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Press release | 20.07.2011

New bank capital rules

Commission misses opportunities to go further and faster in the proposals

The European Commission has today issued a proposal for major revision of the Capital Requirements Directive - known as "CRD IV" - aimed at transposing the new prudential rules agreed in September 2010 by the Basel Committee into EU law.

In this respect, the Greens particularly welcome the Commission's proposals to strengthen both the quality and quantity of the capital that banks will be required to hold to prevent large unexpected losses spilling over onto the taxpayer. The Greens also welcome the proposed requirement for a "countercyclical buffer" that will mean banks being forced to provision more for risks when they lend more than is justified by the growth of the economy. Furthermore, the proposal to introduce a leverage ratio as a simple measure of banks' risk exposures constitutes a step in the right direction, given that internal risks models have proved to be poor predictive tools. However, the Greens believe that the proposed changes to the Capital Requirements Directive still fall far short of what is needed to curb excessive risk-taking at individual banks.

Philippe Lamberts, Green MEP and co-chair of the European Green Party notes:

"*The proposed CRDIV is still too timid and represents a missed opportunity to direct the talents of the EU banking industry definitively away from unproductive risk taking and towards innovative and prudent support for the economy and society as a whole.*

In particular, the increase in minimum capital requirements from 8% to 10.5% proposed by the European Commission falls far short of recommendations by experts at the Bank of England and elsewhere, that a level of 16-20% would represent a more rational trade-off between the need to limit the huge costs of bank failure while allowing banks to provide their services at a reasonable price.

The fact that there will be no regulatory limit on the leverage ratio until 2017 at the earliest, represents a failure to take firm action quickly to prevent banks propping up their lending with unstable sources of funding, something which was a major factor in aggravating the liquidity crisis.

Furthermore, it is worrying to note that the liquidity requirements agreed last year by the Basel Committee are subject to very drawn out introductory periods with no certainty of any binding regulations at the end. For example, under the current proposal, the introduction of a net stable funding ratio (that promotes long-term *funding of banks' balance sheets) is subject to the conclusions that will be drawn from an observation period ending in 2018.*

Let us hope that we do not have another liquidity crisis in the next decade.

Finally, the draft proposal contains hardly any regulatory options aimed at mitigating the risks posed by the interactions between regulated banks and unregulated "shadow banking " components of the financial system even though this was a major factor in the crisis we are still suffering from. The proposal does not sufficiently limit the possibility for banks to run risks that are off the regulatory radar".

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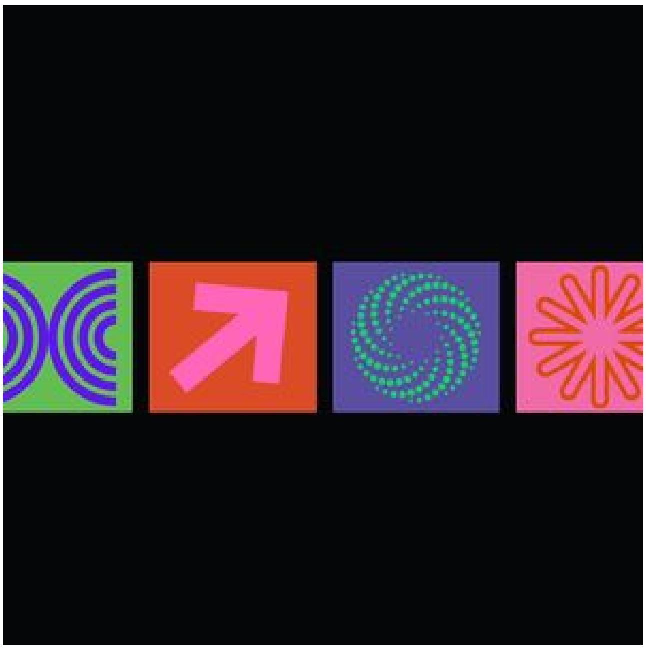

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