UNION DES ELUS LOCAUX ET REGIONAUX SOCIALISTES D'EUROPE
UNION OF SOCIALIST LOCAL AND REGIONAL REPRESENTATIVES IN EUROPE
UNION DER SOZIALDEMOKRATISCHEN KOMMUNAL- UND REGIONALPOLITIKER EUROPAS

Meeting of the Bureau of the USLRRE
Brussels, 9 March 2012

Resolution

« Differentiated implementation of Basel III – Strengthening the real economy, securing the funding of small and medium-sized enterprises and local authorities »

The proposal to reform the Capital Requirements Directive (CRD) is a cornerstone piece of the financial reform launched as response to the ongoing financial and economic crisis. Our aim is to promote sustainable economic growth and restore job creation in line with the objectives of the EU 2020 strategy. The accumulation of excessive indebtedness and risk in the financial sector are some of the main factors that contributed to trigger the collapse of financial markets in autumn 2008. In line with the G20 commitments, the European Union must put the financial markets at the service of the companies and households. Ensuring an adequate capitalisation is essential to restore the resilience and soundness of our financial sector and this is the context in which the implementation of the Basel III measures should be framed.

With the CRD IV-Package, the European Commission is proposing a comprehensive implementation of the banking regulations recommended by the Basel Committee on Banking Supervision (“Basel III”). This is due to gradually enter into force by 2018. Basel III and the Commission proposal aim at regulating financial markets, which is necessary and desirable both from an economic and a societal point of view. The regulations particularly provide for increased capitalisation and liquidity requirements for banks. The relevant legislative procedure is due to be completed by the first semester of 2012. Implementation is to be achieved through a regulation immediately applicable in all EU member states.

The Union of Socialist Local and Regional Representatives in Europe (USLRRE) demand that, in the implementation of Basel III, measures be taken to avoid a disproportionate burden being placed on the real economy. The regulations drafted by the Basel Committee for international banks need to be applied differently, depending on the business model and size of the institutions. Hence, it is very problematic that the draft Commission regulation proposes to include, not just those bank identified by the European Banking Authority (EBA) as being systemically relevant, but also public lending institutions with a regional or purpose-specific focus. This affects mainly institutions financing small and medium-sized enterprises and local authorities. Moreover, Basel III disproportionately interferes with the existing economic structures of member states and their regions. The capacity for private and public investment is therefore limited.

Small and medium-sized businesses, as well as regional and local authorities, contribute substantially to the overall economic demand and investments in the European Union. Also, regional and local authorities and their undertakings provide basic public services. In this respect, smaller banks and lending institutions with a regional focus are important partners because they provide loans to the economy and to public bodies. Together, these actors are system-relevant stabilizers who also intervene and provide anti-cyclical impulses to counter a recession when, due to a crisis, capital market-oriented institutions tend to pro-cyclically limit their business activities.

To continue to provide these services of social and general economic interest in the European Union, regional and local public authorities are dependent on having sufficient funds and on being able to refinance themselves through loans. Therefore, the USLRRE pleads for a differentiated implementation of Basel III into European law. The banking regulations should concentrate on strictly-defined business models and particular types of institutions to avoid endangering the financing of the real economy:

1. Smaller lending institutions and those with a regional focus, as well as public business development banks, should have a differentiated treatment within the Basel III regulations. Neither their business model nor their size bore any responsibility for the financial and banking crisis. Rather, these decentralised and specialised institutions are an important factor of stability, as they ensure that the real economy is provided with loans. To maintain this system-relevant function, they should not be treated on the same footing as large international banks.

2. The risk weighting and capital charge of loans to small and medium-sized enterprises should continue to be evaluated, as they have been until now, by assessing the real risk. Therefore, the requirements for loans to small and medium-sized enterprises should be lowered. Furthermore, for the risk weighting of direct loans to regional and local authorities, the credit rating of the relevant member state should continue to provide guidance.

3. In determining the leverage ratio under Basel III, loans with a default risk of zero percent should not to be taken into account or should at least be risk weighted. This should specially apply to loans to public regional and local authorities that provide the necessary security and creditworthiness. Furthermore, an exception-free application of the leverage ratio can lead to risk-free and low-margin loans being superseded by riskier ones. Therefore, the leverage ratio should always be introduced as an observation ratio and zero-weighted loans should be expressly excluded.

4. The current rules, according to which direct and indirect financial participations are subtracted from the lending institution's common equity, has to be corrected. They disadvantage public and cooperative financial institution and force them to recapitalise. This, in turn, limits their capacity to provide loans to private and public clients and to small and medium-sized enterprises. This is not justified by the banking and financial crisis and therefore calls for different rules depending at least on the institutions' business model and size.

5. National supervisory authorities should, within the European System of Financial Supervision, remain in charge of the day-to-day supervision of smaller and regionally-focused lending institutions and for public business development banks. Especially the standards of the European Banking Authority should not be fully and completely applied. They are based on rules for large international banks and are inappropriate for smaller and regionally-focused banks and public business development banks.

6. Independently of further financial market and banking regulations, the European Member states must ensure that their decentralised local authorities are able to take financial actions without limiting economic activity. This is the only way for local authorities to continue to fulfil their stabilising role, necessary to the economy in general.