Brussels, 26 March 2019

EBF_033787

EBF summary on Basel IV[1] in Europe

The legislative act that the European Commission will propose in the next future for the transposition of the "Finalisation of Basel III" package is not only about resilience of the banking sector. Resilience is an objective already met at large. The upcoming legislation is about credit supply to the economy. The bulk of the activity of European banks is lending to corporates, SMEs and households. Additional increases in regulatory costs have a direct effect in the cost of credit and ultimately in the amount of credit that banks can offer to economic agents. This aspect is crucial for Europe due to the predominant role of banks in financing the economy. It is imperative that European policy makers conduct a critical assessment of the terms for the sake of the European economy. A balanced implementation will keep Europe's longstanding commitment with global standards and minimise potential negative effects on the availability of bank credit to the European economy.

The results of a preliminary impact assessment undertaken by EBA show that the expected overall impacts of the Basel IV package are quite significant, European banks' minimum Tier 1 capital requirement would increase by 16.7% at the full implementation date. In contrast, the BCBS impact assessment reveals that American banks will experience no increase in their capital requirements. It is worth reminding the commitment of the G-20 not to significantly increase capital requirements in any region which was later restated by the European Commission in various occasions[2]. In order to fulfil the G-20 mandate in Europe, the EBF proposes several refinements below.

The EBF has produced a more comprehensive list of issues with in-depth analysis that remains available to further discuss the proposed refinements and to collaborate with the European Commission and other authorities to explore the potential solutions for each identified issue.

[1] For the sake of clarity, the EBF uses the term "Basel IV" to refer to the BCBS document "Basel III: Finalising post-crisis reforms", because the vast majority of its proposals and, in particular, the most impacting ones were not contemplated in the original Basel III package (*Basel III: A global regulatory framework for more resilient banks and banking systems*).

[2] https://ec.europa.eu/commission/commissioners/2014-2019/dombrovskis/announcements/speech-vp-dombrovskis-european-banking-federation-conference-embracing-disruption_en

1) The Basel IV package is a collection of various changes to existing standards. It is important to keep in mind that **it is the overall impact of the package that matters**. The different pieces of the reform and their interrelations must be considered all together.

2) **The output floor should be calibrated at the highest level of consolidation** for each banking group and applied **only to minimum capital requirements set through Pillar 1** and internationally agreed capital buffers. Pillar 2 and local capital buffers must be excluded.

3) **The fact that the EU allows the use of external credit ratings for prudential purposes should not penalize unrated corporates** which are the vast majority in Europe. The 65% risk weight for investment grade exposures should apply as in jurisdictions where external ratings are not eligible. The **SME supporting factor should be maintained** and applied without limit on the size of the loan.

4) **The treatment of real estate exposures under the standardised framework should accurately reflect lending practices** with a higher level of granularity and risk sensitivity. The EBF recommends the introduction of objective criteria into the framework that would recognise the dual recourse of loans in the EU and the relevant national specificities of each Member State.

5) **The notion of Unconditionally Cancellable Commitments should be reviewed** and clarified in accordance with accounting standards. The current possibility in the CRR to use a 0% Credit Conversion Factor (CCF) should be maintained where justified. **The CCF applied to technical guarantees should be maintained** at the current applied percentage, 20%.

6) **A differentiated treatment should be introduced for specialised lending exposures** in the standardised approach adopting simple criteria which would enable most banks to reflect more accurately the risks implied by specialised lending. Regarding IRB models, the inputs floors and haircuts should be adequately calibrated in order to reflect the lower risk of specialised lending.

7) **The majority of European banks recommend the adoption of a forward-looking framework for operational risk** instead of the proposed backward-looking framework that takes into account past experience of losses. Some EBF Members do not share this position and would prefer to be allowed to maintain the loss component into the formula with the purpose of determining their operational risk capital requirements.

