



TEXTS ADOPTED

P8_TA(2016)0439

Finalisation of Basel III

European Parliament resolution of 23 November 2016 on the finalisation of Basel III (2016/2959(RSP))

The European Parliament,

- having regard to the post-crisis conclusions of the G20 Summits,
- having regard to the communiqué of the G20 Finance Ministers and Central Bank Governors of 27 February 2016,
- having regard to the communiqué of the G20 Finance Ministers and Central Bank Governors of 14-15 April 2016,
- having regard to the communiqué of the G20 Finance Ministers and Central Bank Governors of 23-24 July 2016,
- having regard to the G20 leaders' communiqué of 4-5 September 2016,
- having regard to the Basel Committee on Banking Supervision (BCBS) reports to G20 leaders providing updates on the implementation of the agreed reform agenda, and in particular to the BCBS report of November 2015 to G20 leaders on 'Finalising post-crisis reforms: an update'¹,
- having regard to the BCBS consultative documents on 'revisions to the Basel III leverage ratio framework' of 6 April 2016, on 'reducing variation in credit risk-weighted assets – constraints on the use of internal model approaches' of 24 March 2016, and on 'revisions to the Standardised Approach for credit risk' of 10 December 2015,
- having regard to the BCBS discussion paper and consultative document on 'Regulatory treatment of accounting provisions' of October 2016,
- having regard to the BCBS standard for 'TLAC holdings – Amendments to the Basel III standard on the definition of capital' of October 2016²,
- having regard to the EU Shadow Banking Monitor from the European Systemic Risk

¹ <http://www.bis.org/bcbs/publ/d344.pdf>

² <https://www.bis.org/bcbs/publ/d387.htm>

Board (ESRB) of July 2016,

- having regard to the results of the stress tests conducted by the European Banking Authority (EBA) and published on 29 July 2016,
 - having regard to the Council Conclusions of 12 July 2016 on finalising the post-crisis Basel reforms¹,
 - having regard to the 2016 IMF Global Financial Stability Report,
 - having regard to its resolution of 10 March 2016 on the Banking Union – Annual Report 2015²,
 - having regard to its resolution of 19 January 2016 on stocktaking and challenges of the EU Financial Services Regulation: impact and the way forward towards a more efficient and effective EU framework for Financial Regulation and a Capital Markets Union³,
 - having regard to its resolution of 12 April 2016 on the EU role in the framework of international financial, monetary and regulatory institutions and bodies⁴,
 - having regard to the research paper for its Committee on Economic and Monetary Affairs on ‘The European Union’s role in International Economic Fora, Paper 5: The BCBS’,
 - having regard to the exchange of views with the Secretary General of the Basel Committee on Banking Supervision (BCBS), Mr Bill Coen, with the Chair of the SSM Supervisory Board, Mrs Danièle Nouy, with the Chairperson of the EBA, Mr Andrea Enria and with the Vice-President of the European Commission, Mr Valdis Dombrovskis, on the finalisation of Basel III/‘Basel IV’,
 - having regard to the Commission Statement on the Basel Committee’s revision of the standardised approach for credit risk and the exchange of views that followed with Vice-President Katainen on 6 July 2016,
 - having regard to the question to the Commission on the finalisation of Basel III (O-000136/2016 – B8-1810/2016),
 - having regard to the motion for a resolution of the Committee on Economic and Monetary Affairs,
 - having regard to Rules 128(5) and 123(2) of its Rules of Procedure,
- A. whereas a resilient and well capitalised banking system is a prerequisite for preserving financial stability, providing appropriate lending to the real economy throughout the cycle and supporting economic growth;
- B. whereas the G20 leaders agreed in the aftermath of the financial crisis to a comprehensive

¹ <http://www.consilium.europa.eu/en/press/press-releases/2016/07/12-conclusions-banking-reform/>

² Texts adopted, P8_TA(2016)0093.

³ Texts adopted, P8_TA(2016)0006.

