

Bank for International Settlements

7 March 2016

**Basel III proposal for revised Standardised Approach for credit risk –
Subordinated Debt, Equity and Other Capital Instruments**

We write to you regarding suggestions from the Basel Committee to increase the risk weight for equity holdings that are not deducted. Although the Committee modified some of its initial proposals, the currently proposed risk weights would still have a negative effect on the European economy.

We are concerned that applying a 250% risk weight for equity holdings that are not deducted and a 150% risk weight for subordinated debt and capital instruments other than equities below the threshold deductions, would make own fund financing of enterprises by banks more difficult to obtain and lead to the selling of existing holdings by banks.

Especially in Europe, banks hold significant holdings of enterprises which is of high interest for the overall economy. Many headquarters and jobs would be threatened due to disinvestment flows and, in general, this would lead to a slowdown of economic growth. This would be contradictory to efforts to increase growth and investment in the EU and create a comprehensive Capital Markets Union.

Applying a 250% risk weight for equity is disproportionate compared with a currently appropriate risk weight of 100% for corporate exposures and subordinated debt. Stock Companies are controlled by the supervisory board and the shareholders in the annual shareholder's meeting. Most European Stock Exchange Laws contain severe penalties in case of violation of transparency requirements and comprehensive supervisory powers of the exchange supervisory authority. Therefore, also the increase of risk weights for these exposures is not suitable.

To mitigate the interventions for banks which apply the Standardised Approach, it is important that the risk weights for existing subordinated debt, equity and other capital instruments remain at their current level under the CRR.



The same approach should be applied in the case of well-diversified portfolios of equity investments. Otherwise unintended damage to the economy will be caused. With this proposed provision, the participation on capital increases of investments which existed before entry into force of the revised Standardised Approach for credit risk shall not be disadvantaged.

We hope that you recognise this concern and that future work on CRR will ensure that the legislation will function effectively, encouraging growth and preventing damage to businesses in the wider economy. We remain at your disposal should you wish to discuss this subject further.