European Banking Federation

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Financial Reforms and Their Implementation Should Not Endanger the Financing of the Economy

The Board of the European Banking Federation (EBF) continue to work closely with the relevant authorities in support of the G20 reform process, stated the Board members of the EBF at their meeting today, 8 April. European banks are concerned that the impact of the measures both adopted and proposed, could have adverse consequences on the financing of the European economies, due to their multiplicity, their cumulative overall effect and market expectations. They therefore propose a collective approach with the authorities, particularly during the observation periods provided in Basel III, so that measures can be adapted where necessary. They are convinced that this could be the most productive way to ensure that the interaction between the different pieces of legislation in progress is understood, that coordination is achieved, duplication prevented and the impact on the economies minimised.

Basel III proposals on liquidity

In particular, European bank representatives confirmed their continued concern over the Basel III proposals on liquidity. They highlighted that further work is still needed and that an appropriate regulatory framework is not yet achieved. They stress that the definition of liquid assets is far too narrow. Due to the many uncertainties on the consequences of the changes, EBF members believe that the observation period outlined in the liquidity proposal should not be used merely to examine if individual banks are resilient to liquidity risk but also to find out how the new requirements are influencing the financing of the economy. During this observation period, the new rules should therefore not be included in CRD 4, except for reporting requirements to the supervisors. The authorities must be able to pause and review during the process, amending the proposed metrics if experience based on standardised reporting during the observation period shows this to be necessary.

Systemic risk and crisis management

On systemic risk, EBF Board members stressed that every market participant, large or small, banks and non banks – i.e. insurance companies, market infrastructures and „shadow banks“ – contributes to systemic risk, which is dynamic in nature. "Too much attention paid to enhancing loss absorbing capital and lists of Systemically Important Financial Institutions (SIFIs) may result in insufficient attention being paid to other risks and non SIFI institutions" declared Christian Clausen, President of the EBF and Group CEO of Nordea.

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Note to the Editor

Set up in 1960, the European Banking Federation is the voice of the European banking sector (EU and EFTA countries). The EBF represents the interests of some 5000 European banks: large and small, wholesale and retail, local and cross-border financial institutions.
The members of the Board of the EBF are the Presidents of the national Banking Associations from 31 countries, CEOs of major European banks.

"The methodology bound to be used to determine systemic importance could be used to differentiate treatment of SIFIs without reverting to fixed lists", he added.

Therefore, systemic risk should be dealt with through initiatives aimed at improving the functioning of the financial markets, reinforcing micro and macro-supervision and implementing robust crisis prevention and management tools. "A blanket increase in capital requirements for banks deemed systemically important cannot be the solution", Clausen insisted, "the numerous initiatives aiming at improving the resilience of the banking system, such as tier I capital, contingent capital, bail-in debt instruments, recovery and resolution regimes, should be substitutional rather than additive". EBF Board members also underlined the importance of the timing of their introduction, which is critical in order to avoid constraints on the banks' ability to lend.

EBF Board members believe that the crisis management framework as proposed by the European Commission may contribute to fighting systemic instability. Indeed, the Federation is broadly supportive of the proposal and reiterates its belief that resolution tools should be available to all banks, and that no bank should be considered "too big to fail". The EBF has however expressed concern about the way some early intervention tools are planned, such as the creation of resolution funds. "We cannot stress enough the importance of global coordination and of maintaining a level playing field in matters of crisis management", said Clausen. "We agree that bail-in instruments could be an interesting idea, but we believe a much deeper analysis of both national and EU legislation is still necessary."

Stress tests

Finally, the members of the EBF Board expressed the view that stress testing is a valuable tool for supervisors as part of their ongoing supervision of a bank. They consider that stress testing should use harmonised rules that are already agreed and in force to assess the strength of an individual institution on a dynamic and ongoing basis. "Stress testing is one of a range of tools allowing supervisors to assess the strength of individual institutions and of the system as a whole. We welcome a transparent and coordinated approach to stress tests that allows for a continuous assessment and ensures a level playing field." explained Clausen.

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