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NOTE

From:	Export Credits Group
To:	Working Party on Financial Services (Risk Reduction Measures)
No. prev. doc.:	14775/16 + ADD 1 + ADD 2 + ADD 3
No. Cion doc.:	COM(2016) 850 final
Subject:	Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements and amending Regulation (EU) No 648/2012 - Basel III: leverage ratio

Delegations will find attached a contribution from the Export Credits Group to the Financial Services Working Party (FSWP) on the exception for export credits to the leverage ratio in the amendment to the Capital Requirements Regulation (CRR) (Article 429a(f) of doc. 14775/16).

The contribution was previously distributed as WK 3731/17.

Contribution of the Export Credits Group to the Financial Services Working Party (FSWP) on the exception for export credits to the leverage ratio in the amendment to the Capital Requirements Regulation (CRR)
(Article 429a(f) of doc. 14775/16)

The Export Credits Group would like to inform the Financial Services Working Party of its position as regards the exception for export credits to the leverage ratio in the amendment to the Capital Requirements Regulation (CRR[1]) set out in Article 429a(f) of doc. 14775/16. It also takes the opportunity to raise a minor drafting issue as regards Article 137 of the CRR.

The Export Credits Group believes that safeguarding officially guaranteed export credits in the Regulation is crucial to ensure and promote the availability and affordability of financing for European exporters as they represent one of the backbones of Europe's economy and as this type of trade transaction is typically considered low risk. To highlight this with some facts, please find attached our position sent on 21 July 2016 to the European Commission (Annex).

A. The exception for export credits to the leverage ratio

There was near unanimous support for the Commission proposal on the leverage ratio that provided an exception for Export Credits in Article 429a(f). We welcome that the European Commission has granted special consideration to officially guaranteed export credits. In order to ensure sound legislation in this matter, we would, however, like to take the opportunity to raise a couple of concerns.

[1] Regulation (EU) 575/2013, OJ L176, 27.6.2013

1. "Domestic currency" issue

First, Article 114(4) of the CRR confines the exemption of export credit agency (ECA) exposures from the leverage ratio as set out under Article 429a (f) to exposures denominated and funded in the **domestic currency of the respective Member State.** In this context, we would like to highlight that many officially supported export credits do not take place in the domestic currency of the respective Member State, even for countries with the Euro. We, therefore, took notice that the Commission intends to add a reference to Article 114(2) of the CRR in point ii) of point (f) of Article 429a. We strongly welcome this intention as it mitigates some of our concerns raised above.

2. "Level playing field" issues

a) Secondly, while several Member States expressed the view that the addition of the reference to Article 114(2) in Article 429a(f) would be sufficient to take into account special consideration for officially supported export credits irrespective of their currency, there was a view from many Member States that the Commission’s proposal for an exemption of officially guaranteed export credits did not provide a level playing field for European Export Credit Agencies. As the Commission's policy approach for the exception for export credits to the leverage ratio is based on risk ratings and thereby doubly penalizes those Member States whose credit quality does not correspond to a zero per cent risk weight[2] in Article 114(2) of the 2013 CRR. Given the significant importance of officially supported export credits in the EU economy and the principle of fair competition between EU entrepreneurs, many members of the Export Credit Group believe there is a case to maintain an exemption of the leverage ratio independent of risk. The implementation of the leverage ratio can have an intra-European competitive impact as well as a competitive impact vis-à-vis non-European exporters.

b) In support of the point made above, the Export Credits Group notes that not all exemptions listed in Article 429a are conditional on a zero percent risk weight being assigned.

2 Zero per cent risk weight covers AAA to AA-

3. Article 137 and the leverage ratio

Thirdly, many members of the Export Credits Group note that zero percent risk weight may also be assigned in accordance with Article 137 and would welcome confirmation to be clear that such exposure would also be exempted from the leverage ratio.

