exposure, leverage_exposure, ^exposure_measure_denominator, ^cash_claims_on_central_banks, ^flood_the_banking_system_with_deposits, ^exclude_other(_types_of)?_level_1_hqlas?, ^exclude_cash_and_other_level_1_hqlas?, ^exclu\w{2,4}_from_the_exposure_measure, ^includ\w{1,3}_in_the_exposure_measure, ^adjust_the_exposure_measure, ^the_(proposed_)?100_percent_ccf, ^uniform_100_percent_ccf, ^flat_100_%_ccf, ^(basel_3_)?leverage_ratio_calculation, ^calculat\w{1,3}_the_leverage_ratio, ^discount_the_exposures_of_hqlas?, ^leverage_charge, ^exceptions_to_the_leverage_ratio, ^exclusions_for_cash_and_other_(very_)?low_risk_assets?, ^slr('s)?$, leverage_ratio_requirement, leverage_ratio_framework$, leverage_ratio_proposals?$, binding_leverage_ratio, ^proposed_leverage_ratio, ^fixed_leverage_ratio, ^introduc\w{1,3}_a_leverage_ratio, ^minimum_leverage_ratio, ^regulatory_leverage_ratio, ^general_leverage_ratio, ^non-risk-based_leverage_ratio, ^non-risk-based_lr, ^non-risk-based_measure$, ^non-risk_related_leverage_ratio, ^risk-insensitive_leverage_ratio, ^leverage_ratio_constraint$, ^definition_of_leverage_ratio, ^source_of_leverage$, ^regular-way_purchases?$, ^trade_date_accounting, ^settlement_date_accounting$, ^cash_pooling_structures?$, ^cash_pooling_transactions?$, ^physical_cash_pooling, ^notional_cash_pooling, ^virtual_cash_pooling, ^no_netting_approach$, ^basel_2_netting, ^off-balance_sheet_leverage$, ^pfe_add-on_for_derivatives$, ^rc_and_pfe$, ^effective_notional_amount$, ^written_credit_derivative, ^through_the_lcr$, ^work_on_the_lcr$, ^by_the_committee_in_the_lcr$, ^the_lcr_requires_banks_to$, ^defease_the_lcr, ^lr_g-sib, ^lr_buffer, ^lr_calculation, ^lr_capital, ^lr_denominator, ^lr_exposure, ^lr_framework, leverage_ratio_buffer, ^g-sib_leverage_ratio_buffer$, leverage_ratio_definition

Table C.1: Regular expressions used as seed words for topic classification *(continued)*

Policy issue (ID)	**Seed regular expressions**
IS26	liquidity_coverage, ^lcr('s)?$, ^intraday_liquidity_risk, ^liquidity_monitoring$, ^30-day_stress, liquidity_stress_scenario, active_and_sizable_markets, ^central[-_]bank_eligib, ^stock_of_hqlas$, ^total_net_cash_outflows$, ^run[-_]off_(assumption|rate|parameter|factor)s?$, deposit_run-off, ^drawdown_(assumption\|factor)s?$, ^operational_deposits$, ^liquidity_transfers?$, ^transferability_of_liquidity$, ^surplus_liquidity$, ^contingency_funding_plans?$, ^severe_stress_scenarios?$, ^short-term_stress_scenario$, ^prescribed_stress_scenario$, ^proposed_stress_scenario$, ^acute_stress_scenarios?$, ^three-notch, (as|into)_high_quality_liquid_assets, (stock|definition|characteristics|list)_of_high_quality_liquid_assets, ^pool_of_liquid_assets$, ^eligible_at_central_banks$, ^qualifying_liquid_assets$, ^liquidity-generating_capacity$, ^ease_and_certainty_of_valuation$, ^committed_market_makers$, ^liquidity_draw, ^cash_inflows$, ^expected_cash_(in\|out)flows$, ^contractual_(in|out)flows$, ^expected_inflows$, ^cap_on_inflows$, ^inflow_percentages$, ^(10)?0_%_inflow$
IS27	stable_funding, ^[ar]sf$, [ar]sf_factors?$, ^nsfr$, ^nsfr_assumption$, ^nsfr_calibration$, ^nsfr_calculation$, ^nsf$, ^cash_capital$, ^stability_of_liabilities$, ^non-maturity_deposits$, ^non-maturity_retail_deposits$, ^potential_liquidity_exposure$, ^ois_discounting$, ^final_rules_on_the_lcr$, ^(captured|modelled|assumed|mandated)_by_the_lcr
IS28	large_exposure(?!_to_ccps), connected_(counterpart|client), concentration_risk, ^unknown_client$, ^marginal_risk[-_]weight_add-on, ^unknown_exposures?$, ^connected_sovereign_counterparties$, ^sovereign_exposures_concentration, ^sovereign_risk_concentration$, ^concentration_charges$, ^diversification_of_sovereign, ^le_limit, ^le_purposes$, ^le_regime$, ^le_framework$, ^proposed_substitution_approach$, ^available_risk-based_capital_methods$

Table C.1: Regular expressions used as seed words for topic classification *(continued)*

Policy issue (ID)	**Seed regular expressions**
IS29	margin_requirements_for_non[-_]centrally[-_]cleared_derivatives$, initial_margin_requirement, initial_margin_schedules, ^universal_two-way_margin, ^standardised_margin_schedules?$, initial_margin_models?$, initial_margin_calculations?$, initial_margin_thresholds?$, ^bcbs_and_iosco$, ^basel_committee_and_iosco$, ^physically_settled_fx_transactions$, margin_regimes?$, ^standardised_initial_margin_amounts$, ^standardised_schedule, ^calculat\w+_(variation|initial)_margin, ^comput\w+_(variation|initial)_margin, ^baseline_(variation|initial)_margin, ^level_of_minimum_transfer_amount$, ^de_minimis_minimum_transfer_amount$, ^framework_for_variation_margin, ^additional_initial_margin, ^additional_margin_requirements$, ^collect_additional_margin$, ^cliff-edge_triggers$, ^requirement_that_initial_margin_be_exchanged, ^use_of_initial_margin, ^initial_margin_levels?, ^treatment_of_provided_margin, ^margin_as_a_loss_mitigants?, ^re-hypothecation, ^re-hypothecated_or_re-used, ^segregatation_of_cash_collateral, ^require_the_exchange_of_initial_margin, ^clearing_and_margin_requirements$, ^uncleared_swap_margin_requirements$, ^uncleared_margin_requirements$, ^higher_margin_requirements$, ^im_collection$, ^exchange_of_im$, ^bilateral_im$, ^options_caps_floors$, obligation_to_post_collateral

Table C.2: Words and expressions identified as pro- and anti-stringent

Polarity	**Keywords**
Anti-stringent (medium)	ability of banks to, ability to lend, ability to support, ability_to_provide, ability_to_provide_clearing_services, ability_to_provide_financing, ability_to_provide_liquidity, access to bank credit, access to bank loans, access to capital, access to credit, access to debt, access to finance, access to loans, actual market_behaviour, actually_increase_systemic_risk, actually_reduce_systemic_risk, add_cost, add-on should not apply to, additional effort, additional efforts, additional_capital_costs, additional_capital_costs, additional_concerns, additional_cost, additional_cost, additional_costs, additional_costs, administrative_costs, adverse_consequences, adverse_effect, adverse_effects, adverse_impact, adverse_impacts, adversely affecting, adversely_affect, adversely_affect_banks, adversely_affected, adversely_impact, affect_banks, affected, affordability, affordable, allow the extension of, allow_banks, allow_firms, allow_market_participants, allow_netting, allows_banks, amount of resources, an exception should be made, appropriate to accept, at a disadvantage, at a significant disadvantage, attract_investors, attractive, attractiveness, availability of banking_products, availability of collateral, availability of credit, availability of loans, availability_of_finance, available_credit, avoid competitive_disadvantages, avoid competitive_distortion, avoid competitive_distortions, avoid distortions of competition, avoid overlappings, avoid overlaps, avoid uncertainty, avoiding overlaps, avoids overlaps, barrier to entry, barriers to entry, better_recognition, borrowing_costs, bottleneck, bottlenecks, bring uncertainty, broad_enough, broader_definition, broader_definition_of_high_quality_liquid_assets, broader_economic_impacts, broader_economy, broader_financial_system, broader_global_economy, broader_industry, business growth, business_model neutral, capacity of the banks, capital impact, capital impacts, capital neutral, capital_allocation, capital_consumption, capital_cost, capital_costs, capital_efficiency, capital_neutrality, capital_planning, carefully_assess, carefully_calibrated, carefully_designed, challenging, clearing_costs, cliff_effect, cliff_effects, collateral_requirements should not apply to, competitive_disadvantage, competitive_disadvantages, competitive_equality, competitive_imbalances, competitive_inequalities, competitive_inequality, competitive_inequities, competitive_neutrality, competitively_neutral, competitiveness, compound, compounded, compounding, compounding_effect, compounds, computational, computational_requirements, computationally, computationally_intensive, conserve the present exemptions, constrain, constrain_diversification_benefits, constraining_diversification_benefits, constrict, constricting, constriction, consumer_choice, continuous change of rules, continuously_improve, correctly_reflect, cost and availability, cost inflation, cost of borrowing, cost of doing, cost_of_credit, cost_of_credit_available, costlier, costly, costs and availability, costs for hedging, costs of clearing, costs to end_users, could be problematic for, could impact liquidity, could limit demand, countercyclical_buffer should not apply to, counterintuitive, counterintuitively, counterproductive, cover the same risk, create noise, create_disincentives, create_jobs, create_perverse_incentives, create_problems, creates uncertainty,

Table C.2: Words and expressions identified as pro- and anti-stringent *(continued)*

Polarity	**Keywords**
Anti-stringent (medium)	credit_availability, credit_available, credit_capacity, credit_constraints, credit_contraction, credit_cost, credit_costs, credit_decision, credit_decisions, crisis_reinforcing, critical_function, cross-jurisdictional_indicator should not include, cumbersome, cumulative_effect, cumulative_effects, cumulative_impact, cumulative_impacts, current_economic_environment, damage access to, damage_market_confidence, damageable, damaging_consequences, de_facto binding, de_facto higher, de_facto new, decrease in lending, deeply_concerned, deleterious, deleterious_impacts, delicate_balance, demonstrably_prudent, destabilising_actions, deter_banks, detrimental to economic_growth, detrimental to the financing, detrimental_consequences, detrimental_effect, detrimental_effects, detrimental_impact, detrimental_impacts, detrimentally, did not trigger, difficult for banks, difficult to comply with, difficult to meet, difficult_to_implement, disadvantaged, disadvantageous, disadvantageous, disadvantaging, disagree to the exclusion of, disconnect, discourage, discourage_banks, discouraged, discouragement, discourages, discouraging, discouraging advanced_approaches, discouraging banks from providing, discouraging banks from providing_liquidity, discouraging long_term, discouraging the investment, disincent, disincentive for banks to clear, disincentive for banks to continue, disincentive for banks to disversify, disincentive for banks to effectively manage, disincentive for banks to hedge, disincentive for banks to hold, disincentive for banks to invest, disincentive for banks to model, disincentive for banks to offer, disincentive for banks to require, disincentive for banks to securitise, disincentive on clearing, disincentive to clear, disincentive to use and improve, disincentive to use central_clearing, disincentives for banks to act as, disincentives for banks to clear, disincentives for banks to clear_derivatives, disincentives for banks to engage, disincentives for banks to enter, disincentives for banks to facilitate, disincentives for banks to fund, disincentives for central_clearing, disincentives for firms to offer, disincentives for participants, disincentives for prudent_risk_management, disincentives for the institutions to advance, disincentives to clear, disincentivise the use of, disincentivises, disincentivise clearing, disincentivise clearing_members, dislocate, disrupt, disrupting, disruptive, disruptive_effects, disruptive_impact, distort product pricing, distort product pricing, distort_competition, distort_incentives, diversified_funding_base, diversifies, diversifying, divert, diverted, does not differentiate, does not recognise any benefit, does not reflect, does not seem justified, does not seem necessary, double backing, drag, dramatic_change, economic_consequences, economic_cost, economic_disincentive, economic_implications, economic_justification, economic_recovery, economically_beneficial, economically_beneficial_financial_products, economically_beneficial_products, economically_efficient, economically_feasible, economically_incorrect, economically_unviable, economically_viable, effects on banks, eligible_assets is too narrow, eliminate overlaps, equal_treatment, essential form of financing, eu_level_playing_field, exaggerate, exaggerated, exaggerates, excellent_track_record, exception can be extended, exception should be extended, exceptions_to_the_leverage_ratio, excessive capitalisation, excessive national_discretion, exclude_captive_finance_companies, exclude_from_the_exposure_measure, excluded_from_the_exposure_measure, exclusion_from_the_exposure_measure, exposure_measure should not apply to, extensive_regulation, extensive_regulatory_oversight, extra_cost, extra_costs, extremely liquid, extremely resilient, extremely stable,

