EUROPEAN COMMISSION

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Dear Presidents,

The Commission would like to thank the Houses of the Oireachtas for their Opinion on the proposals for a Directive of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms {COM(2011) 453 final} and a Regulation on prudential requirements for credit institutions and investment firms {COM(2011) 452 final} - the CRD IV package. Let me apologise for the delay in replying to this Opinion.

While the Commission recognizes that there is a degree of uncertainty in any cost-benefit analysis of a proposal, especially when it comes to long-term economic impact, the projections done by the Basel Committee showed clear net economic benefits of Basel III in the long run. The expected reduction in the frequency of future crises is estimated to represent a benefit of an annual increase in the EU GDP in the range of 0.3%-2%.

The Commission believes that new capital regulations, restricting banks' investment portfolio decisions could contribute to decreasing the likelihood of bank failures. Indeed, enhanced capital requirements (in terms of both quality and quantity) should increase the resilience of banks against economic shocks. In practice, banks' portfolio choices would be influenced by the new capital, liquidity and leverage requirements, as they would need to hold higher quality assets, and would be subject to an enhanced supervisory regime.

The Commission takes note of your concern about the so-called 'maximum harmonisation' of prudential requirements at a potentially inadequate level. While merely transposing the Basel III agreement, the Commission believes that an important benefit of the single rule book approach is that it can help to prevent unilateral raising of prudential requirements in one Member State at the cost of deleveraging (reduced lending) in other Member States.

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As national markets are not perfectly aligned, the Commission proposal included some flexibility for national authorities to increase prudential requirements, such as the use of supervisory ('Pillar 2') measures for types of institutions, increasing risk weights for lending based on mortgage secured immovable property, and temporary increases of minimum requirements through Commission delegated acts (on Member State proposals).

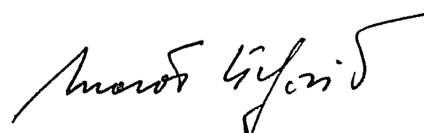
With regard to the timeframe for the implementation of the leverage ratio, the Commission would like to recall that since the leverage ratio is a new regulatory tool in the EU, there is a lack of information about the effectiveness and the potential consequences of implementing it as a binding ('Pillar 1') measure. The Commission therefore deems it necessary to gather more information before making the leverage ratio a binding requirement.

In line with Basel III, the Commission proposal sets out a step by step approach: implementation of the leverage ratio as a Pillar 2 measure; data gathering on the basis of thoroughly defined criteria as of 2013; public disclosure as of 2015; and a review concluding by end 2016 on the impact and effectiveness of the leverage ratio, before a final decision on whether to introduce the leverage ratio as a binding measure as of 2018, as currently proposed in Basel. The Commission believes that this methodical approach is consistent with the commitment to introduce a very important tool for limiting the build-up of leverage in EU banks.

As regards the definition of capital, Basel III lists 14 criteria that capital instruments must meet to be considered as contributing towards the highest quality – "Common Equity Tier 1" – regulatory capital for an institution. Although Basel III restricts further the definition of CET1 to "common shares", there is no single definition of common shares in EU company law. The approach taken by the Commission therefore focuses on the economic substance of the capital instrument rather than its particular legal form. In doing so, the Commission proposal actually replicates the 14 strict criteria of Basel III. The same conditions are met, while respecting the European banking sector specificities.

The Commission hopes that these explanations serve to clarify the concerns raised by the Houses of the Oireachtas and looks forward to continuing the political dialogue in the future.

Yours faithfully,



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