



European Banking Industry Committee

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EBIC letter on the Basel III implementation date postponement

To:

- European Parliament
- Council Presidency
- European Commission

Brussels, 20 October 2023

Subject: EBIC calls for the postponement of the Basel III implementation date in the EU

The European Banking Industry Committee (EBIC) has been following very closely the legislative process for the implementation of the finalised Basel III rules in the EU over the past years. As the adoption of the Banking Package is moving to a close, discussions over some issues such as the level of application of the Output Floor (OF) and the Fit & Proper (F&P) rules may cause delays in the availability of the final CRR-CRD text. It's important for all stakeholders involved to create the conditions for a sound implementation of the banking package, in line with the Basel principles on effective risk data aggregation and reporting. Consequently, there should be enough time available for the authorities to finalise the critical deliverables before prudential reporting can start. Against this background, the current **implementation deadline of 1 January 2025 needs to be postponed** in order to give banks enough time to adopt the necessary changes after the CRR - CRD text has been published in the Official Journal of the EU.

The CRR III mandates the **European Banking Authority (EBA)** to undertake tasks related to over 70 Regulatory Technical Standards (RTS)¹ and Implementing Technical Standards (ITS) before the application date. The timelines for these tasks range from 9 to 24 months, all of which must be factored into banks' implementation of CRR III. Whilst not every standard, guideline and report is critical for CRR III calculations and reporting, a number of them are of high importance. In fact, some of these ITS and RTS are mandatory for banks' CRR III implementation to succeed and for banks to start reporting under the new rules in as of the first application date. Such mandatory standards are in particular the EBA ITS on COREP and FINREP (plus ESG) reporting and the EBA ITS on Uniform disclosure formats without which no reporting under CRR III can be implemented. Others are providing important clarifications and detail on how to implement the new rules where the level 1 text naturally cannot provide all required specificity. Examples for these are the EBA RTS on Operational Risk defining the components of business indicator and other elements, the EBA RTS on conditions to determine that an instrument is a hedging position or the EBA RTS on Categorisation of specialised lending exposures (e.g., as object, project, commodity

¹ Altogether, EBA will be mandated by CRR III to undertake work on more than 127 Regulatory Technical Standards, Implementing Technical Standards, Guidelines and Reports.

finance, income producing real estate, etc. under IRBA), to name a few. Therefore, a premature go-live of the CRR III in January 2025 would mean lack of timely visibility for the industry and EU institutions/supervisors on these standards – in the absence of which banks will need to review their Internal Capital Adequacy Plans (ICAAP) according to new standards and define internal policies and procedures to allow a full and complete implementation of CRR III by the first application date (subject to subsequent revisions).

Besides the fact that EU institutions/supervisors need time to perform their legally established mandates, EU banks need a **reasonable amount of time to transition** to new regulations, allowing them to upgrade their systems and adapt to the new calculation and reporting requirements in a controlled manner. To provide some context, during the finalisation of the CRR rules, EU banks were granted a period of 6 to 30 months before the rules came into effect, depending on the specific provision. Similarly, for CRR II, most provisions were given a 24-month implementation period. In this regard we would also highlight the recent consultation by the ECB on effective risk data aggregation and risk reporting in which FINREP/COREP reporting is included in the scope. In order to be able to comply with the expectations of the Guide, sufficient time is needed to comply with the new reporting requirements.

Additionally, we note that banks currently either report model-based risk weighted assets (RWA) or standardized approach RWA when reporting on their solvency position. In the future, for banks using internal models, CRR III will require the calculation – and detailed disclosure – of both, new model based RWA and standardised RWA for all exposures across all risk types in parallel and for each reporting date. This means, IRB banks not only need to **adapt their model based RWA calculations to the new standard in a significant way, they also must implement the new standardized approach in parallel**. The running of two parallel RWA calculations additionally entails a need for banks to reconcile between the two, including reporting of pre-floored and floored calculations years before the output floor is fully phased-in. And this parallel calculation may be required **not only at group-level but also at individual or subsidiary level** depending on the way the output floor is implemented in Europe.

Furthermore, when it comes to CRR III, it is important to take into account the requirement for banks to seek **approvals** from their relevant authorities for the utilization of newly introduced models by CRR III. This is particularly notable in areas such as market risk, including FRTB IMA and SA, IRB as well as CVA through CVA SA. The process of implementing, auditing, and obtaining approval for these models demands sufficient time from both supervisory bodies and banks.

Coming on top of the points mentioned above, there is also an issue of practical alignment between the **supervisory reporting and the capital requirements** – as the two cannot be decoupled and the banks cannot implement the requirements without the reporting (which takes time to set up). Furthermore, the alignment of timing between CRD VI implementation and CRR III would also be important e.g. for a coherent use of definitions as well as ESG transition planning requirements.

Given the substantial and comprehensive nature of the forthcoming legislative changes brought about by CRR III, it is our belief that a **minimum of 18 months between the publication of CRR III rules in the Official Journal of the EU and the effective implementation date of the new rules will be necessary**.

Assuming CRR III publication in the Official Journal by end of 2023, we would hence suggest an initial application **no earlier than 1 July 2025**. Any postponement in the publication of CRR III would require a further commensurate shift in the CRR III application. In addition, the scope and

timing of transitional arrangements could be expanded for those requirements where a critical level 2 standard will only arrive later.

Finally, a postponement would also reflect the process in other Basel jurisdictions, such as the USA or the UK. Even if the Basel III framework may not be fully applied to all institutions in these countries, the postponement of the first application date has already been announced there. Therefore, in view of the international competitiveness of EU banks, it is appropriate to set a later application date in the European Union as well.

We thank you in advance for your attention to this letter and remain at your disposal should you wish to discuss our views with us in greater detail.

Sincerely yours,



Mr Peter Simon
Chairman
EBIC Plenary



Mr Michael Engelhard
Chairman
EBIC WG on Banking Supervisory Practices