Table C.2: Words and expressions identified as pro- and anti-stringent *(continued)*

Polarity	**Keywords**
Anti-stringent (medium)	extremely stable_funding, extremely_low_probability_of_default, extremely_low_risk, extremely_low_risk_assets, extremely_low_risk_profile, fails to recognise, fair treatment, fair_competition, feasible, financing of corporate, financing of corporates, financing of global_trade, financing of home_ownership, financing of international_trade, financing of real_estate, financing of small and medium-sized enterprises, financing of sme, financing of sme_loans, financing of smes, financing of the economy, financing of the european_economy, financing of the real_economy, financing_capacity, financing_conditions, financing_conditions, financing_cost, financing_costs, financing_customers, fixed_cost, flawed_calibration, force non_financial_counterparties, force non_financial_end_users, force to reduce, force_banks to reduce, forced to implement, forced to reduce, forced_deleveraging, forced_liquidation, forcing non_financial_counterparties, forcing non_financial_end_users, free_flow, full implications, full_impact, funding_cost, funding_costs, funding_diversity, further concentration, further differentiation, generate substantial_costs, global_growth, global_trade, global_trade_flows, granular_enough, hamper, hampered, hampering, hampers, handicap, handicapped, hard to meet, harmful_effects, harming, harms, has to be preserved, hasty, have proved particularly secure, have proved to be a reliable funding_tool, have proved to be a safe harbour, have proved to be resilient, have proved to be safe_assets, have proved to be solid, have proved to be the most reliable, have proved to be the most resilient, have proved to be very resilient, have proved to be very stable, hedging_cost, hedging_costs, high degree of stability, high_cost, high_costs, higher_borrowing_costs, higher_capital_costs, higher_cost, higher_cost of liquidity, higher_cost_of_credit, higher_cost_of_funding, higher_costs, higher_financing_costs, higher_risk_activities, higher_risk_exposures, highly_liquid during, highly_liquid throughout, highly_undesirable_incentive, hinder growth, hit banks, homebuyers, homeownership, impact bank, impact banks, impact economic_activity, impact economic_growth, impact of capital_floors, impact on markets, impact on the availability, impact on the price, impact our activity, impact some banking_groups, impact some banks, impact the availability, impact the business_models, impact_bank_lending, impact_banks, impacted banks, impacting banks, impacting banks, impacting economic_growth, impacts bank, impacts banks, impede the ability of, impediment to economic_growth, implementation effort, implementation efforts, implementation_challenge, implementation_challenges, implementation_cost, implementation_costs, implementation_difficulties, implementation_issues, implementation_problems, impracticable, impractical, impracticality, in favour of preserving, inadequate_calibration, inappropriately_calibrated, incentive to reduce the size of these default_fund_contributions, incentive to reduce these contributions, incentives to develop, inconsistent_treatment, increase in costs, increase in the cost, increase the industry's cost, increase their cost, increase trading_costs, increase_costs, increase_significantly the cost, increase_the_cost, increase_the_cost_of_credit, increase_the_cost_of_funding, increase_the_costs, increased prices, increased uncertainty, increased_concentration_risk, increased_cost, increased_cost_of_funding, increased_costs, increased_volatility, increases_costs, increases_the_cost, increases_the_costs, increasing cost, increasing_costs, increasing_the_cost, increasing_the_costs, increasingly constrained, incremental_cost, incremental_costs, infeasible, information_system, information_systems, infrastructure_costs, inhibit,

Table C.2: Words and expressions identified as pro- and anti-stringent *(continued)*

Polarity	**Keywords**
Anti-stringent (medium)	inhibited, inhibiting, inhibits, initial_margin_requirements should not apply to, insensitive, insensitivity, insufficiently_granular, interfere, interference, interferes, interfering, international_level_playing_field, international_level_playing_field, intrusion, intrusive, investment_opportunities, investment_options, investment_possibilities, investment_restrictions, is a low_risk, is necessary to allow, is no longer systemic, lack of consideration, lack of recognition, le_limit should not apply to, lead to inconsistencies, legal_obstacles, legal_uncertainty, legitimate hedge, legitimate hedges, lending to the real_economy, lending_ability, lending_capacities, lending_capacity, lending_conditions, lending_contraction, lengthy_transition_period, less attractive to investors, less_costly, level_playing, level_playing_field, level_playing_field, level-playing_field, likely impact, likely_increase_the_cost, limit diversification, limit hedging, limit the diversification, limit the hedging, limited supply, liquid_assets is too_narrow, liquidity_buffer is too_narrow,liquidity_cost, liquidity_costs, liquidity_implications, liquidity_strandard should not apply to, liquidity_strandards should not apply to, liquidity_supply, little experience, long_term_funding_costs, low_risk_sensitivity, lower lending_volumes, lower_capital_costs, lower_cost, lower_costs, lower_risk_sensitivity, lowering of the supply of, macroeconomic recovery, macroeconomic_consequences, macroeconomic_effects, macroeconomic_growth, macroeconomic_impact, macroeconomic_impacts, macroeconomic_implications, maintenance, maintenance_costs, mandatory_margin should not apply to, mandatory_margin_requirements should not apply to, margin levels are too_high, margining_requirements need not apply to, market uncertainty, market_appetite, market_capacity, market_distortions, market_disturbance, market_effects, market_impact, market_impacts, market_implications, market_realities, market_reality, market-making exemption, material_impact, materially affected, materially_overestimates, materially_overstated, may become impossible to, may make it impossible for, may prevent end_users from, may prevent end-users from, may prevent_banks from, meaningful_recognition, mechanistic, mechanistic_approach, misallocation, miscalibrated, miscalibration, misinterpretation, misinterpretations, misinterpreted, more capital than is necessary, more capital than justified, more uncertainty, more_costly, more_expensive, multiplier should not apply to, must continue to be, must differentiate between, narrowly_defined, narrowness, natural firewalls, necessary to allow, necessity to allow, needlessly, needs of consumers, negative consequences, negative_consequence, negative_impact on capital_markets, negative_impact on financial_markets, negative_impact on the funding_markets, negative_impact on the residential_real_estate_markets, negative_impacts on important markets, negative_impacts on the financial_markets, negative_impacts to consumers, negative_implications, negative_signal, negatively_affect, negatively_affected, negatively_impact, negatively_impact_banks, neutrality, new minimum_capital_requirement, no economic_rationale, no initial_margin_requirements should be imposed, no margin requirements should be imposed, no need to impose, no reason for not allowing, no reason for not including, no reason to require, no reason to restrict, non discriminatory, non-discriminatory, non-duplicative, not based on empirical_data, not based on empirical_evidence, not neutral, not observed, not practical, not proportionate, not realistic, operability, operating_costs, operational difficulty, operational_challenges, operational_complexity, operational_considerations, operational_cost, operational_costs,

Table C.2: Words and expressions identified as pro- and anti-stringent *(continued)*

Polarity	**Keywords**
Anti-stringent (medium)	operational_difficulties, operational_issues, operationally_complex, operationally_difficult, outstanding performance, overcollateralisation, overcompensate, overcompensating, overestimate, overestimated, overestimates, overestimating, overestimation, overlapping _proposals, overlapping measures, overlaps with, oversimplification, oversimplified, oversimplifying, overstate, overstate_actual, overstate_risk, overstated, overstated_exposures, overstatement, overstatements, overstates, overstates_exposures, overstates_leverage, overstates_risk, overstating, particularly secure, pass on the cost, pass on the costs, pass on the extra_cost, pass on these increases, pass on this increase, pass on to customers, passed on to borrowers, passed on to clients, passed on to customers, passed on to end-users, passed on to the borrower, passed on to the borrowers, passed on to the customer, passed on to the customers, passed on to the user, performed_well, perverse_effect, perverse_effects, perverse_incentive, perverse_incentives, perverse_outcome, perverse_outcomes, perverse_risk_incentives, playing_field, playing_field, portfolio_diversification, portfolio_diversification_benefits, postponing, practicability, practical_difficulties, practical_implementation, practical_implementation_issues, practical_issues, practicality, pragmatic, pragmatic_approach, pragmatic_solution, pragmatism, precipitous, prescriptive, prescriptiveness, preservation, preserve the ability of, pricing_distortions, proper_calibration, properly_calibrate, properly_calibrated, properly_reflect, proportional_approach, proportionality, proportionality_principle, proportionate, proportionate_approach, proportionate_manner, proposal does not recognise, proposals do not recognise, proposed metrics fail to recognise, provide_disincentives, providing_credit, providing_financing, providing_liquidity, public_financing_costs, quite_conservative, quite_stringent, raise the cost, raise_costs, raising the cost, real_economic_costs, real_economic_impact, recognise the benefit of structural_protections, recommend an exemption, recommend exempting, recommends exempting, recovery_phase, reduce their activities, reduce their custody activities, reduce their lending_volume, reduce their lending_volumes, reduce their repo activities, reduce_costs, reduce_lending, reduce_liquidity, reduced_economic_growth, reduced_lending, reduced_lending_capacity, reduced_liquidity, reduced_risk_sensitivity, reduces_costs, reducing costs, reducing liquidity, reduction in lending_volume, reduction in lending_volumes, redundancies, redundancy, redundant, refinancing_costs, regulatory disincentive, regulatory uncertainty, regulatory_capital impacts, remarkably stable, remarkably_well, requirements need not apply to, requirements should not apply to, resource intensive, resource investment, resource_allocation, resourcing constraints, restrict_banks, retain investors, retain the use of, retroactively, revitalisation, revitalise, revitalize, revitalizing, revival, revive investment, revive securitisation_markets, revive securitisations, revive the securitisation_market, reviving the securitisation_market, reviving the securitisations, right_calibration, rigidities, rigidity, rigidly, risk neutral, risk_diversification, risk_insensitivity, risk_management_incentives, risk_mitigating_benefits, risk_mitigating_effect, risk_mitigating_effects, risk_mitigating_impact, risk_reducing, risk_reducing_benefits, risk_sensitive, risk_sensitivity, risk_weight should be reduced, risk_weight_floor should be lower, risk_weight_floor should be reduced, risk_weights should be capped, risk_weights should be reduced, risking_established_client_relationships, rule if adopted should not apply to, running costs, rush, seasonal_business_needs, sensibly_regulated,

Table C.2: Words and expressions identified as pro- and anti-stringent *(continued)*

Polarity	**Keywords**
Anti-stringent (medium)	sensitivity to risk, shall continue to be, should allow, should also be able to include, should also be able to qualify, should also be able to use, should also be exempt, should also be exempted, should be accepted, should be allowed, should be also exempt, should be also exempted, should be authorised, should be considered stable, should be considered stable_deposits, should be considered stable_funding, should be differentiated, should be eligible, should be exempt, should be exempted, should be free to choose, should be granted exemption, should be made exempt, should be only indicative, should be out of scope, should be permitted, should be possible to, should be postponed, should be realistic, should be required only, should be similarly exempted, should benefit from, should continue to be, should continue to be able to, should continue to be allocable to, should continue to be allowed, should continue to be attributable to, should continue to be eligible, should continue to be exempt from, should continue to be permitted, should continue to be recognised, should have the choice, should have the option, should never be higher than the g-sib_buffer, should not apply to, should not be deducted from, should not be discouraged, should not be forced, should not be higher than, should not be imposed, should not be mandatory, should not be more conservative, should not be more severe, should not be more_stringent, should not be prescribed, should not be required, should not be required, should not be required to, should not be restricted, should not be subject to, should not limit, should not regulate, should remain within pillar_2, significant constraint, significant disincentive, significant disincentives, significant drag, significant resources, sme_financing, smooth_functioning, smooth_operation, smoother, soften, softened, softening, solidity, specific_business_model, specific_business_models, specific_constitution, specific_needs, specific_risk_profile, specific_risk_profiles, specificities of banks, specificities of banks business_models, specificities of the bank, specificities of the banking_sector, specificities of the banks, specificities of the banks'_business_model, specificities should be taken_into_account, specificity should be taken_into_account, statutory_prudential_backstops should not apply to, strong_disincentive, strong_effects, strong_impact, substantial_effects, substantial_impact, suggest exempting, suggests exempting, superfluous, support the economy, support the use of internal_models, support_economic_growth, support_growth, support_international_trade, support_lending, supporting international_trade, supporting the economy, supporting_economic_growth, supporting_global_economic_activity, supports the economy, supports the exemption, supports the use of internal_models, surgically, system changes, system enhancement, system enhancements, systems_changes, systems_costs, systems_development, take_time, technical_challenges, technical_difficulties, temporary write-off, temporary_exemption, temporary_write_down, the list should include, there could be a waiver, there is no differentiation, there should also be an exemption, there should be a waiver, there should be an exception, there should be an exemption, there should be exceptions, this overlaps, too_short, trading_book_presumption should not apply to, trading_costs, traditional_retail_banking_model, traditional_retail_banks, traditional_role, transformation_role, transition_costs, treated equally, unattractive, unchecked, undesirable consequence, undesirable impact, undesirable_consequences, undesirable_effect, undesirable_effects, undesirable_outcome, undesirable_outcomes, undesired_consequences, undesired_effects, undesired_outcome, unequal_treatment, unforeseen_consequences, unintended, unintended effect, unintended negative_consequences, unintended negative_effects, unintended negative_impact,

