

European banks call for caution in light of incomplete reform picture

The European Banking Federation (EBF) acknowledges the progress achieved by the Group of Governors and Heads of Supervision of the Basel Committee at their meeting of 26 July 2010 in reaching broad agreement on some elements of the new capital and liquidity rules.

It however stresses that whilst new rules on the quantity and quality of capital and reform of liquidity regime of banks will be a stepping stone in the regulatory reform to make the financial system more robust and stable, they must not prevent European banks from playing their part in promoting economic recovery.

The Secretary General of the EBF, Guido Ravoet, made clear that “The supervisory community has clearly heard the concerns of the banking industry and other economic leaders. However some decisions on key elements of the Basel package still have to be taken and others are cause for concern. For instance, we fear that there may not be enough flexibility to accommodate the business models that prevail in Europe and that have proved resilient.”

At this stage, the Federation remains unable to assess the various elements of the broad agreement reached by the Basel Committee’s Group of Governors and Heads of Supervision, as the package is not yet complete:

- crucial components, such as the actual definition and level of capital that will need to be held under the new rules have not been determined;
- the economic impact assessment of the new rules has not been released;
- it is not clear to what extent the level playing field has been preserved, notably regarding the decisions made on the definition of capital.

The EBF welcomes the treatment of minority interests in the banking subsidiaries of a group, but this treatment should also be extended to the minority interests in the insurance subsidiaries of a group. The Federation notes an improved approach to deferred tax assets, but remains concerned over the thresholds proposed and their impact on tier 1 capital considering the different tax laws in force in EU Member States.

The extension of the liquidity pool’s range of eligible assets is also going in the right direction, but clearly more work needs to be done to accommodate covered bonds, which are

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Note to the Editor

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an important source of housing finance in Europe. Similarly, the review of the net stable funding ratio, which, as it was previously proposed could have prevented banks undertaking their important role of maturity transformation should be supported.

European banks however remain highly concerned with the maintenance of the two buffers – in addition to the tier 1 capital requirements, the leverage ratio and the still strict proposals on deductions.

The non-risk based instrument of a leverage ratio is still very much a central component of the package. The positive side is that banks have received more clarity on the ratio, with a reasonably long phase-in period, but it should remain a supplementary measure for discussion between a bank and its supervisor as part of the supervisory review process.

The full impact of the new proposals cannot be gauged until decisions on the phasing-in and calibration of the proposals have been made and the EBF encourages this to be done quickly and in as transparent a way as possible.

Ravoet added: “There is a range of other measures under consideration alongside these capital and liquidity proposals, such as bank taxes and levies, the impact of which must be looked at holistically to ensure they do not impede our industry’s capacity to sustain lending and economic growth. It is important now that final agreement is reached swiftly so that these new proposals can be implemented in a coordinated way around the world in order to further reinforce the resilience of the global banking system.”

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