

PRESS RELEASE

Finance Watch publishes position paper on CRD IV

Brussels, 2 February 2012: **Finance Watch** has published its [position paper on CRD IV](#), the European legislation implementing Basel III bank capital reforms.

Key recommendations include:

- higher capital requirements to accommodate maximum harmonisation
- a flexible leverage ratio that measures gross derivatives exposure
- more capital against securitisations
- measures to encourage lending to businesses without credit ratings
- disclosure of risk weight methodologies and return on assets

Frédéric Hache, senior research analyst at Finance Watch and author of the report, said:

“The CRD IV package makes a significant contribution to increasing bank resilience but more needs to be done to address systemic risk and moral hazard. Only if capital requirements are high enough can we say that there is no need for national discretion.”

In addition to **higher capital requirements**, the report calls for a **flexible mandatory leverage ratio** of 3% to 5% (33x to 20x) from 2015 to complement the countercyclical buffers already in the draft legislation, with disclosure before then. *“Leverage is a core driver of systemic risk. History has shown the danger of ignoring off-balance sheet leverage, we must not make the same mistake with derivatives. Our leverage ratio proposal is therefore for an IFRS approach without derivatives netting,”* said Hache.

The report also recommends a 25% residual risk weight against transferred exposures including securitisations, replacing 100% risk weights for unrated business loans with an average risk weight calculated under IRB for similar businesses (calculated for each country by EBA), greater disclosure of risk weighting methodologies through standard portfolio benchmarking, and a measure to reduce investors’ focus on return on equity by disclosing return on assets among key performance indicators.

The report also comments on governance, liquidity, zero risk weighting, implementation dates and various measures outside CRD IV, including structural separation, supervised deleveraging, the tax treatment of debt, and shadow banking.

Thierry Philipponnat, Secretary General of Finance Watch, said:

“Our aim with this report is to promote confidence in the financial system and trust in banks, while ensuring that banks serve society better by focusing on their core function of financing the real economy.”

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For more information or to interview one of the team, please contact Greg Ford at greg.ford@finance-watch.org or +44 (0) 7703.219.222

- NOTES -

The report can be downloaded from <http://www.finance-watch.org/2012/01/1-february-2012-download-finance-watches-position-paper-on-crd-iv-crr-to-end-all-crises/>

“CRD IV” refers to a package of draft European legislation comprising the Capital Requirements Directive IV and the Capital Requirements Regulation.

Indicative timeline of the legislative process:

- July 2011 – CRD IV proposal published by the European Commission
- January 2012 – European Parliament rapporteur Othmar Karas (EPP, Austria) presented his draft report
- 27 February 2012 - Deadline for MEPs in the Economic and Monetary Affairs Committee to table amendments
- 13 March 2012 – Danish Presidency plans to reach agreement amongst Finance Ministers (‘General Approach’)
- 25 April 2012 (earliest) – Economic and Monetary Affairs Committee adopts its position
- May 2012 – Compromise negotiations between the institutions
- 11 June 2012 (earliest) – European Parliament plenary vote
- 22 June 2012 (earliest) – Compromise endorsed by Finance Ministers

Finance Watch resource page on CRD IV: <http://www.finance-watch.org/2011/12/crd4/>

European Commission page on regulatory capital:
http://ec.europa.eu/internal_market/bank/regcapital/index_en.htm#crd4

- ABOUT FINANCE WATCH -

Finance Watch is an independently funded public interest association dedicated to making finance work for the good of society. Its mission is to strengthen the voice of society in the reform of financial regulation by conducting citizen advocacy and presenting public interest arguments to lawmakers and the public. Finance Watch’s members include consumer groups, housing associations, trade unions, NGOs, financial experts, academics and other civil society groups that collectively represent a large section of European citizens. Finance Watch’s founding principles state that finance is essential for society in bringing capital to productive use in a transparent and sustainable manner, and that the legitimate pursuit of private interests by the financial industry should not be conducted to the detriment of society. For further information, please visit www.finance-watch.org.