

EBF_026506

European Parliament, ECON public hearing

on updating CRR, CRD, BRRD and SMRR

Speaking points EBF President Frederic Oudéa

Brussels, 25 April 2017

CHECK AGAINST DELIVERY

INTRODUCTION

Honourable Members of the European Parliament, dear Chairman Gualtieri,

Let me clarify that I am speaking here in my capacity as chairman of the European Banking Federation. I would like to highlight four themes of particular significance in this debate:

First, the need for international consistency and level playing field.

1: INTERNATIONAL CONSISTENCY AND LEVEL PLAYING FIELD

(1) we cannot ignore the growing fragmentation of the international regulatory landscape in light of recent political changes notably in the US. The perspective of the Brexit adds up to that trend.

(2) this does not imply that we Europeans should refrain from seeking meaningful and robust international agreements, BUT this reality commands caution;

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EU Transparency Register / ID number: 4722660838-23

(3) we should avoid scenarios where Europe front-loads proposals that are still in the making, as has been our experience with bank resolution where you are being asked to revisit BRRD in light of the final international TLAC standard;

(4) We should learn the lesson today with the Fundamental Review of the Trading Book, which definition at the Basel Committee is not yet stabilised. Its impact is uncertain and its implementation in major jurisdictions like the US remains unclear.

As an illustration of the confusion we are in, it is worth noting that the expected capital charge increase of FRTB, as estimated by Basel itself, doubled between November 2016 and February 2017: the Commission's November 2016 proposal is based on Basel's Q.I.S. 4 which reports a 40% increase of Risk Weighted Assets; while the most recent number crunching by Basel in February 2017, i.e. Q.I.S. 6, sets that impact at something close to 80% for GSIBs.

This topic is particularly important at a time where we need to think strategically about the direction we want to take for capital market activities in Europe in light of BREXIT consequences.

Against this background, I plead before this Committee to postpone discussions on FRTB until there is clarity and certainty at global level.

2: TRANSLATING BANKING UNION INTO PRUDENTIAL REALITY

As you know, European banks are not yet able to exploit the benefits of a truly integrated banking sector.

Firstly, European banks face additional capital charges for systemically important banks and multiple minimum bail-in requirements to be held in local EU jurisdictions.

Secondly, while the criteria for waiving solo application of capital and liquidity requirements have been slightly extended, they remain far too restrictive to be practicable (such as requiring a 50% financial collateral on the own funds of the waived entity). That does not recognise the benefits of the SSM, the Banking Union and the European resolution framework. The euro zone is our domestic market of euro area banks, therefore the treatment of intragroup transactions between entities in the same Member State should be applicable to entities in the Banking Union.

3: THE IMPORTANCE OF FAST TRACKING SOME KEY REFORMS

- **CREDITOR HIERARCHY:** The Commission has rightly placed the creditor hierarchy proposal in a separate file to ensure swift examination and hopefully adoption. This is key in allowing the industry to issue eligible debt and build-up the requested TLAC buffers on time. Beyond that, the European Banking Federation supports the introduction of an appropriate grandfathering scheme for those liabilities whose eligibility conditions are modified.
- **IFRS 9:** He we encourage you to fix the calendar incoherence between prudential phase-in provisions contained in the proposal. We also believe the accounting standards implementation date (starting in January 2018) calls for an accelerated agreement in the coming months so as to provide the intended relief.

4: THE IMPORTANCE OF THE GROWTH AND INNOVATION DIMENSION OF THE PACKAGE

The package contains several measures aimed at improving banks' lending capacity to support the EU economy. Here, I am hopeful that you, Members of the European Parliament, will not hesitate to approve the Commission's proposal to extend the SME supporting factor or the proposal to support infrastructure investments. And may I recall that in Europe, the majority of investments projects in transportation, renewable energies and hospitals are financed by banks.

I want to refer as well to how banks contribute to the digitalisation of the EU economy. The need for banks to invest in software development to remain competitive is a good example: software investments remain penalised in Europe compared to the US where software is risk weighted as an ordinary asset, like premises and equipment.

CONCLUSION

To conclude, let me echo the message of Vice President Dombrovskis when the Commission adopted the risk reduction package: *"Europe needs to build on the agreed global standards but it also needs to consider the specificities of the European banking sector"*.

I would also add that this is key not to damage the international competitiveness of the EU banking sector. It is now your turn to strike the right balances, avoiding undue impact on the financing of the real economy and ensuring that we are able to develop a safe, sustainable and competitive European financial services industry, which will benefit to all our economies. Thank you.