Table C.2: Words and expressions identified as pro- and anti-stringent *(continued)*

Polarity	**Keywords**
Anti-stringent (medium)	unintended negative_side_effects, unintended_consequence, unintended_consequences, unintended_effect, unintended_effects, unintended_impacts, unintended_incentives, unintended_outcomes, unintended_risk_weight_variation, unintendedly, unintentional, unintentionally, unintuitive, unlevel_playing_field, unlevel_playing_fields, unmet, unnecessarily, unnecessarily constraining, unnecessarily_conservative, unnecessarily_high, unnecessarily_high_level, unnecessarily_increase, unnecessarily_increase_costs, unnecessarily_restrictive, unnecessary, unnecessary costs, unnecessary_complexity, unnecessary_cost, unnecessary_costs, unneeded, unpractical, unpredictability, unprofitable, unproven, unrealistic, untested, untimely, untried, unwanted_consequences, unwanted_effects, virtuous, vitality, warrants an exemption, we propose not to deduct, we propose not to require, we propose not to restrict, we propose to maintain, we suggest to permit, we support the exemption, well_calibrated, well_diversified, well_diversified_funding, well_diversified_portfolio, well_established, well-diversified, well-diversified funding, well-diversified portfolio, widely accepted best_practice, widely accepted international_standards, widely accepted methodologies, widely accepted practices, will be forced to, will be impacted, will have negative_consequences, will have negative_effects, will have negative_repercussions, will impact, will likely be applied to clients, will likely cause banks to, will make it difficult for, will stop providing, workability, workable, workload, worse_position, worsening of the initial proposal, would be less liquid, would become impossible to, would bias competition, would have negative_consequences, would have negative_effects, would have negative_impacts, would have negative_implications, would limit demand, would lose their incentives to, would undermine the incentive effect
Anti-stringent (strong)	added conservatism, additional burden, additional burdens, additional conservatism, additional restaints, administrative burdens, administrative_burden, affected_disproportionately, arbitrarily, arbitrariness, arbitrary, blunt, blunter, bluntness, broad-brush, burden, burdened, burdening, burdens, burdensome, capital discontinuity, commercial impact, compliance burdens, compliance_burden, compliance_cost, compliance_costs, consequences on lending, considerable_amount of data, considerable burden, considerable burdens, considerable limits, considerable restriction, considerable restrictions, considerable_cost, considerable_costs, considerable_impact, cost of compliance, cost of complying, cost of implementation, cost of implementation, cost of implementing, cost of monitoring, cost_impact, cost_increases, costly to implement, costly_for_banks, costs of implementing, could cause considerable disruption, crude_measure, crudely, cruder, deprive banks of an important, destroy, destroying, destroys, detrimental to banks, detrimental to the business_model, devastating effects on low_risk_banks, devastating to universal_banks, discriminated against, discrimination of, discriminatory against, discriminatory approach, discriminatory impact, discriminatory treatment, disproportional, disproportionally, disproportionate, disproportionate_cost, disproportionate_cost_impact, disproportionate_costs, disproportionately, disproportionately_conservative, double countings, double reporting, double the capital_increase, double the capital_requirement, double the cost, double the size of the hedge,

Table C.2: Words and expressions identified as pro- and anti-stringent *(continued)*

Polarity	**Keywords**
Anti-stringent (strong)	double_count, double_counted, double_counting, double_counting of capital, double_counts, double_impact, double_penalty, draconian, dramatic increase in capital and liquidity_requirements, dramatic increase in capital_requirement, dramatic increase in the cost, duplicate, duplicates, duplicating, duplication, duplications, duplicative, economies_need_securitisation, effort to implement, enormous cost, enormous costs, exceedingly_conservative, exceedingly_stringent, exceptionally_stringent, excessive capital_charge, Excessive collateral demands, excessive margin requirements, excessive margin requirements, excessive restriction, excessive_capital_requirements, excessive_conservatism, excessive_cost, excessive_costs, excessive_impact, excessive_regulation, excessively far-reaching, excessively limiting, excessively narrow, excessively onerous, excessively penalising, excessively prudent, excessively punitive, excessively strict, excessively tight, excessively_conservative, excessively_restrictive, excessively_severe, excessively_stringent, exodus, exorbitant, extensive administrative procedures, extraordinarily conservative, extraordinarily conservative, extraordinarily extreme, extreme adjustment, extreme assumption, extreme assumptions, extreme overstatement, extreme_unlikelihood, extremely burdensome, extremely conservatively, extremely demanding, extremely narrow, extremely onerous, extremely penalising, extremely_challenging, extremely_conservative, extremely_difficult, extremely_difficult_to_implement, extremely_restrictive, extremely_severe, extremely_severe_liquidity_stress_scenario, extremely_stringent, far reaching_consequences, far-reaching effects, far-reaching impact, far-reaching impacts, far-reaching implications, far-reaching negative_consequences, fragile recovery, fragmentation, free to decide, greatly overstate, greatly overstated_exposures, greatly overstates, greatly overstating, grossly overstated, grossly_overstate, grossly_overstated, grossly_overstates, grossly_overstates_actual, harmful effect, harsh, harsher, harshly, highly penalized, highly penalizing, highly_conservative, highly_prescriptive, highly_restrictive, huge challenge, huge_costs, inacceptable, irreparable, is extreme, leverage_ratio has no objective, leverage_ratio has no place, lifeblood, liquidity drainage, liquidity_burden, liquidity_drag, liquidity_drain, liquidity_impact, liquidity_impacts, liquidity_shortage, liquidity_shortages, liquidity_squeeze, market_fragmentation, massive discrimination, massive_impact, massively overstated, massively overstates, one_size_fits_all, onerous, operational burdens, operational_burden, operational_disruptions, operationally_burdensome, over-regulation, overburden, overburdening, overcapitalisation, overcapitalised, overkill, overly burdensome, overly demanding, overly severe, overly_conservative, overly_conservatively_calibrated, overly_prescriptive, overly_punitive, overly_restrictive, overly_simplistic, overly_strict, overly_stringent, overreaching, overreaction, overshoot, overshooting, overshoots, oversimplistic, particularly detrimental, particularly_conservative, penalisation, penalise, penalise_banks, penalised, penalises, penalising, penalizes, penalizes_banks, performed_exceptionally_well, performed_extremely_well, potentially dramatic, powerful_disincentive, prohibitive, prohibitive_cost, prohibitively, prohibitively_expensive, punitive, punitively, regulatory distortions, regulatory_cost, regulatory_costs, rightful exemption, risk_weight should be significantly reduced, seem excessive, seems excessive, serious restrictions, severe_consequences, severely constrained, severely hindering, severely hindering, severely_hamper the interbank_lending_market, severely_hamper the post_crisis recovery, severely_limit, severely_restricted,

Table C.2: Words and expressions identified as pro- and anti-stringent *(continued)*

Polarity	**Keywords**
Anti-stringent (strong)	severity of the assumptions, sharp_increase in capital_requirements, sharp_increase of ccfs, sharp_increase of risk_weights, shortage in liquidity, shortage in liquidity_supply, shortage of acceptable_collateral, shortage of available assets, shortage of collateral, shortage of high_quality_collateral, shortage of liquidity, should be completely exempt, should be completely exempted, should be entirely exempt, should be entirely exempted, should be explicitly allowed, should be explicitly exempted, should be expressly excluded from the covered_entites, should be expressly exempt, should be fully allowed, should be fully exempt, should be fully exempted, should be permanently exempt, should not be excessive, should not be excessively, should not be introduced, significant restriction, significant restrictions, significant_challenges, significant_cost, significant_costs, significant_increase in capital, significant_increase in capital_charge, significant_increase in capital_requirements, significant_increase in cost, significant_increase in costs, significant_increase in funding_costs, significant_increase in risk_weights, significant_increase in rwa, significant_increase in rwas, significant_increase in the cost, significant_increase of capital_requirements, significant_increase of costs, significant_increase of risk_weights, significant_overstatement, significantly constrain, significantly curtail, significantly impact, significantly_overestimate the exposure, significantly_overestimate the risk, significantly_overestimated, significantly_overstate, significantly_overstate_actual, significantly_overstated, significantly_overstates, significantly_overstates_exposures, significantly_overstating, simplistic, so conservative, squeeze on available, squeeze on available_capital, squeeze on collateral, squeeze on the availability of, stagflationary, substantial_cost, substantial_costs, substantial_overstatement, substantial_resources, substantially_overstate, substantially_overstate_actual, substantially_overstates, substantially_overstates_actual, substantially_overstating, sunk cost, sunk costs, take_years, too binary, too extensive, too punitive, too standardised, too static, too_aggressive, too_conservative, too_conservatively, too_costly, too_crude, too_detailed, too_extreme, too_far, too_much_conservatism, too_narrow_definition, too_prescriptive, too_prudent, too_punitive, too_quickly, too_restrictive, too_rigid, too_severe, too_simple, too_simplistic, too_specific, too_strict, too_stringent, too_stringently, too_tight, trapping capital, triple_counting, two-tier market, unaffordable, uncompetitive, undue burden, undue burdens, undue burdens, unduly affect, unduly affect_banks, unduly affected, unduly affecting, unduly hinder, unduly increase, unduly increased risk_weighting, unduly increases the risk_weight, unduly overlaps, unduly overlaps, unduly penalise, unduly penalise_banks, unduly penalised, unduly penalised, unduly penalises, unduly penalising, unduly penalising, unduly_conservative, unduly_high, unduly_limiting, unduly_punitive, unduly_restrictive, unduly_stringent, uneconomic, uneconomical, uneconomically, unfairly, unfairness, unfeasible, unjustifiably, unjustified capital_charge, unjustified capital_costs, unjustified capital_measures, unjustified capital_requirements, unjustified requirement, unjustified requirements, unjustified_increase, unjustly, unrealistically, unrealistically_conservative, unreasonable, unreasonable capital_requirements, unreasonable liquidity_requirements, unreasonable requirement, unreasonably, unreasonably expensive, unreasonably_high, unworkable, vastly overestimate the exposure, vastly overstated, vastly overstated_exposures, very conservative, very conservatively, very demanding, very expensive, very extreme, very prescriptive, very punitive, very restrictive, very severe, very_costly, vital_financing, vital_role,

Table C.2: Words and expressions identified as pro- and anti-stringent *(continued)*