8) **The EU exemptions currently provided by the CRR with respect to the scope of the CVA capital charge framework should be maintained** since they have been introduced to fix the shortcomings of the calibration of the framework. Especially in the case of non-financial counterparties, the exemption is essential to avoid adverse effects on employment and growth.

9) The EBF recommends a **careful examination of the risk weights for equity exposures** that remain unduly penalised under the revised framework.

REFINEMENTS FOR THE EU TRANSPOSITION OF THE BASEL IV AGREEMENT

1) Assessment of the overall impacts of the whole Basel IV package

The Basel IV package subject to transposition to EU law is a collection of various changes to existing standards including a review of the standardised approach for credit risk, new limitations to the application of the IRB models, minimum capital requirements for both CVA risk, market risk and operational risk, an output floor and some adjustments to the leverage ratio. It is important to keep in mind that it is the overall impact of the package that matters. The different pieces of the reform and their interrelations must be considered all together.

2) Appropriate application of the output floor

The output floor is mainly based on the standardised approaches defined for the risk categories assessed through Pillar 1 which in general lack granularity and risk sensitivity in several aspects. According to the results of the Basel monitoring exercise, around three quarter of European Group 1 banks[3] would be constrained either by the leverage ratio or by the output floor. That is removing risk-sensitivity of the framework for the majority of the banks. The lack of risk-sensitivity of the output floor will be damaging to banks with lower risk profile and create disincentives for the lowest risk portfolios and for exposures with safe risk mitigation instruments, for example covered bonds. Segments of clients of the highest credit quality may see their cost of credit pushed up by the output floor if the capital requirements are proportionately higher than the risk involved. This would affect mostly certain credit portfolios like the best tranches of residential mortgage, corporate lending and SME finance.

A careful calibration of the output floor should not go further than the Basel IV standards:

- The output floor should be applied at the highest level of consolidation for each banking group as assumed by the Basel framework.

- The output floor should only be applied to minimum capital requirements set through Pillar 1 and internationally agreed capital buffers. The floor should not interfere with the dynamic of Pillar 2 and capital buffers that are set at a local level, such as suggested by the BCBS final standards. If it was not the case, the risks that are assessed in Pillar 1 would be double-counted and excessively penalised and the playing field would be distorted at the disadvantage of EU banks. For these reasons, the floor should be set in terms of minimum required capital levels and not in terms of RWAs.
    - With regard to capital buffers, the output floor should only apply at most to internationally agreed buffers: the buffer for global systemically important banks (G-SIBs), the countercyclical buffer and the conservation buffer. The other buffers that are set at the European level such as the buffer for other systemically important institutions (O-SIIs) or the systemic risk buffer should be excluded. If it was not the case, the application of the output floor would be more constraining in Europe than in other jurisdictions which would distort the playing field.

[3] Group 1 banks are those that have Tier 1 capital of more than €3 billion and are internationally active.

- Pillar 2 and local capital buffers are aimed at mitigating different types of risks that are not already assessed in Pillar 1. Since the output floor is based on the standardised approaches defined for the risk categories that are mitigated through Pillar 1, Pillar 2 and the local capital buffers should be excluded from its scope of application. If it was not the case, the risks that are assessed in Pillar 1 would be double-counted and excessively penalised.

3) Review of the treatment of unrated corporates and maintain of SME treatment

Banks' lending to unrated corporates which are the vast majority in Europe is extremely penalised rather than being promoted under the reviewed standardised approach. Indeed, corporates make very little use of rating agencies and have therefore to be considered as unrated corporates which are assigned a high-risk weight of 100% under the reviewed framework.

Basel IV allows an alternative identification of investment grade exposures for which it is envisaged to apply a 65% risk weight. But this treatment can only be used in jurisdictions where external credit ratings are not eligible for the calculation of prudential capital requirements. Therefore, an issue of level playing field with other jurisdictions, namely the US, arises.

A plausible solution would be to adopt a similar treatment for unrated corporates in Europe.

