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John Berrigan
Director General
Directorate-General for Financial Stability,
Financial Services and Capital Markets Union (FISMA)
European Commission
Rue de Spa 2
1000 Brussels
Belgium

15 December 2020

Subject: Submission of Call for advice for the purposes of the implementation of the final Basel III reforms in light of the impact of the COVID-19 pandemic

Dear Mr Berrigan,

On 4 May 2018, the Commission sent a first Call for Advice to the EBA, requesting technical advice on the impact and implementation of the final Basel III standards in the EU. The EBA submitted its advice in two parts, on 5 August 2019 and 4 December 2019, respectively. The advice included a detailed quantitative impact assessment (based on end-June 2018 data) and a set of policy recommendations.

On 15 July 2019, the EBA received an additional request from the Commission on final Basel III in the areas of specialised lending, minimum requirement for own funds and eligible liabilities (MREL), intra-group equity exposures and the application of the output floor at all levels. The EBA submitted the additional analysis on 25 February 2020 and 5 March 2020.

On 21 August 2020, the Commission sent a second Call for Advice to the EBA requesting to update its previous advice on the final Basel III reforms, taking into account also the impact of the COVID-19 crisis, including adjustments in the prudential regulatory framework, on the EU banking sector and the wider economy.

It is my pleasure to submit to you today the final report on the second Call for Advice. The present report includes: i) an update of the estimated impact of the final Basel III reforms using data as of end-December 2019; ii) a complementary analysis on the potential effects of the Covid-19 pandemic on the final Basel III reforms.

Similar to the previous CfA reports, the impact assessment in this report includes a number of assumptions that make the reported estimated impact not comparable to the one the EBA publishes in the context of the regular Basel III monitoring exercises (e.g. latest one is from December 2020). The main reason is that the Basel III monitoring exercises apply Pillar 1 minimum requirements and Basel specific buffer requirements in the calculation of banks' minimum required capital, while the analysis of the Call for Advice includes the Pillar 1 and Pillar 2 requirements, as well as both Basel and EU specific buffer requirements. This adds a significant degree of conservatism to the present report.

The EBA continues to support the policy recommendations put forward in its previous advice submitted to the Commission in 2019, which remain appropriate also in the current crisis environment. In light of the recent targeted revisions to the CVA risk framework published on 8 July 2020, the present report provides a supplementary qualitative assessment covering only these new reforms. Overall, the benefits associated with a loyal implementation of the final Basel III reforms have not fundamentally changed and will contribute to the credibility of the EU banking sector.

I look forward to continuing the fruitful cooperation with your services on the implementation of the Basel III framework in the EU.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'José Manuel Campa', is positioned below the text 'Yours sincerely,'.

José Manuel Campa

CC: Irene Tinagli, Chair of the Economic and Monetary Affairs Committee, European Parliament
Olaf Scholz, President of the ECOFIN Council, Council of the European Union
Tuomas Saarenheimo, Chair of Economic and Finance Committee, Council of the European Union
Jeppe Tranholm-Mikkelsen, Secretary-General of the Council of the European Union
Martin Merlin, DG FISMA, Director Directorate D
Nathalie Berger, DG FISMA, Head of Unit, Unit D1, Bank Regulation and Supervision
Sebastian Hrovatin, DG FISMA, Deputy Head of Unit, Unit D1, Bank Regulation and Supervision
Dominique Thienpont, DG FISMA, Legal Counsellor to the Director Directorate D.

Encl: 'Basel III reforms: Updated impact study'