Polarity	**Keywords**
Anti-stringent (strong)	vital_source, vital_source_of_funding, will be detrimental, will be devastating, will be seriously affected, will be seriously harmed, will be severely _restricted, will be severely impacted, will be severely_reduced, will destroy, would be seriously damaged, would be seriously discriminated, would be seriously endangered, would be seriously impacted, would be severely impacted, would be severely_reduced, would be severely_restricted, would destroy, would seriously affect, would seriously constrain, would seriously hamper, would seriously harm, would seriously hinder, would seriously impact, would seriously narrow, would seriously restrict
Anti-stringent (weak)	ability of market_participants, ability of the market, able to attract, add complexity, adds complexity, adequate_time, advance risk_management, advanced risk_management, advanced risk_management_practices, aggregate effect, aggregate effects, aggregate impacts, aggregate_impact, allow a reasonable use of, allow more time, allow_time, already complex, already gives supervisors, already highly_regulated, already regulated, already subject to, among the most stable, appropriate transitional_arrangements, appropriate_balance, appropriate_grandfathering, appropriate_grandfathering_arrangements, appropriate_grandfathering_provisions, appropriate_phase-in, appropriate_time, appropriate_timing, appropriate_transition, appropriate_transition_period, appropriate_transition_periods, appropriately_calibrated, are also very liquid, are closely supervised, are different risks, are highly_regulated, are low_risk, are prudently diversified, are subject to a prudent, are subject to strict, are subject to strict_prohibitions, as a backstop_measure, as a temporary_measure, changes to it systems, changes to systems, combined_effect, combined_effects, combined_impact, commercially sensitive, compensates the necessity to collect collateral, compliance_issues, complicate, complicated, complicates, complicating, complication, complications, consequences must be fully_understood, consequences of the proposals, consideration should be given to allowing, consistent_prudential_treatment, consistent_treatment, constitute a tangible asset, continue_lending, continue_trading, continued_participation, cost_effective, cost_effective_manner, cost_effectively, cost_efficient, cost-effective, cost-effectively, cost-efficient, current_practice, current_practices, design_issues, desirable_outcome, different_business_models, different_risk_profiles, differentiated approach, differentiated treatment, difficult to perform, do not pose significant risk, ease the transition, easily applicable, economic_impact_analysis, effective_credit_risk_mitigation, effective_risk_mitigation, effects of the proposed, effects on SME loan guarantees, efficient diversification, efficient_allocation, efficient_functioning, efficient_markets, efficiently_manage, enough_time, entrepreneurial, european specificities, even during the, existing business_models, exposure_reducing, exposure_reducing_effect, exposure_reducing_effects, exposure-reducing_effects, extended phase-in_period, false alarm, flexibility, flexibility to permit, flexible, flexible_approach, flexible_enough, flexible_way, full_impact_analysis, fully_understood, functioned_well, functioning system, good_performance, good_risk_management_practices, gradual phase-in, has proven to be resilient, have demonstrable realizable value, have demonstrable value, impact of proposals,

Table C.2: Words and expressions identified as pro- and anti-stringent *(continued)*

Polarity	**Keywords**
Anti-stringent (weak)	impact of the leverage_ratio, impact of the proposal, impact of the proposals, impact of the proposed, impact of the proposed_changes, impact of the proposed_framework, impact of the proposed_leverage_ratio, impact of the proposed_leverage_ratio_framework, impact of the proposed_revisions, impact of these changes, impact of these initiatives, impacts of the proposal, impacts of the proposals, impacts of the proposed, impacts of the proposed_changes, impacts of the proposed_leverage_ratio_framework, implementable, important source of financing, inefficiencies, inefficiency, inefficient, inefficiently, inexpensive, inherent stability, insufficient_time, interaction of the proposals, interaction of the proposed, interaction of the proposed approach, interaction of the proposed_leverage_ratio, international participation, investor appetite, investor choice, investor_demand, joint_impact, lack of consistency, less risky than, little evidence of defaults, little incentive, little incentives, little or no systemic_risk, little time, long_grandfathering_periods, long-established, longer_timeframe, low_cost, low_level of risk, low_loss_rates, low_risk strategies, low_risk_banks, low_risk_business_model, low_risk_business_models, low_risk_exposures, low_risk_institutions, low_risk_lending, low_risk_nature, low_risk_operations, low_risk_portfolios, low_risk_products, low_risk_profile, low_risk_profiles, lower_risk_portfolios, lower_risk_profile, lower_risk_profiles, may limit demand, may not convert to an on-balance_sheet_exposure, may not convert to on-balance_sheet, middle_ground, might never convert to an on-balance_sheet_exposure, minimal if any risk, most highly_regulated, much less interconnected than, necessary_flexibility, need more_time, no record of default, not necessary, not needed, not speculative, not sufficiently factored in, offers an equal risk protection, only constitutes a systemic_threat for, orderly transition, partial_deduction, particular nature, phased introduction, phased_approach, phased_implementation, phased_implementation_timetable, possible overlap, possible overlappings, potential overlaps, premature, properly_designed, prospective_investors, proved to be resilient, proven during the global financial crisis, proven_effective, proven_record, proven_techniques, proven_track_record, provide_financing, provides equivalent protection, question the need for, questions the need for, rarely speculative, real_economic_activities, real_economic_activity, real_economy_assets, real_economy_financing, real_economy_lending, reasonable_cost, reasonable_time, reduce uncertainty, reflect the difference, reflect the differences, reflect the stability of, reflect_actual, reflect_differences, remaining appropriately conservative, restart, right_balance, risk_averse, risk_aversion, safe_haven, secondary_market is deep, secondary_market is sound, secondary_market is very liquid, emphasize their reliability and security, should be preserved, should still be able to, smooth_transition, somewhat restrictive, stable over time, stood the test of time, strong_performance, strong_performance_exhibited, strong_track_record, sufficient_flexibility, sufficient_latitude, sufficient_lead_time, sufficient_period, sufficient_time, sufficient_transition_period, sufficiently strict, sufficiently_flexible, sufficiently_long adaptation, sufficiently_long implementation_period, sufficiently_long phasing-in, sufficiently_long to avoid, sufficiently_long transitional_arrangements, sufficiently_long transitional_period, sufficiently_long transitional_periods, sufficiently_long_transition_period, sufficiently_long_transition_periods, sustainably low_credit_losses, take_into_account the specific character, take_into_account the specificities, take_into_account the specificity, taking_into_account specificities,

Table C.2: Words and expressions identified as pro- and anti-stringent *(continued)*

Polarity	**Keywords**
Anti-stringent (weak)	taking_into_account the specific consequences, taking_into_account the specific situation, taking_into_account the specific_constitution, taking_into_account the specific_features, taking_into_account the specificities, testing period, time to adapt, time_required, ultimate impact, undermine the incentive, understand the potential impacts, unique_characteristics, unique_features, unique_nature, unique_role, valuable source of capital, valuable source of diversified capital, various business_models, various risk_profiles, very little risk, vibrant, virtually no counterparty_risk, virtually no market_risk, virtually no risk
Pro-stringent (medium)	accountability, accountable, ailing_banks, align_incentives, align_the_interests_of_the_investors, arbitrage, arbitrage capital, arbitrage_free, arbitrage_opportunities, arbitrage_possibilities, arbitrage_purposes, asset_bubbles, avoid systemic_risk, avoiding systemic_risk, banking_crises, banking_crisis, better_capitalised, better_quality, bubble, bubbles, build-up of leverage, build-up of macroprudential_risks, build-up of risk, build-up of risks, build-up of systemic risk, build-up of systemic risks, can also be systemically_important, can give_rise to systemic risk, capital_arbitrage, capital_arbitrage_opportunities, capital_arbitrage_purposes, civil_society, complement to stricter, complexity of the models, conflict_of_interest, conflicts with workers, conflicts_of_interest, contagion, contagion_risk, contagion_risk, contagions, contagious, credible_supplementary_measure, cross-border spillover, cross-border spillover_effects, cross-border spillovers, de_minimis threshold must be lowered, debt generates or exacerbates, debt_finance, debt_overhang, depression, did not bear_losses, disciplining, disciplining_effect, disciplining_role, discourage excessive, discourage excessive_leverage, discouraging leverage, disincentive for banks to accumulate, disincentivise the use of regulatory_arbitrage, do not support the use of internal_models, economically_appropriate lending_decisions, effective_supervision, enchance safety, enhance the stability of the banking_sector, enhance the stability of the banking_system, enhance_financial_stability, enhance_transparency, enhanced_transparency, enhancing safety, enhancing_financial_stability, equity was eroded, eroded the quality_of_tier_1, erosion of banking_system resilience, erosion of capital, erosion of confidence, erosion of lending standards, erosion of major_banks capital, erosion of standards, erosion of the equity, erosion of the level and quality, erosion of their lending standards, erosion of underwriting standards, exacerbate system-wide losses, exacerbated variability, exaggerated return expectations, exaggerations, excess_leverage, excessive build-up, excessive build-ups, excessive holdings, excessive_credit_availability, excessive_credit_conditions, excessive_credit_expansion, excessive_credit_flows, excessive_credit_growth, excessive_lending, excessive_leverage, excessive_maturity_transformation, excessive_reliance, excessive_supply_of_credit, failed to absorb_losses, female employees, financial_crises, financial_instability, financial_stability_benefits, financial_stability_concerns, financial_stability_perspective, financial_stability_purposes, financial_stability_risks, financial_system_stability, fire_sale, fire_sales, governance issues, governance problems, government intervention, greater_financial_stability, high_leverage, highest possible standard, highly_leveraged,

Table C.2: Words and expressions identified as pro- and anti-stringent *(continued)*

Polarity	**Keywords**
Pro-stringent (medium)	highly_leveraged_banks, human nature, human society, human suffering, human_rights, humans, if the public_sector had not chosen to rescue„ implicit_government_guarantee, implicit_government_guarantees, implicit_government_support, implicit_guarantee, implicit_guarantees, improve_financial_stability, improve_transparency, improving investor_protection, imprudent, in a world of efficient markets, in favour of a restricted approach, in favour of strengthening, inaction, inaction_bias, increase leverage, increase the quantity of capital, increase_transparency, increased_transparency, information_asymmetry, inspection, inspections, insufficiency of bank capital, insufficiency of bank equity, insufficiency of equity buffers, insufficiency of equity capital, intensive_supervision, interconnected, interconnected banks, leakage, leakages, lehman, lehman_brothers, lehman_crisis, less leveraged_banks, lesson learned, lessons_from_the_financial_crisis, lessons_learned, lessons_learnt, leverage build-up, limited to assets of the highest quality, lowest_common_denominator, macroeconomic_stability, maintain_financial_stability, maintaining_financial_stability, management_incentives, manufacture, market_abuse, market_power, mechanically perform stress_tests, mechanistic_reliance, might pose high risks, minimise risk to the financial_system, misperceptions, model_uncertainty, modigliani-miller, moral_hazard, more resilient, more_lenient jurisdictions, must be capable of providing going_concern_loss_absorbency, must be strictly_defined, must be subject to higher, necessary intervention, need for more_restrictive, negative_externalities, negative_externality, negatively capitalised, no reason to exclude investment_firms from the countercyclical_buffer, non-resolvability, non-sustainable, not believe there should be any exemptions, only government_securities should be accepted, only valid forms of capital, opaque, opaqueness, overestimate diversification_benefits, overly_optimistic, performed_poorly, pittsburgh, police themselves, political concern, political_economy, poor_performance, precaution against bad times, prevent_regulatory_arbitrage, price exaggerations, promote_financial_stability, promote_transparency, promoting_financial_stability, protecting_financial_stability, proved inadequate, prudence, prudent, prudent_approach, prudentially_sound, public_confidence, public_intervention, public_policy_perspective, public_sector_intervention, reduce_contagion, reduce_contagion_risk, reduce_interconnectedness, reduce_liquidity_risk, reduce_reliance, reduce_systemic_risk, reducing_reliance, reducing_systemic_risk, regulatory scrutiny, regulatory_arbitrage, regulatory_arbitrages, regulatory_capital_arbitrage, reputational_damage, rescued by the public_sector, resiliency, resilient_banking_sector, resilient_banks, resiliently, resistance, responsible risk-taking, responsible_investment, responsible_lending, restore_confidence, risk for financial_stability, risk_to_financial_stability, risks for financial_stability, risks_to_financial_stability, risky for financial_stability, robust_supervision, safety and soundness, safety and stability, shareholder_value, shortcomings in banks internal_models, shortcomings of internal_models, should also be required to, should be able to meet, should be capable of providing, should be deducted from core_tier_1, should be included in the exposure_measure, should be included in the exposure_measurement, should be required to, should not protect_investors, significantly_overestimate portfolio_diversification_benefits, social_benefit, social_benefits, social_perspective, social_value, socially_equitable_development, socially_optimal, socially_valuable,

Table C.2: Words and expressions identified as pro- and anti-stringent *(continued)*