In addition, given the fact that SMEs carry a lower systematic risk than larger corporates, capital requirements for SME exposures should be lower than those for large corporates to ensure an optimal bank financing of SMEs. It is also important to remind that small and medium-sized corporates are key drivers for growth and job creation and that this evidence is already recognised by European Authorities in their workplan to establish a Capital Markets Union for example. In this sense, the EBF supports the current application of a supporting factor to SME exposures and welcomes any initiatives that aims at extending its application without limit on the size of the loan.

4) Review of the treatment of real-estate financing

a) The treatment of real-estate exposures under the standardised framework should accurately reflect lending practices with a higher level of granularity and risk sensitivity. In most European economies, real estate is a key economic sector with broad impacts throughout the economy, on employment and competitiveness. We recommend considering the revision of the following terms: Mortgage loans in Europe are mainly dual recourse loans for which the borrower is personally liable (no walk away option). This justifies that mortgage loans show a lower risk profile in the European Union than in other jurisdictions where real-estate loans are only backed by the collateral provided by the borrower, and thus where borrowers are not personally liable. Due to this additional guarantee, EU loans should benefit from lower risk weights compared to non-recourse loans of other jurisdictions, ceteris paribus.

b) The EBF recommends the introduction of objective criteria into the framework that would recognise the dual recourse of EU loans and the relevant national specificities of each Member State. The EBF believes that the low loss rate experience in a specific market would adequately reflect the lower risk profile of real-estate lending due to the existence of additional guarantees provided by the dual recourse and eventually national specificities. In this sense, we suggest that the risk weights proposed by the BCBS, under both the loan splitting and the whole loan approaches, are lowered (application of a multiplier lower than 100%) when the average loss rate (net credit losses per annum divided by the total mortgage portfolio) on residential real estate exposures in a specific market are considered to be sufficiently low in any single year over a certain period of time. This risk weight reduction would only apply if the considered mortgages are dual recourse ones. The calculation of the LTV ratio should be updated in order to better reflect the accurate and current value of the property. The revised standardised framework considers the value of the property at origination as a cap for the calculation of the LTV ratio. Therefore, the pass of time renders those valuations outdated, an important issue especially for residential real estate mortgage portfolios which are typically long-term loans.

A plausible solution would be to introduce a revaluation of the property value on a regular basis into the framework.

c) The granularity and risk sensitiveness of the proposed LTV approach should be enhanced to avoid penalising the best quality tranches of credit. In the lower proposed LTV-buckets, especially for commercial real estate lending, the provided risk weights are too high (if compared to industry benchmark).

   We recommend applying the LTV-approach in a more granular and risk-sensitive manner. For commercial real estate, we recommend adopting one or two LTV buckets below 60% in order to achieve an adequate risk sensitivity of the framework.

d) The option to use the loan splitting approach or the whole loan approach is currently opened at the bank level and allows banks to adequately reflect the risks of their portfolios of residential real estate loans.

   The EBF recommends maintaining the possibility to apply one of these approaches at the bank level. To avoid cherry picking, the bank must apply this approach for the whole real estate asset class and is bound by this choice for certain period.

   The loan splitting approach should also be revised to be aligned with the more sensitive whole loan approach. For instance, a lower risk weight could apply if the LTV is lower than the existing threshold.

e) The EBF recommends an appropriate treatment of land Acquisition, Development and Construction (ADC) exposures in order to avoid penalising the financing of new housing and commercial buildings.

   We propose that exposures are classified as ADC exposures only when there are insufficient other income and assets of the obligor for mitigating the risk of losses (for instance, when the source of payment of loans depends mainly on the cash flow generated by the real estate that is being financed). In the other cases, exposures should be considered as corporate o retail SMEs ones, with risk weights depending of the creditworthiness of the counterparties.