B. One minor drafting issue

The Export Credits Group would also like to raise a minor drafting issue in Article 137 of the CRR which would need updating. In Article 137(1)(a), the title of the "Arrangement" has changed and should read as follows:

"(a) it is a consensus risk score from Export Credit Agencies participating in the OECD 'Arrangement on ~~Guidelines for~~ Officially Supported Export Credits';"

28.3.17

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21 July 2016

Mr Martin Merlin,
Director,
Directorate D,
Regulation and Prudential Supervision of
Financial Institutions,
DG for Financial Stability, Financial Services and
Capital Markets Union,
European Commission
B-1049 BRUSSELS

cc: Mr Erik van der Plaats

Dear Mr Merlin,

Subject: Capital Requirements Regulation: Impact of the Leverage Ratio on trade finance and officially supported export credits

As Chair of the Council Export Credits Group, I am writing to you with the position of the Group on the impact of the Leverage Ratio on trade finance and officially supported export credits under the Capital Requirements Regulation (CRR). You will find the position of the Group attached including a number of supporting documents. This follows on from the participation of Mr Erik van der Plaats at the 588th meeting of the Group on 31 May 2016.

I would like to emphasise that the potential impact on trade finance and officially supported exported credits is considerable and that our position also includes suggestions on how to deal with this.

On behalf of the Council Export Credits Group, I would like to thank you for your consideration and remain at your disposal to discuss the matter in more detail.

Yours sincerely,

Annex: Position of the Council Export Credits Group

ANNEX

Capital Requirements Regulation:

Impact of the Leverage Ratio on trade finance and officially supported export credits

Position of the Council Export Credits Group

In regard to the transfer of the reform proposals of the Basel Committee on Banking Regulation, known as “Basel III”, into EU-Regulation, **the Council Working Group on Export Credits** seeks to raise awareness on the direct impact of the reform proposals on **officially supported export credits** which are supported by **official export credit agencies** (hereinafter referred to as “**ECAs**”).

The latter are maintained by essentially all European member states. ECAs provide credit risk mitigation instruments for exporters and banks either directly by or by public sector entities on behalf of their respective government and are an important instrument in particular for medium- and long-term export financing (credit risk mitigation techniques within the meaning of Article 194, 201 (1) et seq. CRR). Prerequisite for such risk covers is an export transaction, as ECAs’ primary objective is to promote exports and stimulate healthy economic growth with a particular view on supporting SMEs and ensuring job security.

Of the ratios introduced by Basel III, **the Leverage Ratio is likely to have the most adverse effects on officially supported export credits**, as it restricts the relieving effects of the officially supported credit protection on banks' risk capital, i.e. effect of the up to zero risk-weighting of officially supported export credits due to sovereign risk of EU Member States (in the Standardised Approach pursuant to Article 114 (2) CRR) would be eroded. Therefore, and as there is limited distinction between different bank products for the Leverage Ratio, the traditionally low-risk and therefore low-profit business of export finance will become less attractive for banks compared to other riskier and thus more profitable businesses. The combination with the other ratios introduced by Basel III such as the Net Stable Funding Ratio is likely to enhance the overall effect on banks' supply of export finance and could reduce banks' possibilities to provide export finance. This assessment of potential consequences is shared by exporters and banks who already raised concerns that the proposed regulatory requirements for banks will lead to limitations in banks' offers and/or higher priced access to export finance, particularly for medium and long-term export finance and for larger volumes, especially if the currently high liquidity in the markets decreases (see **Annex 1** to the Annex). At the same time, most European ECAs offer unfunded credit protection only ("pure cover"). Direct export financing is only offered to a small extend due to state budgetary restraints. Hence, ECAs and consequently European exporters highly depend on the export finance provided by commercial banks.

Against this backdrop, the Council Working Group on export credits urges the European Commission to consider a **dedicated treatment for on-balance sheet ECA-supported lending in the Leverage Ratio by introducing a 0% credit conversion factor or by excluding the ECA-covered export finance from the Leverage Ratio.** By introducing exemptions it should be made clear that not only short term trade finance is covered by the exempting rule but that the rule also **encompasses medium- and long-term export finance**.

