The Netherlands and the Dutch central bank urge for comprehensive, prudent and timely implementation of the final Basel 3 framework in the EU

The final set of Basel 3 reforms is crucial to restore credibility of banks' calculation of capital requirements. The Basel reforms strengthen the European banking system and contribute to the stability of the economy at large. The ongoing COVID-19 pandemic demonstrates the importance of a robust prudential framework for a resilient banking system. The pandemic has not altered the rationale for addressing the outstanding shortcomings in the prudential framework and the need to implement the reforms.

Complying with the Basel standards ensures a global level playing field and prevents a risky race-to-the-bottom on capital requirements. The final Basel III package is the result of thoughtful considerations and negotiations. Amending certain elements of the package could undermine the balance of the package as whole. Therefore, existing deviations from the Basel framework in EU legislation should be corrected.

The prudential framework for banks could be further strengthened by better reflecting sustainability related risks, in line with the final Basel 3 reforms and preferably in pillar 2. Moreover, progress in the valuation of residential real estate should be taken into account by specifying the conditions under which automated valuations models can be used in a prudent way. Additionally, the Netherlands remains committed to a leverage ratio surcharge for other systemically important institutions (O-SIIs) and welcomes the assessment by the Commission that is expected by June 2022.

Key priorities

- **Output floor - The output floor should also be used for EU-specific requirements.** NL supports the aim of reducing excessive variability in risk-weighted assets and enhancing the comparability of risk-weighted capital ratios. In the interest of consistency, simplicity and the robustness of the framework, a <u>single stack approach</u>, which includes the EU-specific capital requirements, should be used. Potential concerns about the capital impact of this application could be mitigated by amending the SREP guidelines and/or reviewing the SRB-level. The output floor should be applied to all levels of consolidation, in line with other prudential requirements, such as the leverage ratio.
- **Supporting factors - The existing SME and infrastructure supporting factors in EU regulation should be replaced by the Basel preferential treatment.** Maintaining the EU supporting factors while also implementing lower risk weights for these exposures would lead to a double discount and undercapitalization of risks.
- **Equity exposures - Equity exposure classes should not be differentiated further than is provided for in the Basel standard.** A further calibration of equity exposure classes, intended to result in lower risk weights for some equity exposures, is not justified given the risk levels of these exposures. Both at the Basel and EBA level experts have assessed whether sub-categories, with lower risk profiles, could be identified. No convincing evidence was found.
- **Unrated Corporates - For loans to unrated corporates the External Credit Rating Approach (ECRA) should be used rather than an alternative 'hybrid approach'.** Under the hybrid approach banks would be allowed to apply the lower risk weight from the alternative Supervisory Credit Risk Approach (SCRA) even when the SCRA criteria are not met. This would result in an unjustified underestimation of capital requirements.
- **Operational risk - Banks' historic operational losses should be taken into account for the calculation of operational risk capital requirements.** The Internal Loss Multiplier should not be set at 1 for bucket 2 and 3 banks. This would result in banks not having to consider their historical operational risk and would reduce the risk sensitivity of the operational risk capital requirements. The discretion for bucket 1 banks should be retained. Banks with sufficiently good loss data quality should be able to benefit from this by taking this data into account in the capital requirement calculations.
- **CVA-risk - The existing CVA exemptions should be removed as they lead to an undercapitalisation of CVA risks.** These exemptions are the main reason why the EU is currently considered to be materially non-compliant with the Basel standards. The revised Basel standards for CVA should be implemented**.**
- **FRTB - NL supports a timely and consistent implementation of the FRTB.** The prudential standards for market risk have already been postponed before and should not be delayed any further. The FRTB standards should be applied from 2022.