   It is also important to clarify a narrow definition of high-risk ADC exposures that will be associated with a 150% risk weight. Indeed, a too wide definition of high-risk ADC exposures would not capture the risks of this kind of exposures with an adequate level of risk-sensitivity. As mentioned in paragraph 75 and in footnote 52 of the revised Basel framework, when pre-sale or pre-lease contracts amount to a significant portion of total contracts (e.g upper than 30% for residential assets), ADC exposures shall not be identified as high-risk exposures. With respect to leasing real estate exposures, regardless of whether they are commercial or residential properties, these exposures should be excluded from the application of higher risk weights whenever the underlying financing operation is aimed at selling or renting the immovable property in construction, as long as the borrower (lessee) provides the lender (lessor) with an already existing irrevocable obligation of a third party to buy or rent the property.

Furthermore, we believe that more risk sensitivity should be sought for the treatment of ADC exposures under the standardised approach, given the importance of such exposures for the real economy. In this regard, we propose that banks under the standardised approach should have the option to use the slotting approach (subject to supervisory approval), which is currently available for banks using the IRB Approach in the context of specialised lending. This would make the treatment of ADC exposures more risk sensitive, rather than assign a uniform risk weight of 150% that does not reflect actual risks. It is worth noting that this demand has been previously addressed by several respondents to the EBA consultation on RTS 2016/02 on specialised lending exposures.

5) Review of the treatment of Off-balance sheet exposures

a) The notion of Unconditionally Cancellable Commitments (UCC) should be reviewed and clarified in accordance with accounting standards. The current possibility in the Capital Requirements Regulation (CRR) to use a 0% Credit Conversion Factor (CCF) should be maintained where justified.

This kind of commitments is essential for financing the economy. It enables banks to grant financing solutions to corporate clients with the possibility to monitor / restrict any drawings before any sign of weakness is identified. For example, undrawn Trade Finance lines usually considered as unconditionally cancellable need a concrete action from banks to issue a new credit line. The same situation is encountered in case of undrawn lines for discounting receivables. As a consequence, we support the possibility of applying a 0% CCF upon an appropriate level of justification to be provided to the European supervisor.

b) The Basel Committee allows jurisdictions to exempt under national discretion certain arrangements from the definition of commitment provided that 3 conditions are met. We recommend the Commission to confirm the alignment between accounting and risk. The accounting reporting rules should remain the unique reference for the calculation of risk weighted assets calculations. In this sense, we suggest the adoption of the following definition:

Commitment means any contractual arrangement that has been offered by the bank and accepted by the client to extend credit, purchase assets or issue credit substitutes and that is reported in the financial statements. It excludes arrangements that satisfy the following condition:

the client is required to apply to the bank for the initial and each subsequent drawdown

and the following conditions:

1. *the bank has full authority over the execution of each drawdown, regardless of the fulfilment by the client of the conditions set out in the facility documentation, and*
2. *the bank's decision on the execution of each drawdown is only made after assessing the creditworthiness of the client immediately prior to drawdown.*

c) The CCF applied to transaction-related contingent items, known as "trade finance off balance sheet items" in CRR, including technical guarantees (for example: performance bonds, bid bonds, warranties, trade standby letters of credit related to particular transactions) should be maintained at the current applied percentage, 20%.

Indeed, the increase of the CCF to 50% proposed by the BCBS is not justified[4] and would entail an upward pressure on the pricing of technical guarantees for the clients, increasing the costs of exports for European businesses. Additionally, it is necessary to provide a formal definition of transaction-related contingencies for products which fall within the scope of this definition. This harmonisation would ensure consistency and comparability across institutions.

6) Increase of risk sensitivity for specialised lending

a) Specialised lending (SL) exposures benefit from solid collateral rather than from recourse on the entity behind the exposure. Historical data have shown that losses in the specialised lending area are less than half the size[5] of those for unsecured corporate exposures. However, the framework incorrectly provides more value to the credit quality of the exposure rather than to the quality of the collateral. In contrast CRE exposures with an LTV below 60% do benefit from a preferential risk weight of 60%. We advocate for a more granular risk weight for all SL exposures, based upon simple criteria under the SA approach. The minimum risk weight for high quality SL exposures would be 60% similar to the minimum risk weight for CRE exposures.

