



EACB Press Release

Cooperative Banks call for a rethinking of the Basel III EU implementation and timeline in light of the impact of the COVID-19 pandemic

Brussels, 28 August 2020

In a letter to Vice-President Dombrovskis today, the members of the European Association of Cooperative Banks (EACB) expressed their serious concern regarding the plans of the European Commission to issue a legislative proposal for the implementation of the remaining set of Basel III reforms (i.e. Basel IV) by end of 2020.

The EACB believes that, in a profoundly changed economic environment resulting from the outbreak of the Covid-19 pandemic and its long reverberating effects on economies and society, the plans for the implementation of Basel IV need to be postponed. Indeed, the long term effects of the pandemic need first to be appropriately gauged together with the impact that sweeping reforms such as Basel IV would entail in this situation.

Mr. Marttin, EACB president, highlights that *"at this very particular juncture it would be utterly premature to proceed with the planned schedule to table a proposal for the implementation of the outstanding Basel reforms by end of 2020. Further discussions and an impact assessment based on data fully reflecting the reality of the EU economy are needed, taking into account the wider economic, environmental and social situation at EU level as influenced by the COVID-19 pandemic. This study will have to start from the real impacts of the reform beyond a simple capital "shortfall" calculation."*

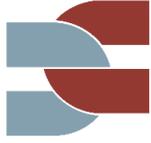
In fact, the current impact assessment would rely on data from end-June 2020. To simply update that impact assessment with those figures would not paint a realistic picture. Preliminary analysis already show a deep hit on the economy and conversely on the financial sector financing capacity and overall stability. While the social safety net and the various systems of public guarantees and shock absorbers are still in place, the real shift in the economic fundamentals can only be expected and captured with data from end-2020 if not even Q1 or Q2 2021. In some countries it will not be before mid-2021 that the full impact of the current crisis will be quantifiable, as the rules for the application of insolvencies were provisionally changed.

According to the EBA, Basel 4 would require a significant amount of additional capital only to maintain the minimum capital requirements, while the cost of the crisis is by now estimated between 280-350bp for the European banking sector. This would lead to a total need of capital of more than € 500bn. According to the SSM € 120bn of capital allow € 1.8 trillion of loans. Therefore, the implementation of Basel 4 in these circumstances would reduce the lending capacity of European banks by more than € 7 trillion.

The voice of 2.800 local and retail banks, 84 million members, 209 million customers in EU

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As noted by Mr. Marttin *"Banks are called to continue to sustain the credit flow and assist customers. While some relief has certainly been provided, regulatory compliance remains a challenge also given the many new workstreams activated at multiple levels. COVID-19 will inevitably result in an increase in credit risk in bank portfolios and higher RWAs and capital requirements due to worsening credit quality of a broad range of debtors (retail as well as corporates). In this environment, the implementation of the completed Basel III framework with its comprehensive changes to capital requirements appears as a serious challenge not only for banks, but also for economies if we disregard the crisis-induced changes to the economic parameters with a serious risk of strong pro-cyclical effects."*

In that respect, **Hervé GUIDER**, General Manager indicates that members of EACB also call upon the European Commission to perform a study about the impact of Basel 4 on the wish of the European Commission to strengthen the international role of the Euro and securing the economic and financial sovereignty of the Union in a changing global geo-political setting.

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About the EACB:

The **European Association of Co-operative Banks** ([EACB](http://www.eachb.coop)) is the voice of the co-operative banks in Europe. It represents, promotes and defends the common interests of its 27 member institutions and of co-operative banks in general. Co-operative banks form decentralised networks which are subject to banking as well as co-operative legislation. Democracy, transparency and proximity are the three key characteristics of the co-operative banks' business model. With 2,800 locally operating banks and 52,000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 209 million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 84 million members and 742,000 employees and have a total average market share of about 20%.

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