Polarity	**Keywords**
Pro-stringent (medium)	sovereign_debt_crisis, speculate, speculating, spillover, spillover_across_countries, spillover_effects, spillovers, stable_financial_system, standards erosion, standards get eroded, stigma asociated with equity_issuance, strengthened_supervision, strengthening_financial_stability, subprime_crisis, subprime_lending, subprime_mortgage_crisis, subsidies, subsidize, subsidized, subsidizing, subsidy, sufficiently_robust, support_financial_stability, sustainability, sustainability_criteria, sustainability_factors, sustainability_indicators, sustainability_issues, sustainability_risk, sustainability_risks, sustainable_development, sustainable_financial_system, sustainable_future, systemic repercussions, systemic_banking problems, systemic_banking risk, systemic_concern, systemic_concerns, systemic_crises, systemic_financial_risk, systemic_interconnectivity, tax_advantage, tax_subsidy, taxpayer, taxpayer's, taxpayers, tbtf, there should be no exemptions, there should not be any exemptions, this initiative should be taken further, too generous, too_big_to_fail, too_low_risk_weights, too_much risk, traceability, turner_review, undercalibrated, undercapitalisation, undercapitalised, undercapitalization, undercapitalized, undercollateralisation, underestimation of risk, undermine_financial_stability, undetected, undue risk-taking, undue_reliance, unduly generous, unhealthy balance_sheet_growth, unhealthy balance_sheet_growth, unhealthy levels of leverage, unjustified_variation, unnecessary risk-taking, unnoticed, unpopular, unsustainable, unsustainable_growth, unwarranted_rwa_variability, unwarranted_variability, vulnerable to shocks, we do not support the exemption, well_capitalised, wider_financial_stability, will sufficiently reduce the negative side-effects, women workers, workers, would have failed
Pro-stringent (strong)	abuse, animal spirits, arms race, arms race among banks, artificially lower, artificially lower_capital_requirements, artificially reduce capital_requirements, bad_banks, bail out, bail them out, bailed, bailed out, bailing, bailing out, bailout, bailouts, bails banks out, bank-sovereign, bankruptcies, bankruptcy_costs, biodiversity, booms, booms and busts, bureaucrats, burst, bursting, bursts, cheap_money, cherry_pick, cherry_picking, circumvent, circumvented, circumventing, circumvention, citizen, citizens, climate_change, collective_cost, commitment to increase capital, commitment to reduce leverage, complicit, cost of their failure, costs of bank failure, costs of failure, costs of their failure, costs_to_society, crisis_probabilities, crisis_probability, culture of responsibility, deadweight losses, debt-driven crises, dependence on governments, dependence on interbank_markets, dependence on markets, dependence on short-term_funding, deprive large population groups, diabolic loop, dignity, disaster, disaster myopia, disasters, discourage misaligned_incentives, discourage poor, discourage risky practices, discouraging_excessive, discouraging_excessive_leverage, discouraging_excessive_risk-taking, disproportionately risky, distrust, doom loop, ecological, economic_justice, ecosystems, egregious, empire-building, endanger financial_stability, endemic leverage, ensure_financial_stability, ensuring_financial_stability, environmental_impacts, environmental_risks, environmental_sustainability, environmentally, environmentally harmful, eroded confidence, euphoria, evade, evasion, excessive levels of risk-taking, excessive risks, excessive use of leverage, excessive_risk, excessive_variability, excessively generous,

Table C.2: Words and expressions identified as pro- and anti-stringent *(continued)*

Polarity	**Keywords**
Pro-stringent (strong)	excessively_risky, excessively_risky_investments, extreme behaviour, exuberance, exuberant, fallacies, fallacious, faulty risk_models, financial_safeguards, financial_speculation, financing deforestation, fiscal burden, flawed mortgage_lending, free from want, future_generations, gamble, gambling, game_the, gamed, gaming, gaming_the, global society, governments decided to rescue, greed, guilty, harmful credit_creation, harmful to the environment, herd, herd_behaviour, herding, high model_risk, irrational_exuberance, irresponsible, irresponsible mortgage_lending, irresponsible_lending, labour_rights, loophole, loopholes, lost jobs, made many workers unemployed, madoff, magnitude of the crisis, manipulations, market exaggeration, market exaggerations, market_advocates, market_failure, magnitude of the financial_crisis, malfunctioning, malign intent, manipulate, manipulated, manipulating, manipulation, market_failures, market_malfunctioning, massive debts, massive intervention, means of living, meltdown, mistrust, moral_hazard_costs, myopia, natural_resources, negative_behaviours, new culture, no exception should be made, no reason to refrain from requiring, over-leveraged, over-reliance on short_term, overtrading, politial tensions, politically correct, politically palatable, pollute the water, polluter pays, poorly managed, poorly regulated, poverty, preserving the environment, preserving_financial_stability, pressure by firms to relax, private cost, private costs, private_benefits, privately_optimal, public money, public purse, public_authorities had to intervene, public_interest, purported benefits of the a-irb_approach, purported benefits produced by debt, quality of lending deteriorates, questionable activities, race_to_the_bottom, reckless, recklessness, regulatory_capture, remuneration-driven targets, remuneration-hungry executives, responsible culture, resurrection, return_on_equity is inappropriately high, riots, risk_appetite excesses, risks for taxpayers, risky market_practices, rogue, rogue_trading, rwa optimisation, safeguard_financial_stability, safeguarding_financial_stability, secular stagnation, should be double the, should be intrusive, should be strongly discouraged, skeletons, social and environmental, social concerns, social consensus, social environmental, social_consequences, social_cost, social_costs, social_equity, social_justice, social_welfare perspective, socially and environmentally, socially very_costly, socially_costly, societal cost, speculation, speculative, speculative_purposes, speculative_ventures, speculators, stability_fee, starving people, subprime_disaster, substantial_costs on taxpayers, substantial_costs on taxpayers, systemic_risk levy, systemic_threat, systemic_threats, take_excessive_risk, taking_excessive_risk, tax havens, the safer they seem, threaten_financial_stability, threats to banking_sector stability, threats to financial_stability, too big to be rescued, too big to save, too_interconnected_to_fail, too_lenient, too_little_too_late, turned out to be fatally wrong, uninhibited, unsafe_practices, unsound banking_practices, upheaval, violating environmental, zombie banks
Pro-stringent (weak)	be open for review, difficult to model, enough_capital, even generous, high_leverage is not necessary, improve investor_protection, improve_comparability, may not be sufficient to, should be available for review, should be enhanced, sufficient_capital, sufficient_capital_adequacy, sufficient_capital_buffers, sufficient_liquidity, sufficient_powers, supervisory_concerns, useful_complement

Table C.3: Labels and descriptions for the manual coding of preferences

Label	**Description**
Anti-stringent (strongly)	The author uses numerous emphasizing words and insists on the detrimental/damaging effects that the proposed standards are likely to entail for its industry but also for other, larger categories of actors ("the real economy", "SMEs", "consumers", etc.). The author also denounces repeatedly and in strong terms the extra costs and/or operational burden for financial institutions that would result from the proposed rules and their disproportionate character. The author may also criticise the proposals for their inconsistencies, misappreciation of actual risks, misguided views on particular financial activities or products
Anti-stringent (moderately)	The author calls for a cautious, gradual, progressive approach to the reform without rejecting it upfront. They insist on the need to submit proposals to impact assessments before taking any decision, to include grandfathering provisions and long phase-in periods in order to avoid unintended consequences such as destabilising particular markets or hampering banks' ability to support the economic recovery. By contrast with the "strong opposition" comments, here the author uses few emphasizers, and while calling for caution does not reject proposed reforms upfront.
Neutral (no preference on stringency)	Comments are to be considered "neutral" in terms of their support/opposition to more stringent capital requirements when readers cannot determine whether authors' preference leans towards standards more or less stringent than the proposals.
Pro-stringent (moderately)	The author calls for increasing or supports proposals that increase the requirements imposed on banks and financial institutions, be it through higher amounts of regulatory capital or by constraining the use of internal models and own estimates of parameters. They highlight the existence of particular risks arising from specific banking activities and certain practices, often referring to flaws revealed in past crises, and call for/support proposals that target these, in order to improve the regulatory framework. They however, by contrast with the "strong support" comments described below, do not call for a general overhaul of the banking system.
Pro-stringent (strongly)	The author calls for a strict control of banking activities and/or significantly higher levels of regulatory capital, insisting on the dangers that the current regulatory framework (and the practices it permits) entails for financial stability. The author may criticise the insufficiency of the proposed reform, its failure to redress dangerous habits and correct wrong the incentives created by the pre-crisis regulatory framework. They may also insist on the dangers that banking activities entail for taxpayers, citizens, the environment, etc.

Appendix D

Supplementary material: Conditions of success

D.1 List of interviews

Table D.1 below lists of qualitative interviews realised between December 2019 and April 2020 with representatives of interest groups. Having a care to respect the anonymity required by most of the respondents for themselves and their organisation, information that could permit the identification of people or organisation was removed.

Table D.1: List of exploratory interviews with interest representatives.

Date of interview	**Actor type**	**Sub-industry**	**Main level of activity**	**Place of interview**
11/12/2019	Public interest organisation	Public interest advocacy	National	Online
12/12/2019	Special interest organisation	Mortgage finance	European	Brussels
07/01/2020	Special interest organisation	Diversified banks	European	Brussels
23/01/2020	Special interest organisation	Regional banks	European	Brussels
04/02/2020	Special interest organisation	Research & consulting services	European	Brussels
06/02/2020	Special interest organisation	Multi-sector holdings	National	Brussels
11/02/2020	Special interest organisation	Non-financial SMEs	European	Brussels
13/02/2020	Special interest organisation	Property & casualty insurance	European	Brussels
19/02/2020	Firm	Regional banks	National	Brussels
24/02/2020	Special interest organisation	Specialised finance	National	Online
25/02/2020	Public sector financial institution	National development banks	National	Online
26/02/2020	Special interest organisation	Real estate development	National	Rome
03/03/2020	Special interest organisation	Specialised finance	European	Brussels
05/03/2020	Firm	Diversified banks	National	Brussels
09/03/2020	Special interest organisation	Specialised finance	National	Paris
11/03/2020	Firm	Diversified banks	National	Paris
20/04/2020	Firm	Securitisation	National	Online

D.2 Implementation of text-reuse detection in consultation responses

I proceed using the R implementation provided by the *textreuse* package (Mullen, 2020), which first implements a "Minhashing" technique to reduce the computational burden of making pairwise comparisons across all sentences in the corpus and exclude sentence pairs that are too dissimilar.[1] The Smith-Waterman (SW) algorithm is then applied to the remaining candidate pairs to generate an indicator of text-reuse (henceforth a SW score) for the sentence pair. I use here the parameters used by Pagliari and Young (2020) and Burgess et al. (2016) for the calculation of SW scores: a match score of 3 is added for each exactly matching consecutive word; a penalty of -2 is applied to mismatches in a sequence of otherwise matching words; when matching a longer sequence to a shorter one, a penalty of -3 is applied for each gap in the matching opened by the additional words of the longer sequence.

Several filters must be applied to the result of the SW comparisons to exclude instances of text-reuse that are unlikely to be the result of active coordination. First, when organisations submit several replies on a same issue, they often reuse part of their previous answers into their answer to the most recent consultation. That is obviously not coordinating with another organisation, then matches of two sentences from a same organisation are discarded. Second, parts of sentences or even entire sentences may be common to various organisation's documents simply because they are commonly used expressions. Even though a lot of boilerplate language has already been extracted from the corpus for the topic classification and sentiment analysis in the previous chapter, some remains and may create false positives in the text-reuse analysis. Similarly, some short sentences may be used across many different answers—expressions such as "this is not appropriate" or "See our reponse to question"—without in any way revealing coordination. To make sure that such sentences are not considered as text-reuse, I filter out any sentence that appears in more than 32 different documents (twice the maximum number of co-signatories for any given document). I also exclude sentence pairs that share less than 20 consecutive words (i.e. pairs with a SW score below 60, with the chosen calibration of the algorithm), following again in that the example set by James et al. (2021, p. 905). I then filter out pairs of documents that have less than 10 sentences in common.

[1] 'Minhashing' consists in converting each text segment into a numeric reference (a 'hash') before calculating a similarity score (here I used a Jaccard similarity) for each pair.

D.3 Regulatory novelty in Basel III

Table D.2: Quantitative and qualitative evidence of regulatory reuse or novelty

Issue ID	Cosine similarity with Basel II	Qualitative evidence
IS01	0.637	The rules on what financial instruments are eligible for inclusion in regulatory capital are at the foundation of the Basel framework (BCBS, 1988b) and as such do not constitute a particularly innovative set of policy tools. However, significant changes were introduced by Basel III: a more restrictive definition of CET1 capital, the introduction of a mandatory conversion or write-down mechanism for additional capital, etc. These reforms make the definition of capital a case that could be considered qualitatively as derivated from older rules, but within this qualitative designation still exhibiting a certain degree of regulatory innovation.
IS02	0.654	Like the rules on the definition of capital, Basel III rules on prudential adjustments are in essence a significantly revised version of the Basel II rules in this area. Although they significantly changed some parameters in the calculation of items to be deducted from regulatory capital, they did not amount to more than a substantial revision of a well-established set of regulations.
IS03	0.483	The rules on the calculation of minimum risk-based capital requirements, even though they exist since Basel I, were revised to a very significant extent by Basel III. First, as regards the solvency ratios themselves, a new system of absolute limits and minima was introduced in 2009 to replace the old calculation method under Basel III (BCBS, 2009c, p. 17). Second, for the aggregation of RWAs, the introduction of a new, permanent output floor to replace the previous temporary Basel I floor constituted an instance of major regulatory innovation. Indeed in its first consultation on the issue, the BCBS proposals were only sketched and the policy options submitted to stakeholders varied greatly in their design and expected effects (BCBS, 2014d).
IS04	NA.	The system of additional capital buffers above the regulatory minimum was an entirely new item in Basel III, with no antecedent in previous standards or guidelines. Both the restrictions on profit distributions—the core of the capital conservation buffer system—and the counter-cyclical requirements were new for the vast majority of market participants.
IS05	NA.	Before the GFC, questions of systemic risk and the systemic importance of certain financial institutions were mostly absent from discussions of banking regulation and only came to the fore due to the paradigmatic shift that resulted from the crisis (Baker, 2013b). Consequently, the new frameworks for identifying G-SIBs and D-SIB and imposing on them an additional HLA buffer requirement were entirely new and built on a limited body of knowledge.