The framework should be more risk sensitive in the specialised lending asset class. Economic growth and job creation require long-term investments in the assets that expand the productive capacity of a modern economy, such as infrastructure, factories and equipment, education, and research and development (R&D) and promote international commodities trade as well as efficient transportation of raw materials. But the revised approach places specialised lending exposures as unsecured exposures neglecting the benefit from the comprehensive security packages associated with these exposures. This would put into question the future financing of European infrastructures, like offshore wind farms, or the activity of European aircraft companies for example.

The specialised lending activity is carried out and monitored within – predominantly European – banks by specialised expert teams that have the necessary sector knowledge, the capabilities to structure specialised transactions and that apply dedicated monitoring of covenants and collaterals. Banks also benefit from diversification across their specialised lending portfolios, where the values of different infrastructure assets and cashflow are not correlated.

For these reasons, the EBF calls on the European Commission to introduce a differentiated treatment for specialised lending exposures (irrespectively of the approach followed by the banks) adopting simple criteria[6] which would enable most banks to identify the top-quality transactions and better reflect their accurate risks, which would definitively set incentives towards long-term financing. The treatments of specialised lending should be differentiated for the following categories: project finance (infrastructure assets like renewable power plants), object finance (aircraft, shipping and rail), income producing real estate and commodities finance. Each one of these categories should be associated with a specific risk weight table with a bucket differentiation based on indicators that reflect the specific features of the considered specialised lending activity and impact on the creditworthiness of the operation.

[4] Backtestings of the current framework, as well as historical data from ICC (International Chamber of Commerce) and GCD (Global Credit Data) demonstrate that the currently used 20% CCF for technical guarantees already incorporates a huge conservative margin as compared to observed CCF levels.

[5] For detailed data see the Annex on Specialised lending of the EBF Report on Basel IV

[6] See Annex 1 on specialised lending of the EBF Report on Basel IV

The EBF developed a risk sensitive framework for specialised lending (see Annex of the EBF Report on Basel IV) and recommends its adoption when transposing Basel IV in the European Union. Risk sensitivity could be introduced in the transposition of the standardised approach risk weights for SL and of the IRB haircuts and LGD input floors, taking into account the quality of the transactions as already proposed by the Basel Committee for Project finance and Income-Producing Real Estate.

b) Furthermore, unduly penalizing LGD input floors are applied in the IRB approach which ignores the observed good recovery data and the comprehensive security package from which SL lenders benefit. The EBF recommends the adoption of the following refinements:

- The LGD input floor for top-quality commodities, object and project transactions should be aligned with the one applied to Income-Producing Real Estate and thus reviewed downwards from 15%/25% to 10%. The EBF developed a proposal to identify top quality specialised lending transactions and a framework that aims at differentiating their capital treatment (see Annex of the EBF Report on Basel IV). We recommend its adoption when transposing Basel IV in the European Union.
- Banks are required to have enough data to model the effects of the collateral[7], otherwise they should apply the F-IRB approach. This requirement is not appropriate and should be removed since it would exclude many specialised lending exposures from the IRB approach. The data that can be used should comprise external data of asset values or enabling to model cash flows[8]. There are reliable and deep sources of collateral values that can be used for the modelling of specialised lending, such as aircraft values provided by Ascend or ASG, or price data regarding electricity prices for example that can be extracted from Bloomberg to model future cash flows of energy projects.
- The uniform 40% haircut on the collateral value for the LGD floor calculation is not appropriate and should be lowered since it does not allow A-IRB banks to reflect differences in the quality and volatility of the collateral and transaction structures between various transactions. The EBF developed a proposal that recognises the asset quality of the collateral for the purpose of the determination of the haircut. (see Annex of the EBF Report on Basel IV). We recommend its adoption when transposing Basel IV in the European Union.
- The collaterals eligibility criteria should be reviewed since they are not appropriate for Specialised Lending.
- There is no market to assess the value of the project for project finance. In this sense, the haircut to an asset value cannot be applied. Yet projects value should be recognized as the future cash flows enable to repay the debt and provide flexibility notably in case of restructuring. Projects generate sustainable cash flows over their long asset lives. It is difficult to value them as an asset value or as the sum of the values of the collaterals pledged to the lenders. We therefore propose to apply directly an LGD input floor to the IRB LGD of projects (ie not splitting the loan in covered an uncovered part).

