
Press release

AFME welcomes political agreement on EU implementation of final Basel III standards

Deal marks completion of challenging regulatory programme for banks

6 December 2023

In response to the agreement reached by the European Parliament and the European Council on the CRR3 and CRD6 proposal, which will implement the final December 2017 Basel III rules in Europe and conclude an era of significant tightening of regulatory standards and constraints for credit institutions, **Caroline Liesegang, Head of Prudential Regulation at the Association for Financial Markets in Europe (AFME)**, welcomed the agreement:

“This agreement strengthens banks’ resilience and recognises their role in financing the economy. European banks have raised hundreds of billions in equity capital since the great financial crisis, resulting in record capital levels. This has resulted in greater stability in the financial system, effectively demonstrated earlier this year following some stress events in the banking system. AFME therefore calls on decision makers to resist further increases in capital requirements in the coming years as the banking sector goes through an important implementation phase and will need capacity to finance the real economy during the digital and green transition.

“AFME in particular supports the agreement to maintain limited European market specificities while remaining faithful to the Basel principles. Improvements to the treatment of exposures to unrated corporates as the Output Floor is introduced are also welcome and should avoid unnecessarily restricting funding for corporates without ratings, which are key cogs in the EU economy. The recognition of the floor’s impact on securitisation and the introduction of a transitional arrangement to mitigate its impact is a positive development and will hopefully translate into the growth of the EU’s securitisation market. At the same time, a more extensive review of the capital treatment for the securitisation framework is important to ensure this tool can effectively be used by all banks, irrespective of their model approach, to finance the real economy.

“Unfortunately, parts of the agreement lead to a suboptimal outcome for the European economy. AFME regrets that the Output Floor will be applied at the solo level of consolidation, despite the fact that it was calibrated by Basel to be applied at the highest level of consolidation. This is not in the interests of the competitiveness of the European banking market as it adds further market fragmentation. It is disappointing to see the lack of progress on market access which will inevitably have an adverse impact on the ability of EU financial institutions, corporates, governmental entities and individuals to access international markets and cross-border services. As further integration of the EU’s banking and capital market progresses, AFME hopes the EU will focus on addressing these obstacles to the free flow of capital and liquidity to allow for more efficient capital allocation in the EU. This will in turn benefit individuals, companies of all sizes and green/innovative projects.

“As we look ahead at a long and complex implementation phase, it is important that the EU is flexible with regards to the implementation date, particularly with respect to market risk standards, to ensure global consistency and avoid harming its capital market competitiveness.”

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Notes:

1. AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. 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
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