⁴ Texts adopted, P8_TA(2016)0108.

reform agenda strengthening the regulatory standards of international banks, including the strengthening of prudential requirements;

- C. whereas the BCBS is developing internationally agreed minimum standards for prudential requirements for large, internationally active banks; whereas the BCBS monitors and reviews the implementation of these global standards and reports to the G20; whereas its guidance is an important tool to prevent regulatory fragmentation across the globe;
- D. whereas the European Union implemented the internationally agreed standards in the framework of the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV), albeit adapting them to the reality of EU funding needs, for example concerning the SME supporting factor and allowing a certain degree of flexibility; whereas in the EU it has been decided that these standards are applicable to all banks and not only to the largest, internationally active banks, while some non-European jurisdictions make some of them applicable only to the largest banks; whereas progress on achieving an internationally levelled playing field is important; whereas the Commission is expected to come forward with a legislative proposal for the review of the CRR/CRD IV to implement further agreed revisions to the Basel framework;
- E. whereas the prudential requirements for banks are interlinked and complementary to other regulatory requirements, such as the total loss-absorbing capacity (TLAC) and the mandatory use of central clearing for derivatives instruments; whereas the regulatory framework governing the EU banking sector has been improved markedly over the past years, particularly through setting up the Banking Union;
- F. whereas a sound framework for financial stability and growth should be comprehensive and balanced in order to cover dynamic supervisory practices and not focus merely on static regulation concerning mainly quantitative aspects;
- G. whereas data show excessive variability in the past of risk weights and ‘strategic risk modelling’ to reduce banks’ capital requirements and the difficulty national supervisors faced in assessing internal models, which contributed to the financial crisis;
- H. whereas the implementation of prudential requirements for different banking business models may differ considerably in scope and complexity, making a ‘one-size-fits-all’ approach ineffective and disproportionately burdensome, in particular for many smaller, domestically focused, less complex and interconnected banks, as well as their regulators and supervisors; therefore, an appropriate degree of proportionality and flexibility is required;
- I. whereas additional changes to the prudential framework for banks are currently being discussed by the BCBS addressing credit risk and operational risk; whereas these reforms focus on enhancing the risk sensitivity and robustness of the standardised approach for credit risk, additional constraints on the internally modelled approach and finalisation of the design of the leverage ratio, and a potential capital floor based on the standardised approach;
- J. whereas the majority of US financial institutions use the standardised approach for credit risk evaluations, while in the EU many large and medium banks rely on internal models;
- K. whereas an appropriate revision of the standardised approach and the respect of the

principle of proportionality are key factors for making the BCBS standard work for the small banks that mainly make use of it;

- L. whereas the G20 has indicated that the current revision should not bring about a significant increase in overall capital requirements, and this view was reiterated by Member States during the ECOFIN Council meeting in July 2016;
 - M. whereas European banks are now subject to systemic regular stress tests by regulators and the results of these tests are put into the public domain;
 - N. whereas representatives of non-EU jurisdictions, such as Japan, have expressed concerns in relation to the growing pressure on raising capital and dealing with higher compliance costs in order to comply with the new standards set;
 - O. whereas the BSBC decisions do not have legal force and need to be transposed through the ordinary legislative procedure in order to have effect in the EU; whereas not all national competent authorities have seats in the BCBS, but the ECB and the SSM are represented as full members and the Commission and the EBA are observers;
1. Underlines the importance of sound global standards and principles for the prudential regulation of banks, and welcomes the post-crisis work of the BCBS in this field;
 2. Reaffirms that banks need to be well capitalised in order to support the real economy, reduce systemic risk and avoid any repeat of the enormous bailouts witnessed during the crisis; underlines the need for appropriate regulation of the shadow banking sector in order to ensure fair competition and financial stability;
 3. Highlights that, contrary to other jurisdictions, banks play a key role in financing the European economy and are likely to remain the main source of finance for households and enterprises, especially for SMEs; stresses that EU legislation has always attempted to reflect this (e.g. by use of the SMEs supporting factor) and should continue to do so (e.g. by prolonging and extending the supporting factor); recognises, nonetheless, the importance of diversifying the funding sources of the European economy, and welcomes in this regard the ongoing work under the CMU;
 4. Notes the ongoing work of the BCBS to finalise the Basel III framework intended to increase simplicity, comparability and convergence of the risk-weighted capital framework in order to address excessive variability in risk-weighted assets and to apply the same rules to the same risks; underlines the need for greater transparency and accountability to enhance the legitimacy and ownership of BCBS deliberations; welcomes the appearance of the Secretary General of the BCBS before the ECON Committee and encourages further dialogue;
 5. Stresses that the current revision should respect the principle stated by the Group of Governors and Heads of Supervision (GHOS) of not significantly increasing overall capital requirements, while at the same time strengthening the overall financial position of European banks;
 6. Underlines that a second and equally important principle to be respected by the revision is to promote the level playing field at the global level by mitigating – rather than exacerbating – the differences between jurisdictions and banking models, and by not unduly penalising the EU banking model;

