New Capital Requirements for Banks (Basel III)

Comments from UEAPME, 27 October 2010

This first assessment of the new – higher – capital requirements for banks made by the Basel Committee on Banking Supervisions is based on the information we have so far from the Committee (press releases) and comments make by some of our member organisations and other stakeholders.

1. UEAPME welcomes in principle higher minimum capital standards to stabilise financial institutions and to reduce the risks for another banking crisis in future. Such higher standards have to touch both the quantity and the quality of regulatory capital.
2. The impact assessment / quantitative impact study made so far does clarify the impact of the new regulations for the real economy and the effects on access to finance for SMEs, which depend to a very large extent on loan financing.
   Therefore, UEAPME demands an encompassing and independent assessment on the micro economic impact of the new minimum capital standards, including a specific assessment on consequences for SME finance in Europe. A European Quantitative Impact Study by CEBS is not sufficient and a final decision cannot be based on such a narrow assessment.
3. UEAPME recognises the improvements as regards the quality of core capital (Tier 1 capital) and the extended transitional periods to achieve the new requirements. Both will contribute to dampen possible negative effects on SME finance, especially coming from decentralised banking sectors, which may have difficulties to fulfil the requirements within a shorter term. Furthermore, UEAPME welcomes the new definition of core capital, which includes not only equity from shareholders and undistributed profits (common equity) but all fully loss absorbing capital.
   When it comes to the implementation of the Basel III agreement into European law (CRD IV), UEAPME asks to respect the particularities of co-operatives and savings banks as regards their capital, which would otherwise create serious problems for access to finance for SMEs in many regions of Europe.
4. UEAPME welcomes the introduction of countercyclical buffers as an instrument to dampen the procyclical effects coming from Basel II and IFRS regulations and accepts that the decision about such buffers is delegated to national governments.

   However, in order to ensure a level playing field within the European Union (Euro zone), UEAPME suggests to delegate this decision to the new European Banking Supervisory Authority, which has to decide based upon recommendations made by the European Systemic Risk Board.
5. UEAPME respects the arguments put forward to justify and to propose a non-risk based leverage ratio of 3 % of the Tier 1 capital, but warns against counterintuitive effects of such a measure. A non-risk based ratio may provide incentives for lower volume of high-risk businesses at the disadvantage of high-volume low risk businesses like retail and SME finance.

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