Table D.2: Quantitative and qualitative evidence of regulatory reuse or novelty *(continued)*

Issue ID	**Cosine similarity with Basel II**	**Qualitative evidence**
IS06	0.689	Like the rules on definition of capital and prudential adjustments, the SA-CR is one of the oldest constitutive parts of the Basel framework, and although it was significantly amended in the Basel III reform, its fundamentals remain unchanged: it is still requiring banks to apply supervisory RWs and CCFs to different categories of on- and off-balance sheet credit exposures. It was developed, compared to its Basel II equivalent, to include more asset categories and refine their treatment, suggesting that there is a non-negligeable amount of novelty. We can then consider the new SA-CR as mostly inherited from Basel II, albeit with a some degree of innovation.
IS07	0.681	The rules on the use of external ratings were significantly amended under Basel III to make them more restrictive following the abuses related to external ratings in the run-up to the GFC (BCBS, 2009c, pp. 57–59). These changes however do not change the fact that the framework for the recognition of external credit rating agencies and the use of their ratings in the SA-CR is to a very important extent a legacy from Basel II.
IS08	0.891	The Basel III framework for CRM builds to a very important extent on its Basel II equivalent. The level of several important parameters was modified, but the architecture of the framework and of the specific requiments remains unchanged.
IS09	0.935	The Basel III IRB for credit risk is essentially the same as it was under Basel II in terms of instruments and overall architecture. The changes made with the Basel III reform mostly restrict its scope and introduce floors to model parameters, but do not introduce any major innovation.
IS10	0.845	The treatment of expected losses and provisions under IRB remained mostly unchanged from Basel II.
IS11	0.810	The securitisation framework under Basel III builds to a very large extent on the equivalent rules under Basel II. The Basel II securitisation framework was already well-developed, covering almost all the risks associated with securitisation. The Basel III reform introduced changes to parameters and calculation formulas but without any major innovation: the new securitisation framework essentially includes the same four types of approach to compute capital requirements for exposures to securitisation transactions, which each rely on the same types of instruments. Regardless of how more demanding the new framework is in terms of capital requirements, it cannot be considered to constitute a regulatory innovation.

Table D.2: Quantitative and qualitative evidence of regulatory reuse or novelty *(continued)*

Issue ID	Cosine similarity with Basel II	Qualitative evidence
IS12	0.542	CCR capital charges were introduced into the Basel framework with a 2005 amendement to Basel (BCBS, 2005). Although CCR was already identified in the original Basel II as a risk that required prudential standards, at the time work on addressing this risk was judged insufficiently advanced and the Committee merely "encouraged [banks] to develop, implement and improve systems" (BCBS, 2004b, p. 34) to capture it, which attests to the relative novelty of this policy issue (especially compared to other RWA-calculation frameworks for credit risk, market risk and even operational risk). Indeed, CCR are considered to arise from over-the-counter (OTC) derivatives, exchange-traded derivatives, long-settlement transactions and securities financing transactions (BCBS, n.d., CRE51.4), the use of which grew exponentially from the late 1990s; solutions to prudentially regulate them were still tentative before the GFC. The BCBS's proposals for the reform of the Basel II non-internal models approaches to CCR constituted a fully new methodology: the proposal was to entirely replace the so-called 'comprehensive method' and 'standard method' from Basel II with a single new standardised approach that would address the observed shortcomings of said methods (BCBS, 2013g, p. 3). Overall, then, if we consider on the one hand the extent of the change proposed by the BCBS for the SA-CCR and on the other hand the relative immaturity of risk assessment methodologies in the area of CCR, we can argue that the SA-CCR qualitatively falls in the category of novel instruments but with an important elements of continuity in it.
IS13	0.886	In terms of novelty, the situation of the IMM for CCR is similar to that of the SA-CCR as regards the relative immaturity of the field. However Basel III reforms in this area were limited to establishing more demanding requirements for the use of the IMM and limiting banks' freedom in setting model parameters; they did not fundamentally break with the Basel II equivalent.
IS14	NA.	In Basel II, bank exposures to CCPs were applied a blanket 0% RW (BCBS, 2006a). Therefore there did not exist a framework to compute capital requirements either for trade exposures or default fund exposures incurred by banks to CCPs. However, with the increased used of central clearing for derivatives transactions resulting from reforms of derivatives markets, the risk concentrated within CCPs was about to increase significantly. The BCBS saw the need to require banks to hold capital against their exposures to these market infrastructures and put forward entirely new proposals in this area (BCBS, 2010c, pp. 1–2).
IS15	0.812	The short Basel III chapter on the treatment of CCR in the trading book is essentially a legacy from Basel II. The only differences result from changes made necessary by the introduction of changes in other parts of the Basel framework (BCBS, 2013e, p. 46).
IS16	NA.	Minimum haircut floors for non-centrally cleared SFTs did not exist under Basel II. Indeed such haircut floors did not exist anywhere before the GFC highlighted the risks arising from exposures to shadow banking entities (FSB, 2014).

Table D.2: Quantitative and qualitative evidence of regulatory reuse or novelty *(continued)*

Issue ID	**Cosine similarity with Basel II**	**Qualitative evidence**
IS17	0.361	Under Basel II, banks's investments in funds were dealt with as part of the SA-CR, under the "other assets" category (BCBS, 2013b, p. 1). The proposal to create a specific framework to assess the underlying risks in those investments then constitutes a clear departure from existing standards.
IS18	0.848	The short Basel III chapter on the capital treatment of unsettled transactions and failed trades is entirely a legacy from Basel II. The BCBS did not formulate any proposal to reform this section, hence no novelty can be said to have been introduced.
IS19	0.700	A regulatory boundary between the banking book and the trading book has existed since market risk was introduced in the Basel framework (BCBS, 1996). It was significantly amended as part of the Basel III FRTB. However, the new boundary still is a revised version: new parameters replaced existing ones and a number of rules were added, but it is not a new policy instrument.
IS20	NA.	A regulatory definition of bank trading desks did not exist before their introduction as part of the Basel III reform (BCBS, 2012d), nor did the associated requirements on trading desk staffing, reporting and policies. We can then consider these rules as an innovation.
IS21	0.698	The two approaches to measure banks' exposures to market risk were introduced in 1996, in what is known as the 'Market Risk Amendment' to Basel I (BCBS, 1996). The SA-MAR then was a well-established set of standards when the BCBS launched the FRTB in 2012. The proposals formulated in the FRTB constitute a substantial reform of the SA-MAR, with a large portion of the provisions being replaced with new versions into a new, coherent framework (BCBS, 2013e). Nevertheless, this reform did not produce new policy instruments: it captures essentially the same risks as its Basel II equivalent, and it relies on the same set of instruments to compute banks' market risk RWAs and capital charges.
IS22	0.760	Like the SA-MAR, the new IMA under Basel III constitutes a substantial revision of an established set of requirements. The main building blocks of the Basel III IMA were introduced as part of the 'Market Risk Amendment' (BCBS, 1996), and although the FRTB reforms resulted in significant changes with respect to some of these building blocks—including the exposure measure and the model approval process (BCBS, 2012d, 2013e)—the overall architecture of the regulatory framework to capitalise for banks' market risk exposures remain the same. The reform did not introduce any major new instrument or requirement but made the existing approach more demanding. It then should be considered primarily as a legacy, although one with a significant degree of innovation.

Table D.2: Quantitative and qualitative evidence of regulatory reuse or novelty *(continued)*

Issue ID	**Cosine similarity with Basel II**	**Qualitative evidence**
IS23	NA.	The introduction of a capital charge for CVA losses was formally an innovation of Basel III. Even though the concept of CVA was known before the GFC, CVA risk and CVA loss modelling was still a relatively new area of risk management that had emerged with the exponential increase in derivatives trading. The fact that banks could suffer major losses due not to the actual default of their derivative counterparties but to changes in market perceptions of those counterparties' creditworthiness was actually something that regulators discovered with the GFC (BCBS, 2015c, p. 1). The fact that the BCBS first put forward interim rules in 2009, before fully recasting this initial framework only six years later reveals regulators' uncertainty regarding the appropriate regulation of CVA risk (BCBS, 2009c, pp. 32–34; BCBS, 2015c). We can even note that the CVA framework actually moved within the Basel framework from originally being an extension of the CCR framework to becoming a standalone RWA calculation framework, loosely attached to the market risk area (BCBS, n.d., MAR50). We can then conclude that the CVA framework indeed constituted a novel policy instrument within the Basel framework.
IS24	0.616	The proposals put forward by the BCBS for the calculation of operational risk capital requirements constituted an important reform of an already well-established part of the Basel framework. Indeed, standards on operational risk were introduced into the Basel framework with Basel II (BCBS, 2004b). Basel II offered three alternative approaches to banks, including one internal modelling approach. The Basel III reform proposals in this area made important changes to the way in which the capital charges for operational risk are to be calculated—particularly by changing the underlying indicator of operational risk, removing the internal-model approach and introducing the use of internal loss data into the calculation. We can then consider that the proposals for operational risk in Basel III, while mostly a derivate from Basel II, exibit a significant degree of innovation.
IS25	NA.	The use of non-risk based leverage ratio to set a backstop capital requirement can be considered a genuine Basel III innovation. Since before Basel I, the tendency of bank prudential regulation had always been to introduce *more* risk sensitivity in standards, by way of risk-weights and credit conversion factors, in order to differentiate risky from non-risky assets and adapt capital requirements to the particular risk profiles of individual institutions. Furthermore, although the concept of leverage ratio existed long before Basel III, there was no consensus on its definition and even less on its appropriate calibration for use as a prudential requirement. It is then significant that the leverage ratio was to be introduced first as a supervisory reporting requirement at first, then as a public disclosure requirement, and only made into a binding Pillar 1 requirement only 8 years after its adoption (BCBS, 2010a, p. 69): the BCBS needed to gather data before finalising the design of this novel policy instruments (BCBS, 2013i, 2016f).

Table D.2: Quantitative and qualitative evidence of regulatory reuse or novelty *(continued)*

Issue ID	**Cosine similarity with Basel II**	**Qualitative evidence**
IS26	NA.	Although not part of the pre-GFC versions of the Basel framework, the LCR was not a full innovation. Bank liquidity requirements have actually been the object of intense debates among bankers and regulators since the late 19th century and even though largely abandoned as regulatory standards, liquidity management policies have always been part of banking. Indeed, as the BCBS acknowledged in its initial proposal for liquidity requirements, the requirement "builds on traditional liquidity 'coverage ratio' methodologies used internally by banks to assess exposure to contingent liquidity events" (BCBS, 2009b, p. 5). Furthermore, the LCR was inspired by older attempts at forcing banks to hold liquidity reserves, notably in the United States (US) (Diamond & Kashyap, 2016; Sablik, 2015). The LCR was not, then, a *true* innovation but more the reintroduction of well-known metrics and tools into regulation.
IS27	NA.	Similarly to the LCR, the NSFR, although it seems a novel instrument when considering only the previous versions of the Basel framework, actually "builds on traditional 'net liquid asset' and 'cash capital' methodologies used widely by internationally active banking organisations, bank analysts and rating agencies" (BCBS, 2009b, p. 20). The NSFR should then not be considered as a tool that, even though never before enshrined in prudential standards before, was already well-known from both regulators and market participants.
IS28	NA.	Although not a part of Basel II, rules on large exposures were already well-known before Basel III. The first BCBS supervisory guidance on the topic were released as early as 1991 (BCBS, 1991), and the *Core Principles for Effective Banking Supervision* of 2006, which establishing additional common principles to be applied by member jurisdictions in their regulation of banks, contained a Core Principle 10 on large exposures. In its first proposals to integrate large exposures limits in the Pillar 1 of Basel III, the BCBS noted that these early initiatives had led member jurisdictions to adopt rules on large exposures that showed "considerable homogeneity in general approach" (BCBS, 2013k, p. 5). In the EU, Directive 2006/48/EC (CRD I) already included a section (Title V, chap. 2, sec. 5) on large exposures that is very close, in its architecture and the type of requirements that it imposed on banks, to the current Basel framework. The Basel III proposals on large exposures then hardly were a novelty for either regulators or market participants.
IS29	NA.	The establishment of margin requirements on non-centrally-cleared derivatives is beyond doubt a post-GFC innovation. No regulation applied to OTC derivatives contracts before the crisis and there was no requirement on bank to exchange initial nor variation margin on those contracts. The introduction of those requirements in Basel III is a direct result of the G20's call to regulate the OTC derivatives markets after the crisis and to push as much as possible of these transactions to central clearing (Basel Committee on Banking Supervision & International Organization of Securities Commissions, 2012, p. 1).

