## COST- BENEFIT ANALYSIS

***"Applying economic analysis to financial regulation is the only way of getting to the bottom of these issues. In particular, CBA is a practical and rigorous means of identifying, targeting and checking the impacts of regulatory measures on the underlying causes of the ills with which regulators need to deal, those causes being the market failures that in turn may justify regulatory intervention."***

| Possible options | Impact on consumers | | Impact on regulated firms | | Impact on regulator | |
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| | Costs | Benefits | Costs | Benefits | Costs | Benefits |
| 1. "Do nothing option" | | | | | | |
| 2. Improvement of the regulatory framework and assigning of regulatory restriction for the establishment of a special unit for risk management and economic analysis. | If firms pass on higher costs these costs might be passed to costumers as higher administrative fees. | Clients are better protected | Higher costs due to the establishment of a special unit for risk management and economic analysis. | Banks are better protected to possible collapses due to the incapacity of costumers to repay their loans. | Costs almost don't exist because there is no need for new structures. | Higher stability in the banking system and higher financial stability. |
| 3. Imposing restricting rules for Board of Directors in order to secure an improved process of credit risk management and mitigation. | No specific costs | Clients are better protected | No specific costs | Banks are better protected to possible collapses due to the incapacity of costumers to repay their loans. | Costs almost don't exist because there is no need for new structures. | Higher stability in the banking system and higher financial stability. |
| 4. Defining of specific requirements for foreign currency loans such as ratio of installment on income or collateral value restrictions. | Credit applications may be refused | Clients are better protected | Costs on credit application receive or credit analysis for unapproved loans | Banks are better protected to possible collapses due to the incapacity of costumers to repay their loans. | Costs almost don't exist because there is no need for new structures. | Higher stability in the banking system and higher financial stability. |

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| 4. Creation of a reserve fund of at least 5% of the unhedged portfolio in foreign currency | No specific costs | Clients are better protected | Higher provisions lead to a reduced net result which leads to lower regulatory capital and lower CAR ratio.[1] | Banks are better protected to possible collapses due to the incapacity of costumers to repay their loans. | Costs almost don't exist because there is no need for new structures. | Higher stability in the banking system and higher financial stability. |
| 5. An exposure limit of 400 per cent of regulatory capital for credit extended in foreign currency. Every exposure over thi s limit will be discounted from the regulatory capital. | No specific costs | Clients are better protected | No extra costs as long as this limit is taken into consideration. Over this limit there is a reduction of the regulatory capital and possibly a reduction of CAR ratio. | Banks are better protected to possible collapses due to the incapacity of costumers to repay their loans. | Costs almost don't exist because there is no need for new structures. | Higher stability in the banking system and higher financial stability. |
| 6. Setting of transparency prerequisites for minimum information provided to the customers. | No specific costs | Clients are better informed. | Costs for preparing these publications. | Banks are better protected to possible collapses due to the incapacity of costumers to repay their loans. | Costs almost don't exist because there is no need for new structures. | Higher stability in the banking system and higher financial stability due to higher transparency. |

[1] Calculations evidence a reduction of the CAR ratio by 1.7 per cent on december'07 if an increase of provisions by 5% is taken into consideration. This impact is higher for individual banks.
Credit outstanding in foreign currency for unhedged clients (december'07) = ALL 94,205.4 million
Provisions according to the new regulation increase by = 5% * 94,205.4 = 4,710.3 million
Net result of the banking system in decemver'07 = ALL 10,566.67 million
Net result after increasing the provisions = 10,566.67 million - 4,710.3 million = ALL 5,856.37 million
Regulatory capital on december'07 = ALL 46,200.06 million
Regulatory capital after increasing the provisions = 46,200.06 million - 4,710.3 million = 41,489.76 million
Capital Adequacy Ratio after increasing the provisions = **15.3** per cent from that of **17.1** which means a reduction of CAR by 1.7 point percentage.