Finance for Europe

20th February 2017

Mr Roberto Gualtieri
Chair of the ECON Committee
European Parliament

Mr Gunnar Hökmark
Member of the European Parliament

Professor Edward Scicluna
Minister for Finance, Malta

Mr Valdis Dombrovskis
Vice-President for the Euro and Social Dialogue
European Commission

Dear Vice-President, Dear Minister, Dear Mr Hökmark, Dear Mr Gualtieri

Need for urgent agreement of creditor hierarchy proposal

The Association for Financial Markets in Europe (AFME) welcomes the European Commission's proposal to amend the creditor hierarchy of banks to create a new class of senior non-preferred debt[1]. This proposal is of the utmost importance and quick agreement is essential to enable banks to continue to increase their loss absorbing resources, improve their resolvability and, for Globally Systemically Important Banks (GSIBs), to achieve their Total Loss-Absorbing Capacity (TLAC) requirements by 1 January 2019.

The introduction of the new senior non-preferred class is important for European GSIBs to be able to achieve the requirements of the globally agreed TLAC standard and could also be important for other banks where required to achieve their Minimum Requirements for own funds and Eligible Liabilities (MREL). Accordingly, the proposal represents an important step in improving resolvability of banks in the European Union, increasing the credibility and feasibility of their resolution plans and further strengthening the protection against taxpayer bail-outs.

We call on the co-legislators to reach agreement on the proposal as a matter of urgency. Quick agreement and transposition is essential to enable banks to issue the new class of debt and to support an effective market throughout the EU by providing harmonisation and clarity to the

[1] COM (2016/0853) amending Directive 2014/59/EU (BRRD)

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market. Any delay may impact banks' ability to meet these requirements in a timely and cost-effective manner.

It is important to note that there is not yet a well-developed market for explicitly loss-absorbing bank debt in Europe and it is important for the legislation to support the development of a deep and liquid market in these instruments. Agreement on a common creditor hierarchy as soon as possible is therefore required to facilitate this. A delay and lack of clarity for banks and investors could create significant market capacity concerns due to significant issuance in a compressed period of time.

Importance of transitional requirements for new eligibility criteria under CRR, BRRD

Finally, we wish to emphasize that, for similar reasons, we regard it as essential that the EU legislators introduce as a matter of priority transitional arrangements ensuring the continued eligibility of issuances made prior to the new eligibility criteria under articles 72b (MREL), 52 (Additional Tier 1) and 63 (Tier 2) CRR coming into force under the Commission's proposed revisions to the CRR and BRRD, and communicate this clearly to the public and the markets. This is necessary to provide clarity for banks on their current shortfall and enable them to continue issuance over the next months without uncertainty as to whether further issuances will ultimately be eligible.

We look forward to working with you in implementing what is an essential part of the resolution framework for the European Union.

Yours sincerely,

Simon Lewis

Simon Lewis OBE
Chief Executive

cc: Matthew Buttigieg, Head of EU Presidency Unit, Ministry for Finance, Malta
Astrid Farrugia, Financial Counsellor, Maltese Permanent Representation to the EU
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