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Commission proposals not enough to green banking sector

Banking reform

Today, the European Commission has just published it's proposal to reform banking regulation, inline with international agreements on banking regulation (Basel III). The revisions to the Capital Requirements Directive and Capital Requirements Regulation are aimed at preserving financial stability by addressing the systematic underestimation of risks, and ensuring that banks have sufficient capital to avert another crisis similar to the financial crisis of the last decade.

However, today's communication contains very little on sustainability requirements. The Greens/EFA Group are calling for reforms to the banking sector to bring it inline with the aims of the Green Deal, sustainable financing, and to make banking work towards a more just society.

Ernest Urtasun MEP, Greens/EFA Vice President and Member of the Economic and Monetary Affairs Committee, comments:

"Europe cannot afford another financial crisis; the costs to our economy, society and politics are too great. It's welcome that the Commission is coming out with a package that sees some progress on making our financial system more resilient, more solvent and with greater supervision. The Commission should be commended for proposing to fully implement the Basel III agreement and that they have so far resisted pressure from banks and certain Member States to circumvent restrictions on the use of internal models.

"However, this is a missed opportunity to end the kind of predatory behaviour that led to the financial crisis. Furthermore, it's a shame that the Commission has not used this moment to green the banking sector and bring it fully inline with the aims of the Green Deal and the transition to a sustainable economy.

"We urgently need immediate action from the Commission to end the link between fossil fuels and the financial sector. So long as fossil fuel reserves underpin the stability of the banking sector it threatens both financial stability and encourages the use of technologies that cause climate change. The EU should use the tools available in the Capital Requirements Regulation to give greater emphasis to the risks of banks exposure to fossil fuels."

Ville Ninisto MEP, Greens/EFA Member of the Economic and Monetary Affairs Committee, comments:

"There are enormous financial risks posed by climate change. The banking sector needs to play its part in the fight against climate change. The Commission has not gone far enough in including economic, social and governance factors into capital requirements. Some assets held by banks, such as fossil fuels, are undeniably more risky over the long term, but these are not reflected in today's communication. Risk management and supervisory provisions are not enough, decisive action for the climate is needed now. There will be no banking sector on a dead planet.

"Today's proposal introduces some welcomed enhancements on banking supervision that should help avoid a repeat of past scandals such as Wirecard. But, we are not at the end of the tunnel as the Banking Union is not yet complete. It's time to make decisive progress on the establishment of an European Deposit Insurance Scheme, to ensure that all depositors within the Union are equally protected, no matter where their bank is located."

More:

- To calculate their capital requirements banks can use the "standard approach", which parameters are set in the regulation, or their own internal models. Bigger banks usually develop their own models which, once approved by competent authorities, can be used to derive their capital requirements. Internal models tend to underestimate the risks and thus the capital requirements.
- While the proposal largely complies with the international framework, it encloses some EU specific provisions to limit the increase of capital requirements for banks. The package includes a number of provisions aiming at preserving financial stability and ensuring that banks remain sufficiently solvent to finance the real economy. In particular, by setting limitations to the use of internal models, the package proposed today addresses the systematic underestimation of risks issue that has been at the roots of the last financial crisis. The Commission also proposes several measures to enhance supervisors' independence and strengthen their supervisory powers.
- The package makes an intensive use of the discretion embedded in the international agreement and adds some EU specific provisions that all contribute to limit the increase of capital requirements for banks. Prudential regulation shall remain risk-based.
- Today's communication tackles the issue of third-country branches, which became more prominent following Brexit. These entities were until now regulated and supervised mostly at national level, creating level-playing field issues. Minimum harmonisation provisions and the "subsidisation" mechanism embedded in the proposal will close this regulatory loophole.

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