Brussels, 19 December 2016

Mr Stefan INGVES
Chairman
Basel Committee on Banking Supervision
Centralbahnplatz 2, Basel
CH/4002 Switzerland
Email: [redacted]

SUBJECT: FINALISATION OF BASEL III WITHOUT OUTPUT FLOORS

Dear Mr Ingves,

Following our communications during the last months, we would like to reiterate the support of the European Banking Federation to the finalisation of the Basel III reform with no significant impact on any jurisdiction and in terms that truly respect the international level playing field.

The *compromise package* that the Basel Committee is, reportedly, preparing after its meeting of 28 November in Santiago, includes a few interesting improvements over the original proposals, however the output floor seems to remain there. This is a major point of concern for the interest of the EU. The output floor is the binding factor for the EU banking system affecting the best quality assets. It would become the major prudential constraint to finance and economic growth in the EU.

We would like to reiterate the firm stance of the EBF against the use of output floors in the final BCBS standards and in favour of maintaining the use of IRBA models for corporate financing. The EBA is conducting a technical and thorough review of internal risk modelling practices in Europe, including benchmarking exercises, and the SSM has put in place an ambitious program of review of internal models under its remit. In addition, any sort of output floor would overlap and complicate the sheer backstop measure at international level which is the leverage ratio.

Against this background, Europe should not accept the imposition of an indiscriminate output floor that would put its banks and its economy at a disadvantage vis-a-vis those of jurisdictions that would not be hit by such output floor, notably the US.

We would like to recall that the regulatory pressure in Europe is similar, if not greater, than in the US. The use of an output floor would tilt the balance against the EU banks and their clients, due to three material differences: first, mortgage loans remain on the balance sheet of banks until maturity; second, finance to the economy is highly dependent on banks; and, third, European banks are subject to a significant Pillar 2 capital requirement, on average around 4% of risk-weighted assets (RWA), that the BCBS does not seem to factor in when it compares the regulatory requirement bar in the EU with that of the US.

Let us also draw your attention to the fact that the upcoming TLAC and MREL requirements in Europe will be calculated on the basis of RWA, a decision that the EBF welcomes for the sake of harmonisation. However, the RWA of the European banking system will be multiplied if an output floor is included, making the impact even larger throughout EU banks in the coming years.

We hope these relevant facts are taken into account in the formulation of the final terms of Basel III for a fair global standard and for the sake of the EU economy.
We remain at your disposal for further discussion.

Yours sincerely,

[Signed]

Wim MIJS

CEO EBF

[Signed]

Giovanni SABATINI

General Manager ABI

cc:

William COEN
Secretary General
Basel Committee

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Chairman
Financial Stability Board

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