European
Banking
Federation

The President

EBF ref. 0374C-2012

Mr Michel BARNIER
Member of the European Commission
Internal Market and Services

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Brussels, 21 November 2012

International competitiveness of Europe's banks

Dear Commissioner,

The *European Banking Federation* strongly supports all efforts to implement financial stability consistently across the world. Competition should not be distorted and the effectiveness of the regulatory reform measures should not be undermined by uneven implementation which would create opportunities for regulatory arbitrage. I believe this is a message you have consistently heard from me and other Members of the Federation.

I am sure that you are aware that the US Authorities[1] have recently publicly stated that they will not implement Basel III in time for 1 January 2013. The public statement speaks of continued commitment towards the international regulatory agenda, but does not offer an alternative date for the introduction of the new rules on capital for the internationally active banks in the US.

We have previously been in contact with you regarding a similar concern of ours as to the uneven implementation of the internationally agreed prudential standards to the detriment of EU banks. This was in September 2011 when the EU agreed to implement Basel 2.5 on time, whereas the US Authorities would not move in parallel. I noted your response that you understood our concerns but you wished to preserve the G20 Leaders' commitment for the EU to implement in a timely manner.

We are now very troubled over the possible repercussions that the most recent statement from the US Authorities may have for the international competitiveness of Europe's banks, especially when the latter are facing sweeping regulatory changes to capital requirements, liquidity buffers, leverage ratio, resolution regimes and, as of late, also possible structural changes separating out vital wholesale activities and a new organisation of the supervision in the Eurozone. All the while, our US competitors will not have matching obligations imposed on them in parallel, or in a foreseeable future. US banks will remain under obligation to respect capital levels set in the original Basel Accord, which you remarked on as leading to around 20% lower capital requirements overall in the US in your reaction in October 2012 to the Basel Committee's preliminary "regulatory Consistency Assessment".

[1] http://www.federalreserve.gov/newsevents/press/bcreg/20121109a.htm (EBF ref. D2140A-2012)

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Given the reluctance of the US Authorities already over the implementation of Basel 2.5 and now Basel III there is a growing concern that the US' commitment to move to a risk-based prudential environment is wavering.

Similarly the discussions over the implementation of Basel III into the European legislative framework have taken longer than planned, and consequently it is not clear when the CRR/CRDIV package can be concluded and what entry into force date will apply. I urge you to consider the possibility to mirror the US Authorities' understanding for the practical implications of compliance of the new rules by setting a realistic entry into force date of the new obligations for Europe's banks. The market uncertainty over the form and shape of the future prudential framework is hindering Europe's banks to plan their strategies – on the funding as well as lending side - going forward. In this regard, we reiterate the request that there is, more generally, a need for an adequate time span for implementation after the date of approval of any legislative act.

We do note that other jurisdictions seem to be moving closer to fulfilling their implementation commitments. But EU banks are most concerned that uneven competition in the international capital markets as well as the domestic product market arising from any differential application of the new capital requirements by the US authorities would be highly disadvantageous for EU banks, whose profitability is increasingly under pressure, rendering them less able to support the economic recovery of the European Union weighed down as it is by the difficulties that have beset our region.

In conclusion and in light of the final discussions in the *trilogue* over CRR/CRD IV, I ask the participants to take into account the problem of an unlevel playing field created by this US decision and to decide on the final package for EU accordingly by considering the postponement of the entry into force of the CRR/CRD IV until 1 January 2014. This would also allow for a more reasonable timeframe in which to elaborate the necessary technical standards called for in order that they are implemented well rather than in haste.

I have requested that similar letters to this one are addressed to the Council Presidency and European Parliament Rapporteur.

Should you wish to discuss this matter further in more detail, please do not hesitate to contact me or the EBF Secretariat.

Yours sincerely,

Christian CLAUSEN

Cc.: Mr J. Faull, Director General, European Commission
Mr M. Nava, European Commission
Mr M. Merlin, European Commission

Joint Press Release

Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency

For immediate release **November 9, 2012**

Agencies Provide Guidance on Regulatory Capital Rulemakings

The U.S. federal banking agencies issued three notices of proposed rulemaking in June that would revise and replace the current regulatory capital rules. The proposals suggested an effective date of January 1, 2013. Many industry participants have expressed concern that they may be subject to a final regulatory capital rule on January 1, 2013, without sufficient time to understand the rule or to make necessary systems changes.

In light of the volume of comments received and the wide range of views expressed during the comment period, the agencies do not expect that any of the proposed rules would become effective on January 1, 2013. As members of the Basel Committee on Banking Supervision, the U.S. agencies take seriously our internationally agreed timing commitments regarding the implementation of Basel III and are working as expeditiously as possible to complete the rulemaking process. As with any rule, the agencies will take operational and other considerations into account when determining appropriate implementation dates and associated transition periods.

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2012 Banking and Consumer Regulatory Policy