
Covid-19: the Italian Banking Association and the German Banking Industry Committee propose more flexible rules to reduce the pandemic's impact on the European economy.

Shaping the Banking Union, refocussing on a fair regulatory approach towards the implementation of Basel III in the EU and adapting the treatment of non-performing loans (NPLs) in light of the current economic scenario, : these are the requests the Italian Banking Association (ABI) and the German Banking Industry Committee (GBIC) put forward in a document which calls on European institutions to adopt significant first and second level regulatory measures to counter the economic effects of Covid-19.

At a time when the economy is being severely impacted by the economic effects of Covid-19, Italian and German banks have drawn up a package of proposals to mitigate the risk that the European banking sector's ability to fund the real economy will decrease in the short and medium term. The outlined solutions mainly concern the crisis management of banks subject to direct national oversight and the role for national deposit guarantee schemes, the search for an approach to managing NPLs that counteracts pro-cyclical effects, and a balanced implementation in the EU of the Basel 3 finalization regulatory package.

"The new European prudential rules", comments Giovanni Sabatini, General Manager of the Italian Banking Association, "were conceived before the pandemic, in an entirely different context from the one we are in today. We need to continue to push within the European institutions for these rules to be amended, considering exemptions or temporary suspensions of the rules to avoid unintended pro-cyclical effects."

"In order to further develop the existing framework of the Banking Union, there is no need to create a new institutional setup. Instead, strengthening the role for national deposit guarantee schemes also within the second pillar of the Banking Union could deliver substantial benefits", notes Karl-Peter Schackmann-Fallis, Executive Board member of the German Savings Banks Association, which currently chairs the GBIC.

ABI and GBIC point out that the regulatory framework on the management of banking crises should take into account the principle of proportionality and must be in line with the principle of subsidiarity. In line with the Single Supervisory Mechanism, crisis management for banks should also be based on a two-level structure: for banks subject to resolution, the European resolution authority will intervene; for territorial banks, the national resolution authority will intervene in accordance with standardised rules. In this context, a harmonised framework focused on the insolvency of European banks and a strengthened role for the national deposit guarantee schemes could produce advantages, reinforcing the Banking Union without altering the institutional approach.

As regards the implementation of the Basel III rules, ABI and GBIC maintain that the current context requires a temporary suspension of the legislative process for implementing the new rules by the European Union, at least until the impact of the health crisis on the real economy and on the financial sector is fully understood. The objective is twofold: to avoid negative reactions on the capital markets and to avert the risk that a rushed implementation of the Basel III reform will restrict lending to businesses and households, thus hindering the recovery of the European economy.

ABI and GBIC note that the current regulatory approach to non-performing exposures was developed under completely different circumstances and should, therefore, be reconsidered in light of the pandemic emergency. Among the proposed measures in the chapter on NPLs is a temporary freeze on the timeline regarding provisions on loans granted as of 26 April 2019 and on supervisory expectations. More specifically, the proposal is to freeze the timeline of provisions for 24 months to avoid unintended consequences and pro-cyclical effects. In addition, for buyers of NPLs, the calendar according to the "NPL backstop Regulation" should only start from the date of acquisition of a non-performing position. It is unreasonable that the purchaser is charged based on the time the exposure has been held by the originating bank, since the recovery procedure is likely to be revamped by the purchaser following the acquisition.

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