



**To the members of the
European Federation of Building Societies**

Brussels, 21 May 2012

Transposition of Basel III into European Law: Vote of the Parliamentarian Committee of Economic and Monetary Affairs (ECON) on the draft reports on CRD IV/ CRR

Dear members,

The ECON has voted on 14 May 2012 on the draft reports of the rapporteur on the proposals of the European Commission on CRD IV/ CRR. In his draft reports the rapporteur was widely supported by the Members of European Parliament. The reports contain modifications to the proposals of the European Commission of 20 July 2011 which are favourable to the European Federation of Building Societies.

The reports stipulate the following provisions:

The choice of the IRB-Approach

An obligation of the supervisory authorities to ensure that institutions shall mainly apply the IRB-Approach to calculate own funds requirements for credit risk has not been abandoned. In Member States, where no system is in place which provides for internal ratings which do not rely solely or mechanistically on external credit ratings, the competent authorities shall provide for it and assess the methods used for the internal ratings by the institutions. Besides, a portfolio shall be introduced in the Member States where it does not already exist. It shall give an overview of all the possible risks institutions can be exposed to and which can be rated by applying an internal approach. The results of the internal rating should be transmitted to the competent national authority at least once a year.

Loss Given Default

A uniform minimum floor for the Loss Given Default for all retail exposures secured by residential property of 10 % has not been maintained by the Members of the European Parliament. In the future, the national supervisory authorities shall assess annually the appropriateness of the Loss Given Default and if necessary set a minimum Loss Given Default floor for reasons of financial stability on a national level. The results of the assessments carried out by the supervisory authorities shall be publicly available.

Leverage Ratio

The decision, whether the leverage ratio will be published, is conditioned by the results of a report delivered after the end of the observatory period on the leverage ratio and the position of the European Parliament and the Council on the future handling of the leverage ratio. Firstly, the European Banking Authority (EBA) shall report to the European Commission by 31 October 2016 on the impact and the efficiency of the leverage ratio. The Members of the European Parliament believe that credit institutions can be classified according to business models and risks into three groups. A distinctive leverage ratio would be assigned to each group. In order to do so, the report of the EBA

shall as well assess whether a leverage ratio differentiating the risks of institutions and measuring 1.5 %, 3 % and 5 % would be appropriate. In this context, the financing of residential property shall be inter alia considered as a low risk business model. Secondly, the European Commission shall deliver a report by 31 July 2017. It shall consider an assessment of the varying types of institutions with different business activities. The European Commission shall be empowered by a delegated act to adopt a binding leverage ratio.

In order to calculate the leverage ratio institutions shall transfer all information on the leverage ratio to national competent authorities. Subsequently, the competent authorities transmit this information to the EBA. The EBA shall be enabled to use these data to classify business models.

Net Stable Funding Ratio

A Net Stable Funding Ratio distinguishing the different business models shall be introduced by 2017 via a delegated act by the European Commission.

Delegated acts in order to extend the application of the Basel I-Floor

Notwithstanding to CRD III which extended the application of the Basel I-Floor until the end of 2011, the proposal of the European Commission provides for a prolongation until the 31 December 2015. The report of the European Parliament stipulates an application until the 31 December 2017 or until the introduction of a leverage ratio, if the latter occurs earlier. Yet, an annual prolongation beyond that date via a delegated act of the European Commission has been abandoned by the Members of Parliament.

The ECON is the only committee of the European Parliament which has made a statement on the proposals of the European Commission. The Committee of Legal Affairs has renounced to the opportunity to give an opinion. The European Parliament will now enter negotiations with the European Council and the European Commission in order to find a common text of compromise.

If any further questions remain, please contact us.

Yours sincerely,



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European Federation of Building Societies