BUSINESSEUROPE

THE PRESIDENT

Mr Mario Draghi
President of the European Central Bank
Chairman Group of Governors and
Heads of Supervision (GHOS)
60640 Frankfurt am Main
Germany

30 November 2016

Dear President,

Basel III Capital Framework

I write to you regarding current work by the Basel Committee on Banking Supervision on the Basel III capital reforms. BusinessEurope has supported reinforced prudential rules as financial market stability is fundamental for the economy. The new rules have restored confidence in financial institutions and made them more resilient. At the same time, bank lending came under pressure and there is a risk that as economic growth picks up, banks will be unable to meet companies' funding requirements on the necessary scale or that they will charge substantially higher capital charges.

In this context, we refer in particular to regulatory initiatives proposed by the Basel Committee regarding the revision of the standardised approach for credit risk, the use of internal model approaches, the standardised measurement approach for operational risk, and the calibration of credit conversion factors including the one for unconditionally cancellable commitments. The overhaul of criteria for risk modelling in banks would render it impossible to adequately reflect the risks of corporates in Europe and lead to a system in which companies no longer pay in proportion to the real risks. This comes on top of other Basel III requirements, leverage ratio, sifi-surcharges and new loss absorption requirements, which have already set out a path of higher levels of quantity and quality of capital and more loss absorption in the system. We are concerned that new requirements would significantly affect the cost and availability of lending capacity in the EU and also of risk management products for non-financial companies. This would also be contrary to the GHOS commitment not to significantly increase capital requirements overall.

BusinessEurope wonders what the impact of lending will be of additional capital requirements for banks and is worried about statements from supervisors and the banking community that the impact of the proposals as they currently stand will be significantly higher in the EU than elsewhere. Global rules help to create a level playing field but will only work if the markets are in reality comparable and sufficiently similar. It is essential that the new capital framework reflects the substantial differences in lending practices between the EU and the US. Calibration to the institutional and market characteristics, in, and within, the European banking sector is necessary.

AV. DE CORTENBERGH 168
BE-1000 BRUSSELS
BELGIUM
VAT BE 863 418 279

BUSINESSEUROPE a.i.s.b.l.

WWW.BUSINESSEUROPE.EU

TEL +32(0)2 237 65 11
FAX +32(0)2 231 14 45
E-MAIL: MAIN@BUSINESSEUROPE.EU
EU Transparency register 3978240953-79

The importance of avoiding significant negative effects on the cost and availability of lending capacity in the EU and also of risk management products for non-financial companies cannot be overstated. The banking sector in Europe today provides approximately 80% of credit to the economy and alternative sources of financing for businesses are still limited especially for small and medium-sized companies as the development of a Capital Markets Union will take time.

It is therefore essential that capital requirements for banks are not increased beyond the GHOS agreement and that careful attention is paid to the EU market structure before approving any new standards. There should be a comprehensive impact assessment to assess the effects of proposed reforms on European companies before validating and finalising new rules.

We hope that you share this position and that the new capital framework will function effectively, encouraging growth and preventing damage to businesses in the wider economy.

Yours sincerely,

Emma Marcegaglia