D.4 Calibrated data

The following table presents the value assigned to each lobbying coalition (named after the policy issue it targets) in the outcome and conditions.

Table D.3: QCA : Calibrated data set

Issue id	SUCCESS	COALSIZE	FINAMOOD	COALEXPE	COALCOOR	NOFISUPP	ISSUSALI	ISSUCOMP	ISSUNOVE	ISSUPOLI
IS01	0.9	1.000	0.000	0	0.7	0.875	1.0	0.9921142	0.125	1.0
IS02	0.7	0.250	0.000	0	0.7	0.125	1.0	0.7645476	0.125	0.0
IS03	0.0	0.250	0.250	0	0.9	0.125	0.2	0.0016929	0.875	0.4
IS04	0.0	1.000	0.250	0	0.7	1.000	1.0	0.1105965	1.000	1.0
IS05	0.2	0.000	0.000	0	0.6	0.125	0.8	0.0377284	1.000	1.0
IS06	1.0	1.000	0.250	0	0.9	0.875	0.1	0.9993481	0.125	0.0
IS07	0.0	0.000	0.000	0	0.0	0.000	1.0	0.0099347	0.125	1.0
IS08	0.2	0.000	0.000	0	0.2	0.000	0.1	0.7884727	0.000	0.0
IS09	0.7	0.250	0.750	0	0.3	0.125	0.0	1.0000000	0.000	0.0
IS10	0.0	0.000	0.750	0	0.0	0.000	0.0	0.0006351	0.000	0.0
IS11	0.9	0.875	1.000	1	0.9	0.250	0.2	1.0000000	0.000	0.2
IS12	0.0	0.000	0.000	0	0.3	0.000	0.2	0.9902701	0.750	0.8
IS13	0.0	0.000	0.000	0	1.0	0.000	1.0	0.2725983	0.125	1.0
IS14	0.0	0.250	0.875	0	0.9	0.125	0.9	0.0744376	1.000	1.0
IS16	0.0	0.000	0.000	0	0.0	0.000	0.0	0.0022712	1.000	1.0
IS17	0.0	0.000	0.000	0	0.2	0.000	0.2	0.0067683	0.875	0.0
IS19	0.2	0.000	0.000	0	0.3	0.000	0.2	0.0657305	0.125	0.0
IS21	1.0	0.000	0.750	0	0.0	0.000	0.1	1.0000000	0.125	0.0
IS22	1.0	0.000	1.000	1	0.1	0.125	0.1	1.0000000	0.125	0.0
IS23	1.0	0.000	1.000	0	1.0	0.125	0.2	0.7817551	0.875	0.0
IS24	1.0	0.750	0.125	0	0.0	0.250	0.1	0.1341432	0.125	0.0
IS25	0.2	1.000	0.875	0	0.7	0.125	0.9	0.9413288	1.000	0.8
IS26	1.0	1.000	0.250	0	0.8	1.000	0.9	1.0000000	0.250	0.2
IS27	1.0	1.000	0.875	0	1.0	0.750	0.9	0.8855392	0.250	0.2
IS28	1.0	1.000	0.125	0	1.0	0.750	0.2	0.2725983	0.125	0.0
IS29	0.2	1.000	0.875	0	0.9	0.750	0.8	0.0548734	1.000	1.0

D.5 Sufficiency analysis: Solutions

This appendix presents the conservative, most parsimonious and intermediate solutions produced through logical minimisation for the outcome SUCCESS and ~SUCCESS created for the analysis of sufficient configurations of conditions in Chapter 6.

Conservative solution for SUCCESS

	inclS	PRI	covS	covU	cases
COALCOOR∗ISSUCOMP∗~ISSUPOLI	0.966	0.958	0.485	0.192	IS02; IS23; IS06,IS26; IS11,IS27
~COALSIZE∗FINAMOOD∗ISSUCOMP∗~ISSUPOLI	0.985	0.983	0.285	0.168	IS09,IS21,IS22; IS23
COALSIZE∗~FINAMOOD∗COALCOOR∗ISSUCOMP	0.946	0.930	0.269	0.062	IS06,IS26; IS01
COALSIZE∗~FINAMOOD∗~ISSUCOMP∗~ISSUPOLI	0.883	0.864	0.155	0.089	IS24; IS28
Solution	0.935	0.926	0.814		

Most parsimonious solution for SUCCESS : Model 1

	inclS	PRI	covS	covU	cases
COALSIZE∗~ISSUPOLI	0.959	0.953	0.480	0.135	IS24; IS28; IS06,IS26; IS11,IS27
~COALSIZE∗FINAMOOD∗ISSUCOMP	0.965	0.960	0.285	0	IS09,IS21,IS22; IS23
~FINAMOOD∗COALCOOR∗ISSUCOMP	0.840	0.791	0.330	0.124	IS02; IS06,IS26; IS01
Solution	0.907	0.894	0.848		

Most parsimonious solution for SUCCESS : Model 2

	inclS	PRI	covS	covU	cases
COALSIZE∗~ISSUPOLI	0.959	0.953	0.480	0.135	IS24; IS28; IS06,IS26; IS11,IS27
~FINAMOOD∗COALCOOR∗ISSUCOMP	0.840	0.791	0.330	0.124	IS02; IS06,IS26; IS01
FINAMOOD∗ISSUCOMP∗~ISSUPOLI	0.991	0.990	0.474	0	IS09,IS21,IS22; IS23; IS11,IS27
Solution	0.907	0.894	0.848		

Intermediate solution for SUCCESS: Standard Analysis

	inclS	PRI	covS	covU	cases
COALSIZE∗~ISSUPOLI	0.959	0.953	0.480	0.119	IS24; IS28; IS06,IS26; IS11,IS27
FINAMOOD∗ISSUCOMP∗~ISSUPOLI	0.991	0.990	0.474	0.168	IS09,IS21,IS22; IS23; IS11,IS27
COALCOOR∗ISSUCOMP∗~ISSUPOLI	0.966	0.958	0.485	0.059	IS02; IS23; IS06,IS26; IS11,IS27
COALSIZE∗~FINAMOOD∗COALCOOR∗ISSUCOMP	0.946	0.930	0.269	0.062	IS06,IS26; IS01
Solution	0.937	0.928	0.844		

Intermediate solution for SUCCESS: Standard Analysis

	inclS	PRI	covS	covU	cases
COALSIZE∗~ISSUPOLI	0.959	0.953	0.480	0.119	IS24; IS28; IS06,IS26; IS11,IS27
FINAMOOD∗ISSUCOMP∗~ISSUPOLI	0.991	0.990	0.474	0.168	IS09,IS21,IS22; IS23; IS11,IS27
COALCOOR∗ISSUCOMP∗~ISSUPOLI	0.966	0.958	0.485	0.059	IS02; IS23; IS06,IS26; IS11,IS27
COALSIZE∗~FINAMOOD∗COALCOOR∗ISSUCOMP	0.946	0.930	0.269	0.062	IS06,IS26; IS01
Solution	0.937	0.928	0.844		

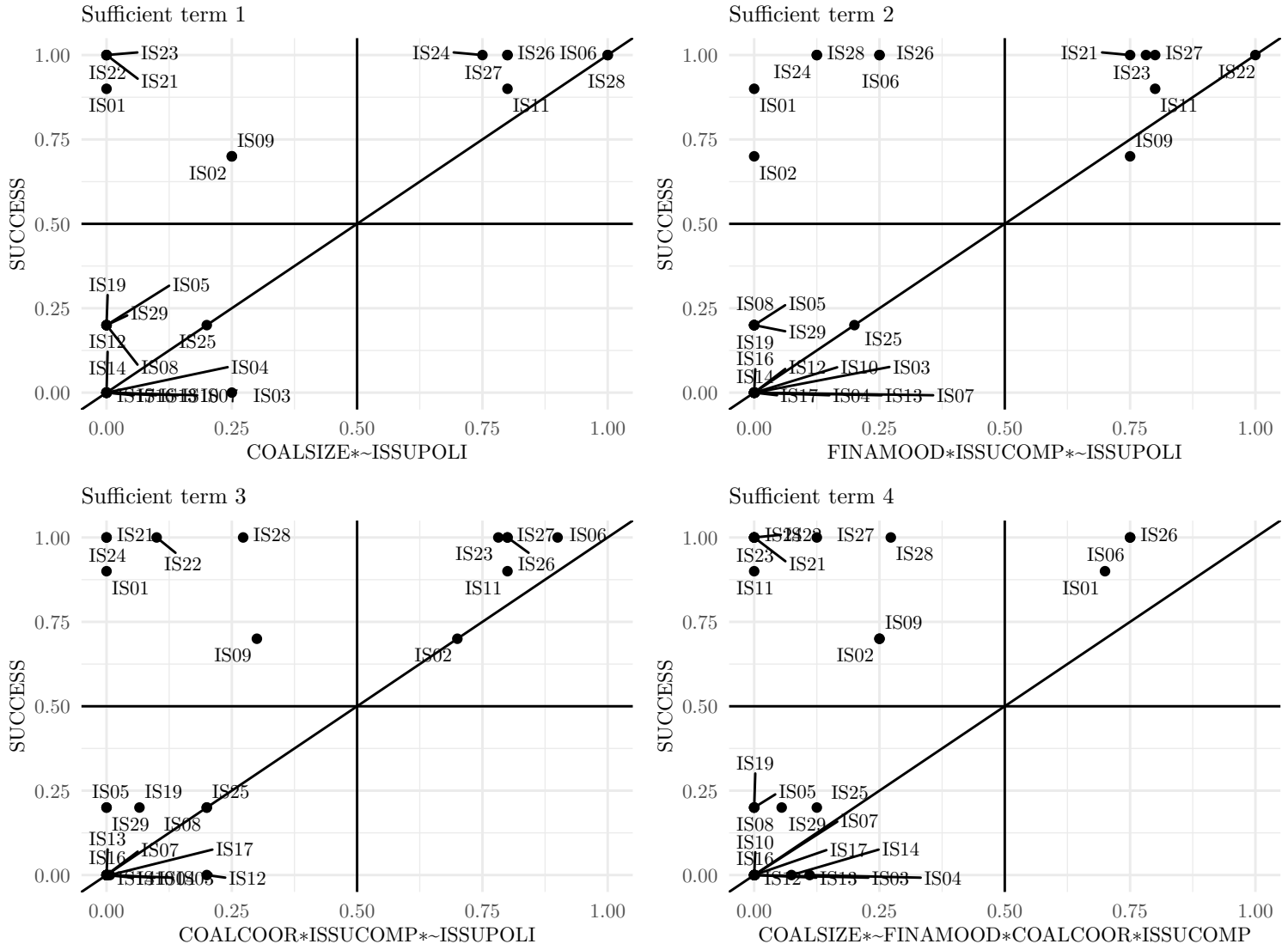

Figure D.1: Sufficiency plots of solution terms — Outcome SUCCESS

Conservative solution for ~SUCCESS

	inclS	PRI	covS	covU	cases
~COALSIZE∗~FINAMOOD∗~COALCOOR	0.928	0.913	0.464	0.116	IS17,IS19; IS07,IS16; IS08; IS12
~COALSIZE∗~FINAMOOD∗~ISSUCOMP	0.927	0.917	0.499	0.061	IS17,IS19; IS07,IS16; IS03; IS05,IS13
COALCOOR∗~ISSUCOMP∗ISSUPOLI	0.951	0.946	0.305	0.170	IS05,IS13; IS14; IS04; IS29
~COALSIZE∗~COALCOOR∗~ISSUCOMP∗~ISSUPOLI	0.924	0.906	0.221	0.054	IS17,IS19; IS10
Solution	0.920	0.910	0.840		