7. Is concerned that early analysis of recent BCBS drafts indicates that the reform package at its current stage might not be in compliance with the two abovementioned principles; calls on the BCBS to revise its proposals accordingly and on the ECB and the SSM to ensure their respect in the finalisation and monitoring of the new standard;
8. Underlines that this approach would be instrumental in ensuring consistent implementation of the new standard by the European Parliament as co-legislator;
9. Recalls the importance of the principle of proportionality, to be assessed not only in relation to the size of the institutions which are regulated, but also understood as a fair balance between the costs and benefits of regulation for each group of stakeholders;
10. Calls for a dialogue and an exchange of best practices among regulators concerning the application of the principle of proportionality to be established at the EU level and at the international level;
11. Calls on the BCBS to assess carefully and comprehensively the qualitative and quantitative impact of the new reforms, taking into consideration their impact on different jurisdictions and different banking models before the adoption of the standard by the Committee; considers that this assessment should also take into account the previous reforms suggested by the Committee; calls on the BCBS to perform the necessary adjustments in case imbalances occur during this analysis;
12. Recalls the importance of a risk-based approach to regulation, with the same rules being applied to the same risk, while underlining the need to reduce the scope for regulatory arbitrage and excessive variability in risk-weighted assets; calls on the BCBS to preserve the risk sensitivity of the prudential regulation, including by ensuring that the revision of the standardised approach and the scope for applying the IRBA overcome the risks of regulatory arbitrage and well reflect the specificities of different forms of financing, such as real estate lending, infrastructure financing and specialised lending, and by avoiding disproportionate effects for the real economy; expresses concerns in this respect about the potential effects on the real economy of the suggested introduction of output floors;
13. Calls on the Commission to assess carefully and comprehensively the qualitative and quantitative impact of recent and new reforms inter alia on the financing of the real economy in Europe and on envisaged European legislative projects such as the Capital Markets Union; calls on the Commission to make use of the findings resulting from the call for evidence and of the work stream on the first stocktaking assessment on financial services regulation which is due by the end of 2016; calls on the Commission to make sure that the new BCBS proposals or the implementation thereof do not counteract those initiatives; stresses that this assessment should not undermine the legislative achievements obtained so far and should not be seen as a call for deregulation;
14. Requests that the requirements to mandate central clearing of derivative products be fully taken into account when setting the leverage ratio so as to encourage the practice of central clearing;
15. Recalls that adequate account must be taken of the specificities of the European banking models, the markets they operate, the different sizes of institutions and the different risk profiles in both the impact assessments and the calibration of the standards in order to maintain the necessary diversity of the European banking sector and to respect

proportionality; calls on the Commission to take all these principles into account when determining the scope of implementation and when translating the BCBS proposals into EU law;

16. Underlines the key role of the European and national banking supervisors in ensuring supervisory convergence in the EU, taking into account the principle of proportionality and the appropriateness of the rules for different banking models; highlights the importance of reliable and comparable information on the situation of the institutions supervised in order to allow for this work to be carried out effectively and reliably; emphasises that the right to use internal models should be preserved; calls on the SSM and the EBA to continue their supervisory work in order to ensure consistent implementation of internal models and their capacity to adequately reflect the risks of banks' business models, to improve convergence in the way their flaws are addressed and to propose changes, where necessary;
17. Recalls the interaction of the prudential requirements for banks with other major banking standards, such as the introduction of the TLAC standard within the EU and its harmonisation with the MREL requirement under the BRRD, as well as with the application of the IFRS 9 accounting standard in the near future and the Banking Union framework; stresses therefore that the reflection on the reforms of prudential regulation should take into account all these different elements and both their respective and combined effects;
18. Recalls that several major EU banks have in recent years paid out dividends to shareholders while remaining significantly undercapitalised and without having cleaned up their balance sheets in a consistent manner;
19. Calls on the Commission to prioritise work on a 'small banking box' for the least risky banking models, and to extend this work to an assessment of the feasibility of a future regulatory framework consisting of less complex and more appropriate and proportional prudential rules specifically adapted to different types of banking model;
20. Stresses the importance of the role of the Commission, the European Central Bank and the European Banking Authority in engaging in the work of the BCBS and providing transparent and comprehensive updates on developments in the BCBS discussions; calls for this role to be given stronger visibility during ECOFIN meetings and for enhanced accountability to Parliament's ECON Committee, with a regular de-brief by the EU representatives party to the discussions;
21. Instructs its President to forward this resolution to the Commission.