c) It is also important to note that the Basel Committee will review the slotting approach for specialised lending in the future. We consider that the current supervisory slotting approach is not sufficiently sensitive to the risk of the underlying project, as it only offers the possibility of assigning limited ranges of risk weights to calculate the capital requirements of a new project. Similarly to the standardised and IRB approaches, such

[7] §87 of the Basel agreement
[8] Inc. Pooling data or S&P, Moody's and GCD database

framework will be detrimental to the future financing of European infrastructures, like offshore wind farms, or the activity of European aircraft companies for example.

The EBF calls on the European Commission to align the slotting approach taking into account the adjustments introduced in the standardised approach. It is important to ensure that the same project has a similar capital treatment irrespectively of the approach used (no arbitrage situation).

Additionally to those necessary adaptations, we point out inter-alia the following additional features that shall be modified in the future to better reflect the risk positions:

The supervisory slotting approach does not fully recognise the guarantees for risk mitigation. For instance, the guarantees from Export Credit Agencies (ECA), the European Investment Bank (EIB) or Multilateral Guarantee Agencies (MLA) can only be used as a factor for assigning risk weights to specialised lending exposures, but they cannot be used as a post-mitigation technique.

d) Granularity should be introduced in risk weights buckets. For example, one or two category buckets could be introduced to properly capture high quality specialised lending transactions. Additional granularity depending on the maturity of the project could also be included.

e) We propose to extend the list of eligible financial collateral under the simple approach (paragraph 148 on page 37 of the agreement) with a new category g) comprising those commodities, for which liquid prices are available on exchanges, as well as their hedges, as many lenders require their customers to hedge the price risk of the commodities with e.g. futures contracts.

7) Review of the operational risk framework

The majority of European banks believe that the national discretion to set the ILM to one should be exercised by the European Commission for all banks in the EU regardless of their size. This will foster a level playing field and comparability of operational risk capital.

Moreover, in their opinion, the ILM does not really make the SMA risk sensitive as it only considers loss events from the past. Operational risk capital, however, is supposed to make up for the risk of losses in the future.

Some Members do not share this position and would prefer to be allowed to maintain the loss component into the formula with the purpose of determining their operational risk capital requirements.

In principle, for the sake of clarity, banks should calculate their Operational Risk capital requirements solely on consolidated group level. However, in case that the ILM is not set at 1, for those banks that have to comply with operational risk capital requirements at a sub-consolidated level, the decisions taken regarding the ILM at the subsidiary level outside the EU should be reflected in the calculation of the capital requirements for operation risk on a consolidated basis. If the ILM is set at 1 for a specific subsidiary, the loss experience of this subsidiary should not be taken into account when defining the capital requirements for the consolidated group.

In addition, if the ILM is not set at 1, the national discretion to increase the loss data collection threshold should be exercised by the European Commission. Since past experience of losses is not suitable to predict the future operational risk profile of a bank.

In this sense, the EBF recommends increasing the minimum threshold for including a loss event in loss component from €20,000 to €100,000 for all banks.

