

**Mr Valdis Dombrovskis**  
Executive Vice-President European Commission

Mr Thierry Breton  
Commissioner for Internal Market

Mr Paolo Gentiloni  
Commissioner for Economy

Ms Mairead McGuinness  
Commissioner for Financial Stability and Capital  
Markets

22 July 2021

Dear Executive Vice-President, Dear Commissioners,

### **Capital Requirements Regulation: Revision of SA-CCR in the EU**

We are writing to you to bring to your attention an outstanding issue of significant increase of the costs of hedging for European non-financial companies, which can limit their competitiveness in international trade and ultimately increase their risk profiles.

The Standardised Approach for Counterparty Credit Risk (SA-CCR) is part of the Capital Requirements Regulation (CRR2) for the banking sector. It is a methodology to calculate the capital requirements of derivative contracts, which are broadly used by non-financial counterparties to hedge their risks. This big impact is the result of certain aspects of the SA-CCR formula that need to be addressed. The formula includes a so-called *alpha factor* which increases the cost of capital of derivatives by 40%, therefore significantly increasing the cost of hedging for non-financial corporates.

The SA-CCR will have a significant impact on the capital and pricing of the derivatives closed by non-financial counterparties, which will discourage European corporates to hedge their risks, thus deteriorating their risk profiles in front of investors and affecting their cost of equity and debt financing.

As a matter of background, the United States has given SA-CCR more flexibility by removing the *alpha factor* for commercial end-users<sup>1</sup>, thereby leading to lower overall capital requirements for US banks and lower hedging costs for US corporates.

The High-Level Forum report on the Capital Markets Union (CMU HLF)<sup>2</sup>, has warned about the level playing field problem as well as a detrimental impact of too stringent capital requirements on the availability and cost of financial hedges to end-users. In this vein, BusinessEurope has stressed the detrimental impact on corporates' hedging

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<sup>1</sup> [Press release of the US Federal Reserve](#)

<sup>2</sup> [High-Level Forum report on the Capital Markets Union](#)



activity<sup>3</sup> and the European Banking Federation has alerted the Ministers of Finance of the Union about the need to address this issue for the sake of European corporate competitiveness.

In the same vein, the Capital Markets Recovery Package<sup>4</sup> (CMRP), published on 31 March 2021 in response to the Covid-19 crisis, has mandated the European Commission to review SA-CCR before June 2021, the purpose of this mandate being to facilitate the economic recovery and preserve financial stability, letting end-users effectively hedge their risks.

BusinessEurope and the EBF support the arguments raised by the CMU HLF, as well as the CMRP call for action. A large part of the EU corporates' international trade and funding transactions is denominated in foreign currencies, mainly US dollar, which creates a foreign exchange risk vis-à-vis the Euro. To hedge this risk, and also other financial risks, such as interest rate risk -, EU companies, including infrastructure project finance and SMEs are strongly reliant on derivatives.

To address these problems, we propose two concrete actions:

- Firstly, to suspend the *alpha factor* in the calculation of the exposure of SA-CCR with immediate effect for an even playing field of EU international businesses;
- Secondly, to include a thorough revision of the whole SA-CCR in the context of the upcoming regulatory review starting in Autumn 2021.

We urge the Commission to take decisive and prompt action on this issue, which has been recognised already in the last quarter of 2020 by BusinessEurope, the EBF and the Commission itself, for the sake of level playing field and competitiveness of European corporations.

Your sincerely,

Markus J. Beyrer  
BusinessEurope Director General

Wim Mijs  
EBF Chief Executive

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<sup>3</sup> [Letter of Business Europe To MEP Karas of 15 October 2020](#)

<sup>4</sup> [REGULATION \(EU\) 2021/558 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 31 March 2021 amending Regulation \(EU\) No 575/2013 as regards adjustments to the securitisation framework to support the economic recovery in response to the COVID-19 crisis \(Link\)](#)