
Press release

AFME welcomes European Commission Communication on Completing the Banking Union

11 October 2017

Following the communication by the European Commission today calling for the completion of the Banking Union, Simon Lewis, Chief Executive of AFME, said:

"AFME has supported the Banking Union since its inception. We fully support the Commission's call today for the European Parliament and Member States to take political responsibility and agree on the necessary legal acts to complete Banking Union by 2019. Significant progress has already been made, thanks to the Single Supervisory Mechanism and Single Resolution Board, but we must keep up the momentum to complete this important project."

He added: *"Clear improvements in financial stability safeguards have been made and banks are much less likely to fail. The Banking Union must now enable efficient internal capital allocation within cross-border banks as this allows resources to flow to where they are most needed by European households, SMEs, and corporates. A crucial next step is to allow prudential requirements to apply on a consolidated basis to banks that are subject to direct supervision of the ECB."*

AFME also commented in more detail on the following aspects of the Banking Union package:

On Risk Reduction through the November 2016 Banking Package:

- AFME supports the objective of reducing risks in the banking sector. In this context, AFME welcomes the Commission's aim to see key risk reduction measures agreed in Europe by mid-2018, so long as these are not dependent on ongoing Basel Committee work or are inappropriately calibrated.
- For instance, clarity for banks on the eligibility criteria for MREL-eligible instruments and the amount of MREL required is vital to help ensure banks can continue to build up the necessary loss-absorbing and recapitalisation resources.
- AFME reiterates its call for the co-legislators to carefully consider elements of the RRM package that risk damaging Europe's capital markets and market participants. The new market risk capital requirements, which are still being debated by the Basel Committee, are one example of poorly calibrated rules which could negatively impact the Capital Markets Union (CMU) project if left unchanged. We recall the need to also maintain momentum on finalising the building blocks of the CMU by 2019.
- AFME also wishes to highlight significant concerns on the proposed new moratorium tools for supervisors and resolution authorities referred to in today's Communication. These depart from internationally agreed standards and could likely have a counterproductive, destabilising effect on financial markets by heightening incentives for counterparties to run from banks at the earliest sign of distress in anticipation of a moratorium being applied.

On Setting up a Backstop to the Banking Union:

- AFME welcomes the commitment to further reinforce the financial stability of the Banking Union by seeking to create the common fiscal backstop to the Single Resolution Fund (as agreed by Member States in 2013). This is vital to provide confidence in the sources of liquidity that will be available to resolution authorities when resolving a bank.

On Actions to Address Non-Performing Loans (NPLs):

- AFME strongly supports actions to remove impediments to the development and deepening of secondary markets for NPLs and distressed debt. We welcome in particular the consideration of measures to remove undue impediments to the transfer of loans and loan servicing by third parties, as well as proposals to improve the availability and comparability of data on NPLs. We recommend however that these should leverage the information already provided by banks through existing channels.
- Any additional regulatory and supervisory actions should remain targeted to deal with banks and countries with high NPL stocks. We are concerned that the inclusion of non-proportionate and ambitious prudential backstops, among other actions, could generate unnecessarily high costs to certain banks that have dealt, or are effectively dealing, with their NPL stocks, with potential consequences for loan supply. Care should also be taken to avoid multiple, overlapping requirements when new expected losses provisioning under IFRS9 become live shortly.

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About AFME:

AFME (Association for Financial Markets in Europe) advocates for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society. AFME is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues. AFME aims to act as a bridge between market participants and policy makers across Europe, drawing on its strong and long-standing relationships, its technical knowledge and fact-based work. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu. Follow us on Twitter @AFME_EU