8) Review of the framework for Credit Valuation Adjustments (CVAs)

The current CRR provides certain exemptions concerning the scope of the CVA risk capital charge that have been introduced in Europe to fix the shortcomings of the calibration of the CVA framework. Especially in the case of non-financial counterparties (NFCs), the exemption is essential to avoid adverse effects on employment and growth. Due to their nature, an efficient management of collateral is more than challenging for corporates and standardised instruments often fail to match their specific needs. Therefore, OTC derivatives are usually the only option for corporates to hedge risks that inevitably arise from their businesses. In addition, bilateral OTC derivative arrangements with NFCs are already subject to own funds requirements in the area of Counterparty Credit Risk. An additional capital charge for CVA risk would force banks to pass the additional costs on to their counterparties. This, in turn, would most likely result in corporates either not hedging their risks or even refraining from certain business activities completely. Both consequences would be highly undesirable.

All in all, the EBF recommends maintaining the status quo with regard to the scope of the CVA framework.

The new CVA framework dis-incentivizes more sophisticated and pro-active risk management approaches. When index hedges are used, the proposed methodology of the SA-CVA leads to higher capital requirements than in a situation where no hedging is applied at all. As index hedging reduces risks, this is hampering good risk management practices. This could be particularly detrimental for European Corporates in a context where the Corporate CDS market is far less developed in Europe than in the US and where CVA exposures on corporate counterparties with non-traded CDS available are typically hedged using proxy/index hedges.

The EBF recommends adopting some refinements to the Basel IV text in order to mitigate this effect:

- A partial recognition of cross-sectorial index hedges via bucketing and a refinement in the correlation matrix;
- A partial netting of risk weighted Counterparty credit spread sensitivities with related proxy hedges. The level of netting allowance would depend on the quality of the proxy hedging.
- It is important that CVA hedges (counterparty credit spread and exposure components), that are dedicated solely to hedging of accounting CVA for exempted counterparties, should be exempted from any market risk capital charge and from any CVA risk capital charge. As mentioned in paragraph 9 of the Basel standard d424, all eligible external CVA hedges must be excluded from a bank's market risk capital charge calculations in the trading book. Non-eligible external CVA hedges are treated as trading book instruments and are capitalised via the revised market risk standard. However, hedging of accounting CVA for EU exempted counterparties should also be excluded from a bank's market risk capital charge calculations in the trading book. Otherwise the CVA hedge would generate a capital charge for a non-existing unhedged market risk position.

9) Review of the treatment of equity exposures

Equity exposures are unduly penalised under the proposed framework. On the one hand, internal models have been removed. On the other, the newly proposed risk weights under the standardised approach seem too high for the risks involved. The result is that the capital requirement for equity exposures may double without justification based on evidence.

We would recommend a careful examination of the risk weights for equity exposures. At least we consider that a preferential capital treatment should be established for holdings of own funds instruments issued by financial sector entities included in the scope of consolidated supervision.

In addition, the definition of speculative unlisted equity exposure should be clarified. There should be a differentiation between the risk weights associated with those instruments that are eligible as collaterals in Chapter 4 of the CRR on credit risk mitigation and others. A risk sensitive scaling should be possible to achieve consistency with valuation rules in the credit risk mitigation framework. The high-risk weight of 400% associated with speculative unlisted equity exposure does not seem to be in line with the risk weight applicable to private equity exposures in the CRR (article 155) which was deemed to help the financing of the economy. The notion of private equity with a specific risk-weight of 190% shall be maintained in CRR.

Exposures to central banks (equity holdings) should be also provided with a preferential treatment in line with the risk weight received by European Central Bank (0%).

About EBF

The European Banking Federation is the voice of the European banking sector, uniting 32 national banking associations in Europe that together represent some 3,500 banks - large and small, wholesale and retail, local and international - employing about 2 million people. EBF members represent banks that make available loans to the European economy in excess of €20 trillion and that securely handle more than 300 million payment transactions per day. Launched in 1960, the EBF is committed to creating a single market for financial services in the European Union and to supporting policies that foster economic growth.

www.ebf.eu @EBFeu

For more information contact:

Gonzalo Gasos	**Lukas Bornemann**
Head of Banking Supervision	Policy Adviser - Banking Supervision
g.gasos@ebf.eu	l.bornemann@ebf.eu
+32 2 508 37 62	+32 2 313 32 73