EUROPEAN CENTRAL BANK
BANKING SUPERVISION

EUROPEAN CENTRAL BANK
EUROSYSTEM

EBA EUROPEAN BANKING AUTHORITY

Jose Manuel Campa
Chairperson, European Banking Authority

Luis de Guindos
Vice President, European Central Bank

Andrea Enria
Chair of the Supervisory Board of the European Central Bank

Mairead McGuinness
Commissioner for Financial Stability, Financial Services and Capital Markets Union
European Commission
200 Rue de la Loi
B-1049 Brussels

7 September 2021

Subject: EU implementation of outstanding Basel III reforms

Dear Ms McGuinness,

The European Banking Authority and the European Central Bank have consistently affirmed the importance of timely and faithful implementation of the outstanding Basel III reforms in the European Union. This is essential to ensure banks can withstand future crises and a necessary condition for the proper functioning of the European and global financial systems.

We recognise that the COVID-19 pandemic created the need for exceptional measures. Both the EBA and the ECB supported the decision of the Basel Committee to delay the implementation date of the final Basel III reforms by one year to 2023. Nevertheless, these reforms remain critically important for addressing shortcomings in the existing framework. Any additional postponement of their implementation in the EU would be to the detriment of the European public interest.

We recall that on 30 November 2020, the Group of Central Bank Governors and Heads of Supervision, the oversight body of the Basel Committee, unanimously reiterated its expectation for the full, timely and consistent implementation of all aspects of the Basel III framework. It is of utmost importance that the EU continues to uphold its commitment to international financial standards and cooperation. In our view, this is essential to maintain the credibility of European banking regulation and confidence in European banks.

It is therefore crucial to avoid implementation approaches that would be inconsistent with international agreements and, in addition, would leave shortcomings in the existing framework relating to specific risks unaddressed. This includes, but is not limited to, the implementation of the output floor. The output floor reduces variability in how banks risk-weight their assets and is a key element of the Basel III framework. It should be implemented so that there is only one measure of risk-weighted assets per bank. Introducing an additional set of requirements based on the output floor (the so-called "parallel stacks" approach) would deviate from the Basel standards, increase the complexity of the framework, and impair the comparability of capital ratios across banks and jurisdictions. It would also undermine the effectiveness of bank specific supervisory capital requirements and the incentives those requirements create for banks to improve their risk profiles and risk management.

In close cooperation with the ECB, the EBA has previously advised the Commission that – based on conservative estimates – implementing the final Basel III reforms is likely to have only modest transitional costs, which will be greatly outweighed by long-run economic benefits.[1] When factoring in the positive economic benefits and banks' own reactions over time, we expect overall increases in capital will not be significant, save for a few banks that have traditionally benefited the most from the current rules on risk-weighting. Furthermore, the EBA has also highlighted that, while it is difficult to predict the final impact of the Covid-19 shock on banks' balance sheets, some of its effects may partially offset the initial compliance costs that some banks could face.[2] In addition, ECB staff recently published analysis reconfirming earlier findings of limited short-run costs fully compensated by long-term resilience gains, also when considering the impact of the pandemic.[3]

In the Covid-19 crisis, the EU banking sector demonstrated its capacity to contribute to economic resilience. That capacity rests on having a high-quality regulatory framework in which market participants and the public can have confidence. For all the aforementioned reasons, we thus reaffirm the importance of finalising the EU implementation of the outstanding Basel III standards in a full, timely and faithful manner.

Yours sincerely,

Jose Manuel Campa Chairperson, European Banking Authority	Luis de Guindos Vice President, European Central Bank	Andrea Enria Chair of the Supervisory Board of the European Central Bank

CC: John Berrigan, Director-General, Directorate-General for Financial Stability, Financial Services and Capital Markets Union, European Commission

[1] https://www.eba.europa.eu/risk-analysis-and-data/quantitative-impact-study/basel-iii-monitoring-exercise/call-for-advice

[2] https://www.eba.europa.eu/eba-updates-its-basel-iii-impact-study-following-eu-commission%E2%80%99s-call-advice

[3] https://www.ecb.europa.eu/pub/financial-stability/macroprudential-bulletin/html/ecb.mpbu202107_1~3292170452.en.html