Press release

AFME says Basel standards have strengthened banks' resilience but warns against further significant capital requirement increases

27 October 2021

In response to the publication today by the European Commission (EC) of the CRR3 proposal, which implements the final December 2017 Basel III rules and concludes the post 2008 financial crisis regulatory repair programme, **Michael Lever, Head of Prudential Regulation, at AFME** said:

"European banks have raised hundreds of billions in equity capital since the financial crisis, resulting in record capital levels and high resilience as evidenced by the recent results of the exceptionally severe European stress test. It will be important, therefore, that the co-legislators adhere to the Basel standard setters' commitment to avoid any significant further increases in minimum capital requirements.

"Unfortunately, several impact studies suggest that this is unlikely to be the case with the largest European banks facing material increases to their capital requirements, especially once all required capital buffers, such as banks' management buffers, are included. This could have negative consequences for lending and broader economic activity if balance sheet growth is constrained to conserve capital.

"We welcome the Commission's intention to extend the implementation date for the proposal until 1 January 2025 and strongly recommend that this is globally agreed on to ensure the simultaneous adoption of all proposals. We also support the suggestions to maintain limited European market specificities while remaining faithful to the Basel principles and proposed improvements to the treatments of exposures to unrated corporates and low risk real estate lending. However, these are unlikely to go far enough to avoid material capital increases which risk undermining banks' ability to support their customers' financing needs as they recover from the impact of the Covid-19 pandemic. Further adjustments to the proposals are therefore likely to be required, including changes to the calibration of the Output Floor - the market impact of which is likely to be felt from 2025, despite its planned five-year phase-in - and to limit the impact of this measure on specific asset classes and business lines.

"The Commission is also proposing enhancements to the regime relating to the regulation and supervision of third country branches to address diverging practices and overlapping requirements. AFME supports proposals to harmonise current practices to ensure appropriate visibility and strengthen international cooperation arrangements. However, such arrangements should place a high degree of reliance on home state supervisory regimes and avoid any mandatory requirement for local subsidiarisation without a full understanding of the reasons for doing so and only then where it is not possible to reach alternative supervisory solutions."

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About AFME:
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. Follow us on Twitter @AFME_EU