PRESSEMITTEILUNG

BVR criticizes the draft report on implementation of Basel III: too little consideration of the characteristics of the European banking market

Berlin, June 1, 2022 — The draft report published today by rapporteur Jonás Fernández, member of the European Parliament, concerning the European Commission's legislative proposal on the implementation of Basel III in the European Union ('banking package') does not sufficiently consider the needs of the German cooperative banks. "This is unfortunately a missed opportunity to take better account of the specific characteristics of the European banking market," says Daniel Quinten, member of the Board of Managing Directors of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR) [National Association of German Cooperative Banks]. "Particularly for smaller institutions that are part of a wider network – such as the German cooperative banks – and already weighed down by excessive regulation, the rules set out by the European Commission are extremely problematic and the rapporteur has not modified them."

The BVR cannot understand why no proposals aimed at providing administrative regulatory relief for small and medium-sized banks have been included. In this context, the BVR is calling for standards and guidelines of the European Banking Authority (EBA) to be drawn up with greater consideration for the size of the institution, the complexity of its business model, and the risks attaching to its business activities. "The very granular, prescriptive requirements in the EBA's guidelines on loan origination and monitoring, which are due to come into force at national level soon as part of the MaRisk update, illustrate how complex and detailed the requirements are for small and medium-sized banks. Our banks' lending processes have proved effective for decades. A steady stream of new and complex requirements is creating huge amounts of administrative work but does not provide the supervisory authority with any

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additional insights and does not increase financial stability," states Quinten. Moreover, the mandatory LSI stress test and, in conjunction with this, the setting of an additional institution-specific recommended capital requirement (Pillar II Guidance) for well-capitalized banks should be discontinued. Such a move would reduce the administrative burden for well-capitalized, small, non-complex institutions with a low-risk business model whose internal management processes do not benefit from the setting of a Pillar II Guidance ratio.

There will be a significant impact, especially for bank networks, from the envisaged rule under which banks that use their own rating systems will no longer be able to give a zero risk-weighting to exposures within the network. This would jeopardize the liquidity pooling within the Cooperative Financial Network. During the financial crisis, the liquidity pooling function maintained the supply of liquidity in the German economy. This was not the case in other European countries.

The BVR expects the draft report to trigger lengthy negotiations in Brussels. These must not be allowed to adversely affect the industry, which will have to implement the rules once they have been signed off. It would therefore be sensible to consider now whether the planned effective date can be put back. This would also be consistent with the procedure for the rules of the Basel Committee that are now having to be implemented, as only large banks are required to implement them straight away. "European lawmakers have the option to extend the implementation deadlines for smaller banks for which implementing the complex rules will involve a disproportionately large amount of effort. During the current period of economic upheaval, it is particularly important that the banks can devote their resources to guiding their customers and the economy as a whole through the transformation process," explains Quinten. ■