Our request for consideration is further substantiated by the following facts:

(1) Low risk of officially supported export credits

The ICC Trade Register Report 2015 once again confirmed the low-risk profile of ECA-covered export credits based on more than 33.000 medium- and long-term ECA-covered buyer credits for the period of 2007-2014 (see **Annex 2** to the Annex). According to the report, whilst the default rate for ECA-covered export credits is already relatively low, losses are expected to be even lower given the very remote likelihood of a simultaneous double-default of the respective obligor abroad and a systemically not correlated – usually investment grade rated - sovereign (i.e. the ECA that covers the deal).

(2) Low proportion of officially supported export credits in banks' balance sheets

The low proportion of officially supported export credits in banks' balance sheet can be derived from the ICC Trade Register. When comparing the reported accumulated exposure of ECA-covered export credits for the years 2007 to 2014 with the sum of the 2014/2015 balance sheets of the participating banks, the proportion only amounts to approximately 2%. Taking into account that the exposure of officially supported export credits is accumulated over the years due to its long term tenors, the actual overall proportion is even less, though variations in the respective exposures among the participating banks are likely.

Another factor is that export credits cannot expand without any limitations as they support real trade flows and support the medium and long-term financing of real goods. Therefore the risks of a bubble are limited. On the contrary, over the last years the WTO and some multilateral institutions (i.e. Asian Development Bank) have usually reported a reduced availability of financial instruments to support Trade Finance.

(3) High relevance of export credits for jobs and growth

The role of trade as a driver of global growth and prosperity is widely accepted. The EU's trade policy specifically aims at creating growth and jobs by increasing opportunities for trade. Consequently, available trade finance – including export credits – constitutes an important cornerstone in facilitating trade and ensuring the competitiveness of European exporters. These strong links between trade finance, economic growth and job creation were underscored in a study conducted by the Asian Development Bank in 2013 (see **Annex 3** to the Annex). Furthermore, in 2011 the German Federal Ministry of Economics and Technology commissioned a study on the employment effects of official export credit guarantees. The study was able to link the effects of German export credit covers to an average of 71,000 new or maintained jobs per annum, thereof 29,000 jobs directly linked to the German export credit covers, with 50% being located in small and medium sized companies (**see Annex 4** to the Annex). Studies with similar outcomes have been published in other EU countries such as Sweden, Finland, Denmark, Austria (see **Annex 5** to the Annex) and the Netherlands (the latter currently being finished).

In Austria, in 2015 the Ministry of Finance tasked the Austrian Institute of Economic Research WIFO with a study on the "Macroeconomic Effects of Export Guarantees in Austria". The study was published in spring 2016 and concluded that stopping new commitments of the most relevant forms of export credit guarantees would result in a long-term reduction of exports of goods and services by 1.9 percent with respect to a reference path, gross domestic output would be lowered by 0.6 percent and about 30,000 jobs were expected to be lost. In Denmark, EKF has since 2012 tasked Copenhagen Economics with the analysis of EKF's impact on the Danish economy. The study for 2015 shows a job effect of either created or maintained of 12,300 jobs in the export business community and its sub-suppliers (see **Annex 6** to the Annex).

Underpinning our request, you find attached supporting documents referred to in the text above.

Annexes to the ANNEX

1. EBF ICC comments on leverage ratio for EBA.
2. ICC Trade Register Report 2015:
   http://www.iccwbo.org/products-and-services/trade-facilitation/icc-trade-register/
3. Asian Development Bank Trade Finance Survey: Major Findings:
   http://www.adb.org/publications/asian-development-bank-trade-finance-survey-major-findings
4. Employments effects of export credit guarantees by the Federal Republic of Germany; Ifo Institute 2011:
   http://www.cesifo-group.de/ifoHome/research/Projects/Archive/Projects_AH/2011/rest_15515046.html
5. "Macroeconomic Effects of Export Guarantees in Austria" (which is available only in German); Austrian Institute of Economic Research WIFO:
   https://www.bmf.gv.at/wirtschaftspolitik/aussenwirtschaft-export/WIFO_Update_2015-2016_Exportgarantien.pdf?5e7h28
6. Danish study on export credits and jobs; EKF's input on the Danish economy - Method description.

26 July 2016