Febelfin feedback to the European Parliament draft report concerning the EU Banking Package

The Belgian financial sector takes note of the MEP Fernandez's amendments to the European Commission's proposal of the Banking Package with the intention to implement the final Basel III standards faithfully in Europe. Whereas the Commission proposal aimed to strike a balance between such faithful implementation and limiting abrupt negative consequences on businesses and consumers, the Parliament's draft amendments increase the risk of disrupted financing of the economy. Febelfin is concerned that the proposed amendments to the new rules won't be compatible with the European and Belgian financial market.

1. **The transitional arrangements** introduced by the Commission aim at (i) avoiding disruptive impacts on bank lending to unrated corporates, and (ii) recognising the low-risk characteristics of residential mortgages in Europe linked to low historical defaults and the dual-claim principle. **These transitional arrangements are imperative to avoid cliff effects and should not be reduced in scope.**

   ➔ **The 'hard test' and 'dual claim' requirements ensure that the preferential risk weight for exposures secured by residential property is applied to low-risk mortgages only.** Further limiting the scope to those residential mortgages with an EPC A+ or A, which represent on average less than 1% of the EU's building stock, will not support a move towards 'green' real estate financing and makes the transitional arrangement completely ineffective. On the contrary, **low-risk mortgages reflect a specificity of the European and Belgian banking business and should therefore be made permanent.**

   EP Amendments 292-297 regarding Article 465 (5) CRR proposal

   ➔ While we understand the Parliament's ambition to incentivise large corporates to request credit ratings, we would like to point out that measures to improve the availability of external ratings for corporates are already proposed by the Commission through amendments to Article 135 CRR. **In the meantime, a risk weight of 65% for exposures to corporates that do not have an external rating, irrespective of whether they are listed or not, provided that those exposures have a PD of less than or equal to 0.5% is justifiable and should be maintained**.

   EP Amendment 288 regarding Article 465 (3) CRR proposal

2. **Banks play an important role in facilitating international trade through so-called "trade finance".** The commission proposal foresees an increase in credit conversion factors (CCF) of bank guarantees from 20% to 50%. The European Parliament has so far not taken initiative to question the impact of such significant increase.

   ➔ Analysis by the International Chamber of Commerce (ICC) and the Global Credit Data (GCD) Consortium show that the average CCF for performance guarantees products is 10% which validates the case for applying conservative 20% CCF. **We therefore advocate to maintain current Trade Finance CCF setting as per CRR2 on 20%.** Any increase would imply a sharp deterioration in conditions for export companies, i.e. a risk of higher prices and lower volumes.

   Commission proposal regarding Article 111 CRR

3. While we support the output floor application at consolidated level, some amendments **increase the possibility of double-counting of risks in case the output floor is binding.**

   ➔ We call for the **re-introduction of (i) the safeguards foreseen in the CRD proposal aimed at preventing unjustified increases in the P2R and the SyRB requirement** when an institution is bound by the Output Floor as well as **(ii) the requirement that competent or designated authorities review the calibration of the O-SII buffer requirement** when that institution becomes bound by the Output Floor, in order to make sure that the calibration remains appropriate.

   EP Amendment 81 regarding Article 104 CRD proposal, amendment 85 regarding Article 131 CRD proposal and amendments 87-89 regarding Article 133 CRD proposal

4. **A level playing field is key** and we note several amendment proposals which may undermine EU's competitiveness. On market risk and the fundamental review of the trading book (FRTB), the Commission proposal ensured that adjustments could be made to (i) the timing of application of the FRTB and (ii) the impact from the FRTB implementation via delegated act in case of an unlevel playing field between the EU and other major jurisdictions. Same goes for the possibility of the Commission to issue a delegated act for modification of the alpha factor under the SA-CCR.

   ➔ FRTB: not only should the Commission monitor the implementation of the international standards on own funds requirements for market risk in third countries, **where significant differences between the EU implementation and third countries' implementation are observed, the necessary adjustments should be made to ensure a level playing field.**

   EP Amendment 283 regarding Article 461a CRR proposal

- ➔ SA-CCR: as this alpha factor is not implemented in the US, the possibility to counter the output floor impact via modification of the alpha factor via Delegated Act should at least be maintained. In general, **we advise to retain the overall neutralisation of the alpha factor (i.e. keeping it at "1") also outside the scope of application of the output floor** as there is no convincing risk-based argument for such surcharge on corporate exposures.

  EP Amendment 291 regarding Article 465 (4) CRR proposal

5. **Febelfin takes the opportunity to reiterate the importance of the widely spread Belgian-specific mortgage mandate.** This very common type of security instrument is generally used in combination with a mortgage subscription. The mandate is a lot cheaper for clients because there is no registration tax to be paid to the federal and regional governments and thus much desired as it lowers the overall price of a property loan.

   - ➔ A recent study by Copenhagen Economics[1] shows that the Banking Package reform would have an enormous impact on the Belgian mortgage market. **Belgian bank's capital requirements for mortgage portfolios would increase by 81%.** An impact that is even higher than the European average impact of 18%. No recognition of the mortgage mandate in the European rules means that Belgian banks need to put significantly more capital aside when providing this option to clients, both corporates and households. If clients can no longer benefit from this cheaper option, the overall price of the loan might increase.

     Concerns Articles 124, 181, 208, 229 CRR2 & EBA Q&A 2019_4721

It is the responsibility of the co-legislators to ensure that the new rules can be applied without unintended consequences for corporates and households. A strict implementation of the final Basel standards which ignore characteristics of the European and Belgian market can't be without consequences for our clients. **Finding the right balance between a solid financial sector and a fluid financing of our economy is crucial, notwithstanding a consistent implementation of the international standards.**

[1] Impact-of-Final-Basel-III-Final-Report-Copenhagen-Economics-May-2022.pdf (hypo.org)

Belgian Financial Sector Federation vzw/asbl
Boulevard du Roi Albert II 19 - 1210 Brussels
http://www.febelfin.be | T + 32 2 507 68 11 | F + 32 2 888 68 11