Comments

EU-COM Proposal: Banking Package 2021
CRR III Draft

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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent more than 1,700 banks.

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Comments

The German Banking Industry Committee welcomes in principle the legislative proposal published on 27 October 2021 by the European Commission, the so-called **Banking Package 2021**, to implement the final elements of the Basel III reforms in the EU regulatory framework. The EU Commission's proposal for the implementation of the output floor is recognisably characterised by the intention to reduce the negative effects of the **output floor** on institutions. This is mostly notable in the solutions addressing European specifics like unrated corporates, low risk housing markets and the need to hedge exports. These however are only temporary and therefore only postpone the significant impacts. We therefore propose to make these solutions permanent. From our point of view, comparable solutions must also be granted to institutions using the CRSA or the SA-CCR.

Otherwise, the implementation of a single stack approach of the output floor is likely to lead to a significant increase in capital requirements in the long-term. For sake of simplicity we therefore strongly advocate implementing the output floor within the framework of a **parallel stacks approach** and applying it only to those capital requirements explicitly mentioned by the Basel Committee.

The new rules imply a huge **implementation burden** for all institutions due to massive procedural changes. Institutions must implement the new rules entirely before 2025, requiring huge investments in IT-implementation and internal processing (esp. real estate). Smaller institutions are disproportionately burdened. Therefore we strongly pledge for introducing an **implementation period** of at least 24 months after coming into force.

Furthermore, the overall package **lacks a sufficiently proportional design of the rules**. In order to **reduce administrative expenses** within the framework, SNCIs should be exempted from further ESG reporting obligations, new disclosure requirements (esp. ESG) and the remuneration framework.

Moreover, the draft regulation contains numerous **mandates for the EBA** to elaborate technical standards, guidelines and submit reports. We advocate a much stronger delegation of rulemaking to level 1 and ask for a thorough review of the mandates aiming at a reduction of EBA mandates.

Additionally, the following topics require amendments:

- **Commercial real estate:** Risk-weighting of **commercial real estate exposures** in the CRSA is still not risk sensitive enough. As a consequence, comparable provisions to the output floor rules concerning low-risk residential real estate should also be applied to low-risk commercial real estate in order to mitigate the effects of the output floor. The ADC provisions concerning residential real estate should also be applied to commercial real estate and the necessary investments in the sustainable refurbishment of commercial real estate should be better reflected since they actually increase value and thus reduce risk.

- **Equity**: We welcome that the EU proposals differentiate more strongly than the Basel standard in the regulatory treatment of participations according to whether they are made for strategic, long-term considerations; however, more granularity is needed here. The longer an equity investment is held, the lower the risk weighting should be.

- **Unconditionally cancellable commitments and trade finance products:** In our view, all **unconditionally cancellable commitments** should remain exempted from the capital adequacy requirement. The transitional arrangements are not sufficient. Due to the low risk of **trade finance products** the current credit conversion factors should be maintained and the effective maturity applied the Foundation-IRBA.

- **Other collateral:** Other collateral that is eligible under the Foundation-IRBA should be eligible under the CRSA as well. There is no justification for a different treatment, if all requirements are equally met. A change of rules would have a positive effect on the financing of SMEs.