

European CFO Network

EBA Consultation Paper (EBA/CP/2020/03) with regards to Regulatory Technical Standards on the identification methodology for global systemically important institutions (G-SIIs), Implementing Technical Standards on Pillar 3 disclosure of indicators for G-SIBs and Guidelines on the specification, reporting and disclosure of indicators of global systemic importance

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Introduction

The European CFO Network and its members welcome the opportunity to respond to the Consultation Paper EBA/CP/2020/03. A sub-group of 8 European banks (6 EU G-SII and 2 EU non G-SII) active in the CFO Network's Capital Working Group have discussed the subject matter in detail, which shows the importance of this topic for G-SII and non G-SII banks. The below response has broad based support across CFO Network banks; it demonstrates the importance our network attaches to the Banking Union recognition and its reflection in the G-SII methodology.

Question 1

The EBA is interested in collecting views on whether the baseline scenario is appropriate and balanced between the need to recognise the European Banking Union integration process and the strong desire to apply and fully adhere to Basel international standards. Should respondents be more towards favouring options a), b) or c), kindly comment on whether the proposed range(s) is either i) appropriate, ii) too wide, or iii) too narrow. Answers to questions and options described above are most welcome when considering the need and intention of the EBA to stay as closely aligned with the international standards as possible.

We are supportive of the legislators decision to recognize Banking Union benefit by designing an additional identification methodology for G-SIIs excluding cross-border activities between participating Member States that will feed supervisors' discretionary decisions.

We note that the main positive aspects of the requirement under Article 131 will be to allow banks further headroom for lending, notably within the EU, to support the economy before reaching the upper limits of their current G-SII categorisation rather than necessarily seeking to be allocated to a lower bucket. The same benefit will apply to banks close to be G-SII for which reaching the first bucket would be more expensive (+1% vs +0.5%) than for a G-SII reaching the upper bucket.

We are, however, concerned that all of the options, proposed by the EBA, appear to have been drawn up with the intention of limiting the ability of competent authorities to reduce the EU additional score or the resulting G-SII bucket allocation. It would lead to capital requirements that may not be properly reflective of underlying levels of systemic importance and risk.

Options a) and b): We note that CRD V refers to the progress made in terms of the common approach to resolution resulting from the reinforcement of the single rulebook and from the establishment of the Single Resolution Mechanism while EBA refers to the need to recognise the European Banking Union integration process which is a broader perimeter. Last but not least, even if the Banking Union was the appropriated metric, the ranges are far from reflecting progress made.

Under option a) beyond the fact that the 10pt cap has no substantive justification, the same cross-border Eurozone activity would receive different relative weightings across banks. Indeed, for a bank that already has significant presence across the Eurozone, and reaches the 10pt cap, any further cross-border acquisition or organic growth will continue to be penalised, whereas the same acquisition or business growth done by a group with a smaller pre-existing pan-Eurozone franchise will remain within the cap. This would lead to an inequitable treatment of institutions and furthermore it will penalise Eurozone players and will frustrate their growth. This was not the intention of the co-legislators. In our view, option a) is not a suitable option.

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Under option b) cross-border Eurozone activity would be treated equally but the proposed limit is contrary to the co-legislators intention and the calibration (25%) is far from reflecting the BU progress. 2 pillars out of 3 have been accomplished so far (i.e. the Single Supervisory Mechanism, and the Single Resolution Mechanism).

If the calibration is to be given some sort of mathematical significance, it should reflect progress towards Banking Union, even though this is a somewhat self-defeating attitude. If all measures designed to reflect the Banking Union are predicated on the success of other measures designed to enhance the Banking Union, then this becomes a recipe for failing to achieve Banking Union.

Regarding the 3rd pillar, significant progress has been made in the European Deposit Insurance Scheme (based on EBA updates data on Deposit Guarantee Schemes across the EU¹ stating that the target level of covered deposits, to be attained by July 2024, had already been achieved by 18 of the 37 DGSs in the EU).

Option c) appears therefore to be the best compromise between the CRD text (which does not specify any limitations) and the EBA's strong desire to fully adhere to Basel International standards.

Question 2

Considering the above, the EBA welcomes views on whether the different FX conversion methods should be taken into account and clearly disclosed when designing the EU additional methodology to assign G-SII buffer rates. For instance, the average bank-specific impact across the alternative FX conversion methods could be taken and applied as a second step of the EU additional methodology, with the view of reaching a final EU revised G-SII score.

We would note that the use of the average FX rate for the year has been a previous industry position and we remain supportive of this approach. One particular advantage of this method is that the effect of FX fluctuations that occur towards the end of the year are mitigated which removes the possible advantages or disadvantages of different currencies.

Question 3

Do the respondents agree that the proposed implementation of the disclosure required in Article 441 of the CRR fits the purpose of the underlying regulation?

Owing to timing differences between the schedules of the annual Pillar 3 disclosure and GSII reporting and disclosure, we would like to ensure that there is no requirement to make the GSII metrics form part of our Pillar 3 disclosure - even if it's without ancillary data and memorandum items. There should just be a link to the section on institutions' websites where investors can find the most up to date indicators that would meet the disclosure requirements set out in the consultation.

By way of background, we would highlight that some institutions disclose their Pillar 3 information for the beginning of March, when the deadline for GSII data disclosure is 30 April. There's a timing issue and we don't see the benefit to duplicate prior year disclosure. We believe that the linkage to the most up to date indicators would be sufficient and in the interests of all stakeholders, whereas the disclosure of the GSII templates directly in the Pillar 3 process would create an about one-year delay to GSII data disclosure.

¹ <https://eba.europa.eu/eba-updates-data-deposit-guarantee-schemes-across-eu>