Most parsimonious solution for ~SUCCESS: Model 1

	inclS	PRI	covS	covU	cases
~COALSIZE∗~ISSUCOMP	0.915	0.907	0.599	0.101	IS17,IS19; IS07,IS16; IS03; IS05,IS13; IS10; IS14
~ISSUCOMP∗ISSUPOLI	0.940	0.936	0.479	0.123	IS07,IS16; IS05,IS13; IS14; IS04; IS29
~COALSIZE∗~FINAMOOD∗~COALCOOR	0.928	0.913	0.464	0.002	IS17,IS19; IS07,IS16; IS08; IS12
Solution	0.871	0.854	0.867		

Most parsimonious solution for ~SUCCESS: Model 2

	inclS	PRI	covS	covU	cases
~COALSIZE∗~ISSUCOMP	0.915	0.907	0.599	0.101	IS17,IS19; IS07,IS16; IS03; IS05,IS13; IS10; IS14
~ISSUCOMP∗ISSUPOLI	0.940	0.936	0.479	0.123	IS07,IS16; IS05,IS13; IS14; IS04; IS29
~FINAMOOD∗~COALCOOR∗ISSUCOMP	0.748	0.628	0.190	0.011	IS08; IS12
Solution	0.871	0.854	0.867		

Intermediate solution for ~SUCCESS: Standard Analysis

	inclS	PRI	covS	covU	cases
~ISSUCOMP∗ISSUPOLI	0.940	0.936	0.479	0.185	IS07,IS16; IS05,IS13; IS14; IS04; IS29
~COALSIZE∗~FINAMOOD∗~COALCOOR	0.928	0.913	0.464	0.116	IS17,IS19; IS07,IS16; IS08; IS12
~COALSIZE∗~FINAMOOD∗~ISSUCOMP	0.927	0.917	0.499	0.047	IS17,IS19; IS07,IS16; IS03; IS05,IS13
~COALSIZE∗~COALCOOR∗~ISSUCOMP	0.957	0.950	0.402	0.054	IS17,IS19; IS07,IS16; IS10
Solution	0.918	0.908	0.855		

Intermediate solution for ~SUCCESS: Enhanced Standard Analysis

	inclS	PRI	covS	covU	cases
~ISSUCOMP∗ISSUPOLI	0.940	0.936	0.479	0.185	IS07,IS16; IS05,IS13; IS14; IS04; IS29
~COALSIZE∗~FINAMOOD∗~COALCOOR	0.928	0.913	0.464	0.116	IS17,IS19; IS07,IS16; IS08; IS12
~COALSIZE∗~FINAMOOD∗~ISSUCOMP	0.927	0.917	0.499	0.047	IS17,IS19; IS07,IS16; IS03; IS05,IS13
~COALSIZE∗~COALCOOR∗~ISSUCOMP	0.957	0.950	0.402	0.054	IS17,IS19; IS07,IS16; IS10
Solution	0.918	0.908	0.855		

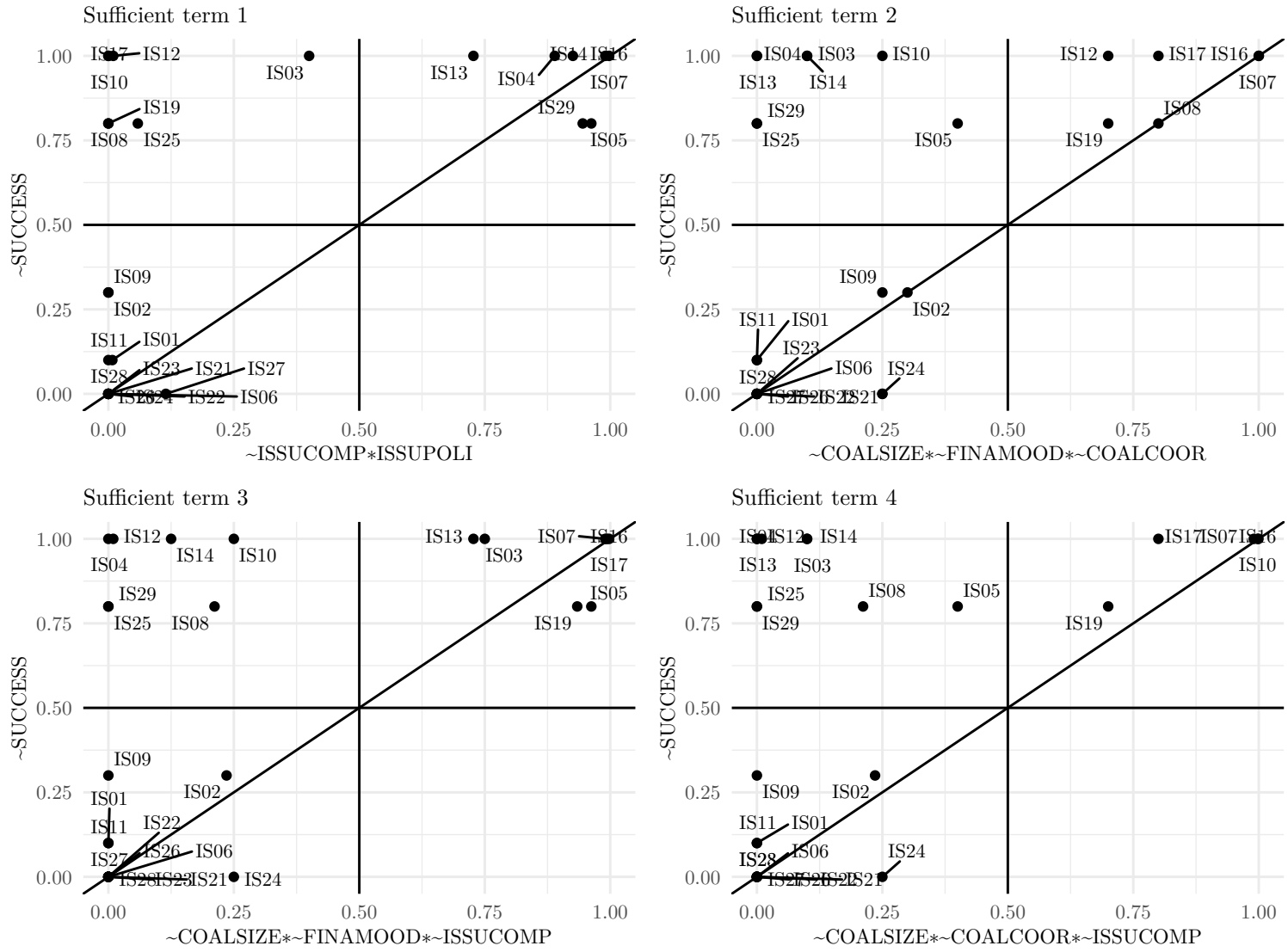

Figure D.2: Sufficiency plots of solution terms — Outcome ~SUCCESS

D.6 Robustness tests

Sensitivity ranges

COALSIZE: Sensitivity ranges

	Outcome SUCCESS		Outcome ~SUCCESS	
Threshold	Lower bound	Upper bound	Lower bound	Upper bound
Exclusion	15	95	5	95
Cross-over	90	130	90	105
Inclusion	100	NA	100	195

FINAMOOD: Sensitivity ranges

	Outcome SUCCESS		Outcome ~SUCCESS	
Threshold	Lower bound	Upper bound	Lower bound	Upper bound
Exclusion	NA	9.49	3.8	9.2
Cross-over	8.8	10.1	9	9.5
Inclusion	9.501	NA	9.5	11.6

ISSUPOLI: Sensitivity ranges

	Outcome SUCCESS		Outcome ~SUCCESS	
Threshold	Lower bound	Upper bound	Lower bound	Upper bound
Exclusion	NA	9	5	9
Cross-over	6	11	10	11
Inclusion	10	15	10	15

Alternative calibrations

COALSIZE: Alternative calibrations

Choice calibration	**Lenient calibration**	
Nb. of coalition members		**Membership score**
Less than 70	Less than 50	0
70 to less than 80	50 to less than 60	0.2
80 to less than 100	60 to less than 80	0.4
100 to less than 120	80 to less than 100	0.6
120 to less than 130	100 to less than 110	0.8
130 or more	110 or more	1

FINAMOOD: Alternative calibrations

Choice calibration	**Lenient calibration**	**Conservative calibration**	
Average polarity of financial interest groups' comments			**Membership score**
Less than -11.5	Less than -9.5	Less than -13	1
-11.5 to less than -10.5	-9.5 to less than -8.5	-13 to less than -12.5	0.825
-10.5 to less than -9.5	-8.5 to less than -7.5	-12.5 to less than -11.5	0.75
-9.5 to less than -8.5	-7.5 to less than -6.5	-11.5 to less than -10.5	0.25
-8.5 to less than -7.5	-6.5 to less than -5	-10.5 to less than -9.5	0.125
-7.5 or more	-5 or more	-9.5 or more	0

COALCOOR: Alternative calibrations

Lenient calibration	**Conservative calibration**
Score of IS25, IS04, IS01, IS02 changed from 0.7 to 0.8, score of IS05 changed from 0.6 to 0.7, scores of IS12, IS09 and IS19 changed from 0.3 to 0.6.	Score of IS02 changed from 0.7 to 0.6, score of IS05 changed from 0.6 to 0.4.

ISSUCOMP: Alternative calibration

Choice calibration	**Lenient calibration**	
Indicator of political commitment		**Membership score**
Less than 5	Less than 2	0
5 to less than 7	2 to less than 3	0.125
7 to less than 10	3 to less than 5	0.25
10 to less than 12	5 to less than 7	0.75
12 to less than 15	7 to less than 10	0.825
15 or more	10 or more	1

ISSUPOLI: Alternative calibration

	Choice calibration		**Lenient calibration**	
Threshold	Nb. tokens	Nb. operators	Nb. tokens	Nb. operators
Exclusion	5 000	50	4 000	40
Cross-over	8 500	80	7 500	68
Inclusion	12 000	110	11 000	100

Case-oriented robustness

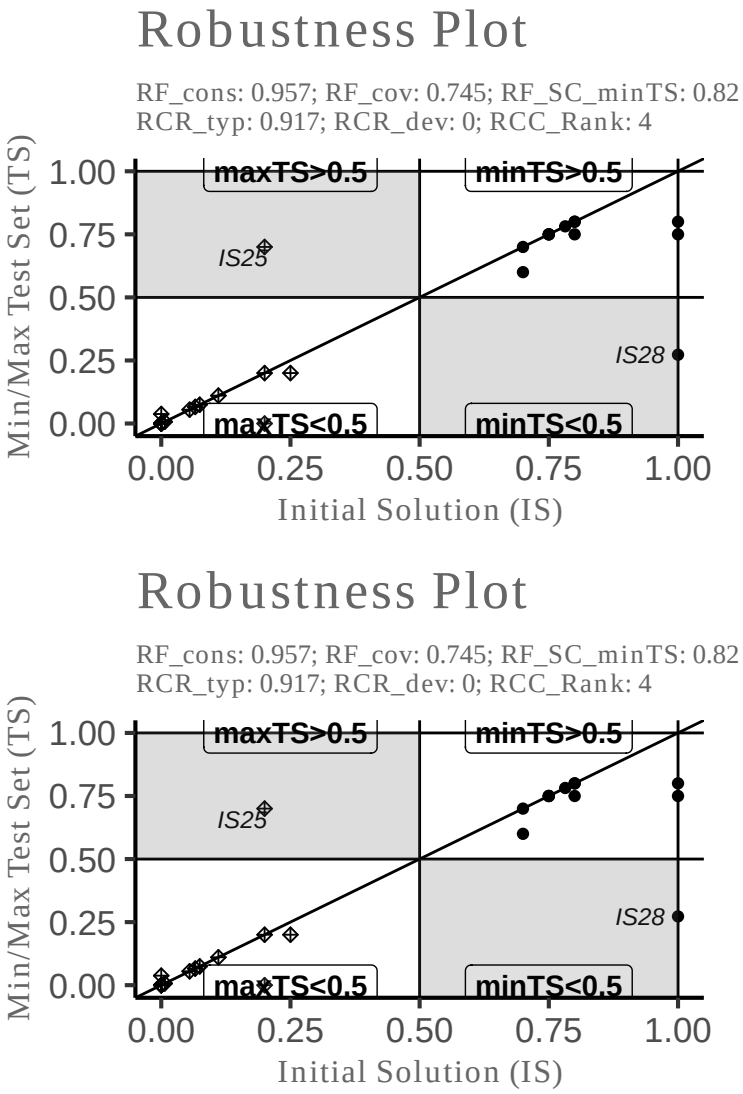

Figure D.3: Robustness plots of solutions

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