To: Mr Valdis Dombrovskis
CC: Mr Olivier Guersent
CC: Mr Martin Merlin
CC: Mr Klaus Wiedner
European Commission
DG FISMA

MIS LET018/2017

Brussels, 13 March 2017

Dear Mr Dombrovskis,

The European Savings and Retail Banking Group (ESBG), European Association of Craft, Small and Medium-sized Enterprises (UEAPME), and UNI Europa Finance are writing to you with regard to the proportionate application of EU legislation to all banks across the European Union. We call on the European Commission and European Parliament to assess the impact that legislation has on banks' ability to lend to households and SMEs, so that their activities can continue to foster growth and jobs. In 2015, SMEs accounted for 99.8% of all enterprises in the non-financial EU business sector, employing almost 90 million people – 66.8% of total employment and generated 57.4% of the sector's added value.

The full impact will, we understand, be difficult to fully assess until legislation is implemented. However there are already signs that some financial institutions, such as locally-focused savings and retail banks, are facing proportionately higher costs while having proved that the diversity of the business models was an asset during the crisis. This in turn is having a knock-on effect on SMEs and their employees, who are struggling to access funding to expand their business as their "traditional partners", such as savings and retail banks, find it more difficult to keep up high levels of lending. This is part of the reason for Europe's slow economic recovery from the financial crisis and hurts employment in both the local economies and local banks.

With this in mind, we would like to draw your attention to some specific areas of the capital requirement package review where we believe that a proportionate application of EU legislation could improve bank lending, while still taking care that there are no unnecessary risks involved. The examples we would like to flag are in the areas of reporting and disclosure, the SME Supporting Factor, the counterparty credit risk and corporate governance:

- We very much appreciate that the Commission suggested introducing less burdensome disclosure requirements for smaller institutions. In this respect, we believe that the decision-makers could even be more ambitious and consider a threshold which is higher than EUR 1.5

bn. If more of the smaller and less complex institutions were covered by the threshold, the principle of proportionality would be reflected even better. This would allow the bank employees to dedicate more time to customer relations, to the benefit of the local businesses and communities;

- Regarding the SME Supporting Factor, we have warmly welcomed the decision of the Commission to extend its scope of application to loans to SMEs above the existing threshold of €1.5 million with no upper limit and a capital charge reduction of 15% above €1.5 million. Here we invite the legislators to examine, if the capital charge reduction for loans above €1.5 million could be increased further to the 15% proposed by the Basel Committee and being set at the same level as for loans below €1.5 million or at least at 20% to further boost the EU economy through providing additional finance to SMEs and to the real economy.
- Also with regard to counterparty credit risk (CCR), we appreciate very much that the Commission aims at preserving and anchoring the principle of proportionality. However, as things currently stand, the proposals, in our view, could lead to noticeable, and not always justified, increases in capital requirements among smaller and less complex banks. It could be worth having another look at the simplified approaches and proposed thresholds.
- We are pleased to note that the criteria of proportionality has been applied to the requirements for high-level committees (risk, nomination, audit and remuneration) within a financial institution. In order to fully establish this rule, however, it would be welcome to add in a threshold of EUR 5bn balance sheet total. This would reduce the burden for smaller banks and be in line with the ECB guide on options and national discretions, as well as allowing in some cases the possibility of 'dual-hatting' – therefore reducing the burden of installing new control functions requiring additional staff.

ESBG, UNI Europa Finance and UEAPME strongly believe that a balance can be found between improving stability in the EU financial sector, and allowing banks to carry out these vitally important activities which fund the European economy, thereby creating jobs and prosperity.

We remain at your disposal in case you wish to discuss these matters further,

Yours sincerely,

Chris De Noose
Managing Director
ESBG

Veronique Willems
Secretary General
UEAPME

Michael Budolfsen
President
UNI Europa Finance