Public consultation on the possible impact of the CRR and CRD IV on bank financing of the economy

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1.2 How have market, supervisory and regulatory capitalisation demands interacted to make banks adjust the level of capital they hold to the current level? 1000 character(s) maximum (156 characters left)

The CRR/CRD IV requirements have in certain cases been used by the management of banks as an excuse for the vast restructuring processes many banks have been subjected to in recent years. Often these processes have led to major layoffs. Yet banks have seen their profits start to rise again significantly in the same time period, leading to the question of how this development fits in with the CSR policies of most banks. How can banks on one hand claim that the CRR/CRD IV requirements force them to lay off employees and yet justify rising profits? For examples of this development one needs to only look at banks since as HSBC which has laid off 25,000 employees and Lloyds Banking Group which has laid off 9,000 employees while still making continuous profits. It is the opinion of UNI Europa Finance that this practice should be prevented.

5.1 What are the effects of increased capital requirements, such as they are? 1000 character(s) maximum (374 characters left)

The increased levels of required capital has in several cases led to excess cutting of jobs as expressed in the previous answer. Additionally, the core business activities of smaller and larger banks are not the same, and savings banks will therefore be hit harder than larger banks due to their main business requiring higher levels of capital to be held. Yet as savings banks often are the primary lenders to their local economy, their business model should be protected. Smaller banks will also have proportionally higher personnel costs, which puts them at a disadvantage when they also have to raise their capital levels.

5.5 Has the per-unit cost of bank capital decreased as banks have become less risky? 1000 character(s) maximum (823 characters left)

As bank shareholders realize that better capitalised banks are less risky, their dividend expectations are likely to decline, leading to a neutral impact on the cost of funding.

8.2 Could you provide any evidence, preferably quantitative, of the change in lending to SMEs due to the introduction of the supporting factor as from 2014? 1000 character(s) maximum (79 characters left)
It is difficult to assess on an EU level whether there has been a change in lending to SMEs. As stated in a recent EBA consultation\(^1\), SME lending is riskier and reacts more to downturns than bigger firms. However, this change of lending is not necessarily due to the capital factor. In addition, figures are not uniform in the EU: In the UK there are indications of negative net lending, but this is most likely due to higher amount of repayment of old loans, which would indicate that SMEs are confident they can easily access funds in the future if they should need it. At the same time, the Banque de France states that access to credit remains large and that there is no evidence of autocontrol or auto-restriction by SMEs to request new credit. [https://www.banque-france.fr/economie-et-statistiques/stats-info/detail/acces-des-entreprises-au-credit.html](https://www.banque-france.fr/economie-et-statistiques/stats-info/detail/acces-des-entreprises-au-credit.html)

9.1 What specific difficulties do banks face when lending to SMEs, compared to when lending to larger corporates? Are they related to the CRR? 1000 character(s) maximum (394 characters left)

Lending to SMEs requires a local presence in order to understand the local economic context and competition, and know the management. Traditional banks with local branches, funded largely by deposits, are best placed to perform this activity. Furthermore, the amounts that SMEs are in need of borrowing are often below the level that is interesting for larger banks to handle as mentioned in Financial Times article: EU warned not to let capital markets union hurt role of banks, 23 August. It is hardly a coincidence that the funding to SMEs has fallen at the same time as capital requirements have risen.

13.4 If there are any provisions that could potentially be applied with greater differentiation, what are these provisions? 1000 character(s) maximum (21 characters left)

It is important to stress that the majority of the employees in the financial sector do not receive excessively large bonuses which gives rise to systemic issues. As a basic principle, the possibility for collective bargaining should not be hampered by the inclusion of too many employees, including those in middle management functions. This is an issue of proportionality especially in S-M sized institutions which do not have a significant market activity. E.g. in Belgium a minor financial institution interpreted the guidelines on remuneration so broadly that all professional and managerial staff were asked to sign an accord if which they agreed on a clawback procedure. This was the interpretation by the bank itself of the Belgian law which implement European legislation. After consultation with third parties, the bank agreed to narrow down the application of those rules. This shows the need to provide a clear indication of scope. See §63, §69 and §83 of the CRD 4.

14.4 Please explain your answer on whether it is useful to consider an approach where banks that are capitalised well above minimum requirements or that are less exposed to certain risks could be subject to simplified obligations? 1000 character(s) maximum (156 characters left)

There are examples of very small financial institutions with one or a few employees that have to appoint risk and compliance officers and report detailed information on e.g. remuneration rules to the supervisory authorities. This is all together a huge administrative burden for very small financial institutions that pose very limited systemic risk. Such examples already exist in both Denmark and Belgium.

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It has also been officially recognised that the excessive complexity of regulation makes it less effective and creates opportunities for banks to avoid regulation. Simple metrics such as a leverage cap are more robust and have been shown to be a much better predictor of banks’ health. Such simple metrics should be put at the forefront of banks’ prudential regulation. This would make regulation more effective and more stable over time.

15.1 What additional measures could be taken in the area of prudential regulation to further promote integration and enhance a level playing field? 1000 character(s) maximum (227 characters left)

The European Commission is currently promoting the development of non-bank lending also called shadow banking, while providing the latter with softer regulation compared to bank lending. Not only do similar activities and risks require similar regulation, but much remains to be done to address the risk of future systemic crises. Urgently needed measures include introducing a minimum haircut in securities financing transactions and a cap in the re-use of collateral. Furthermore, UEF finds it regrettable that there is no reference to neither whistleblowing nor competence requirements for employees in the CRR. These are both important issues and help stabilise and grow the sector. Empowered employees are one of the keys to a vibrant and sustainable financial sector.

15.2 Can you indicate specific examples and evidence of discretions that affect the cost and availability of bank lending? 1000 character(s) maximum (482 characters left)

(a) Prudential liquidity ratios currently implicitly favour liquid tradable securities over loans, thereby reducing the availability of bank lending, as securities can crowd out loans; (b) The zero risk weight for Sovereign debt also pushes banks to lend to governments instead of lending to households and businesses; (c) The favourable tax treatment of debt financing compared to equity pushes banks to minimise their regulatory capital, potentially affecting adversely their ability to lend in a sustainable manner.

Additional comments

UNI Europa Finance is the European-level trade union organisation for the finance sector. It represents 100 unions with 1.5 millions workers in the banking and insurance industries. It is part of UNI Global Union and recognised by the European Union as a social partner. UNI Europa Finance welcomes the recognition by the EU Commission of the need to review the implementation the CRR/CRD IV legislation. We have however noted that no question in the questionnaire makes reference to the rules pertaining to the rights of employees or corporate governance in general. It is of equal importance to strengthen employee protection and their influence as well as good corporate culture. UEF will therefore come in with more input on these issues under the Call for Evidence on EU Regulatory Framework for Financial Services.