THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

November 2022

Banking package

A perspective from corporate treasurers

The European Association of Corporate Treasurers ("EACT") – which brings together 24 national associations, representing over 6.500 companies across Europe – welcomes the objectives of the review of the banking framework which should contribute to ensuring financial stability and economic growth.

While these rules directly impact the capital that banks must hold against certain assets, they also indirectly impact banks' capacity to meet corporates' funding needs.

We welcome the fact that the Commission proposal maintains the **exemptions from the Capital Valuation Adjustment (CVA)** risk charge for transactions with non-financial counterparties below the EMIR clearing threshold. These exemptions are instrumental in allowing EU non-financial companies to use OTC derivatives to hedge risks such as movement in currencies or interest rates.

On the other hand, the proposed rules would require banks to set aside more capital against **trade finance instruments such as performance bonds**, credit lines and guarantees. Indeed, the change from 20 % to 50 % of Credit Conversion Factors (CCF) for traditional trade finance products widely used by companies such as technical guarantees would lead to an important increase in the cost charged to corporates.

Such products are essential to facilitate commercial transactions and the envisaged new rules would reduce the competitiveness of European corporates when bidding for commercial contracts, especially in large infrastructure or energy projects, where technical guarantees are essential. We therefore welcome the Council's position which suggests maintaining the 20% CFF for such products.

In addition, fleet renewal to reduce the aerospace sector's CO2 emissions will require important financing from the banks in the coming decades. We should thus be mindful of the impact of **changes to the prudential treatment of object finance**. We welcome the Commission's initial proposal to offer a more lenient treatment for the risk weighting of high-quality specialized lending, taking into account the very positive track record of financing these assets.

In addition, while we welcome the Commission's suggestion to neutralize the **alpha factor in the Standardised Approach for Counterparty Credit Risk (SA-CCR)** under the output floor, we are concerned with potential cliff edge effects since this would lapse at the end of 2029. For this reason, we strongly support MEPs' suggestion to neutralize the alpha factor for all contracts with non-financial counterparties, as was done in US.

We also welcome the Commission suggestion to allow EU banks to have a more lenient capital treatment for their **exposures to unrated corporates**, however only until end 2032. It should be ensured that the new rules do not lead to a restriction in banks' lending operations to unrated corporates.