THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

23 February 2022

EACT response to the European Commission consultation on capital requirements to international standards (Basel banking rulebook)

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 would thus like to highlight a few elements of the package that are of particular relevance to corporate treasurers.

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.

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 2033. It should be ensured that the new rules do not lead to a restriction in banks' lending operations to unrated corporates.

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 will 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.

The impact of such changes on the use, access and cost of certain types of trade finance instruments used by a wide array of industries should thus be duly considered by the co-legislators.

The EACT remains completely available to provide further information on these points.