

December 18, 2019

Submitted electronically

European Commission
Directorate-General for Financial Stability,
Financial Services and Capital Markets Union
Rue de Spa 2
1049 Brussels, Belgium

Re: Inception Impact Assessment: Amendments to the Capital Requirements
Regulation and the Capital Requirements Directive

Dear Sir or Madam:

The European Network of Credit Unions (ENCU) appreciates the opportunity to comment on the European Commission's Inception Impact Assessment: *Amendments to the Capital Requirements Regulation and the Capital Requirements Directive*.¹ Credit unions are consumer-owned, not-for-profit financial cooperatives that promote financial inclusion in underserved European communities by offering their members affordable and easily understandable financial products. There are approximately 1,000 credit unions in the European Union (EU) with more than EUR 20 billion in total assets and 7 million physical person members.²

ENCU supports the European Commission's (EC) effort to streamline the Single Supervisory Mechanism through clarification of the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD), as outlined in your *Amendments to the Capital Requirements Regulation and the Capital Requirements Directive* (Initiative). While we agree that credit unions should comply with the principles set out in the Basel Framework, we ask that the EC and the Basel Committee on Banking Supervision (Basel Committee) focus on the implementation of proportionality contained in the Basel Framework and ensure that included is the ability to tailor rules based on the size, risk, and complexity of the institution.

Credit unions are unique in structure and are organized and operated on a not-for-profit, member-owned and controlled cooperative basis. Credit unions and other community-based mutual depository institutions typically operate using a non-complex community-banking model and are often subject to investment portfolio-shaping rules that limit their investments primarily to loans to their members, government-guaranteed debt, and deposits held by banks or other credit unions. Based on the aforementioned, we further request that the EU maintain the ability to provide exemptions from the CRD for member states in order to ensure the success of these

¹ The European Commission's *Amendments to the Capital Requirements Regulation and the Capital Requirements Directive*, available at https://ec.europa.eu/info/law/better-regulation/initiatives/finance-2019-basel-3_en.

² See "Credit Unions in Europe;" http://creditunionnetwork.eu/cus_in_europe.



institutions, which have been vital to the objective of encouraging financial inclusion by providing credit and depository services to the under-banked and un-banked communities, people of modest means, small businesses, and supplying other loans vital to the growth of underserved communities.

In part A of the initiative, “Context, Problem definition and Subsidiarity Check”, the section of the initiative entitled, ‘Problems the initiative aims to tackle’, ENCU would like to address problem four (4), which states:

Under the current framework, institutions need to process the same data according to two separate schemes: one for supervisory reporting and one for disclosures. This can cause undue administrative burden particularly for small, non-complex institutions.

ENCU strongly supports this statement and the EC’s efforts to address the undue administrative burdens associated with the current reporting process. Excessive administrative burdens prove to be costly for credit unions and adversely affect their ability to give much needed services to their consumers.

ENCU further urges the EC to consider measures that will reduce the administrative burdens associated with these programs and tailor them towards specific industries such as credit unions who are effective in meeting the objectives of providing financing for small businesses, consumers with limited resources, and underserved communities. Credit unions and other community-based cooperative depository institutions are not systemically important on a global or domestic level. Their operations are far less complex than those of Globally Systemically Important Banks (G-SIBs), Domestic Systemically Important Banks (D-SIBs) or internationally active banks.

Undue administrative burdens increase the need for resources, training, staff, etc., which in turn places unreasonable costs on these financial institutions and therefore interrupt capitalization, profit, and ultimately the services it provides to its members. Credit unions are often run by volunteers and regulatory burden often falls disproportionately on these institutions that lack the resources and economies of scale of the larger institutions. Further, their not-for-profit, cooperative model often allows them to serve rural or underserved areas. Worldwide, regulatory burden and compliance burdens are often the leading factor driving consolidation or elimination of these types of institutions from the marketplace. We urge particular attention to the administrative burden placed on smaller, non-complex financial institutions and support the EC’s focus on this issue.

Under part B of the Initiative, two broad objectives supported by more specific objective are outlined: 1. ensuring financial stability, and; 2. continued and adequate financing of the economy. Credit unions are essential to the mission of financial stability, which in turn adds to financial adequacy within the economy. As financial institutions whose purpose does not include



the maximization of profits, these financial institutions are stable; and while they may experience less growth in sound economic times they generally perform better in times of economic stress. Not only do credit unions contribute to economic stability, they also apply competitive pressure to the marketplace with competitive products, which again bolsters the EU's financial sector stability as a whole. To this end we urge the maintenance of the ability to provide CRD exemptions to Member States and allow for the continuation of national level regulation of credit unions. This framework will encourage financial sector stability and healthy competition among all financial institutions regardless of their size, risk, and complexity.

Furthermore, ENCU encourages the EU to provide clearer instructions to national-level authorities as we continue to observe their tendency to apply Basel standards without regards for proportional tailoring to the risk or complexity of a credit union or other community-based mutual depository institutions. This is particularly true in jurisdictions that contain institutions that are of large size compared to other local credit unions or where the credit union or other mutual is of large size relative to the capitalization of the local deposit insurance fund or other savings guarantee scheme.

What we observe occurring at the national-level is that often the Basel framework is perceived as a floor with regulators who occasionally exceed this standard for credit unions despite the lack of need for the heightened application of the Basel framework standards and without appropriate proportional tailoring. While we appreciate that the Basel framework's core principles reinforce the proportionality concept, we believe the EU should go further in providing guidance to national level supervisors on this approach. ENCU understands that harmonization of the rules while maintaining national flexibility is essential to the success of the implementation of the Basel III framework, however, we ask for inclusion of clearer direction to the national level so that credit unions and other community-based financial cooperatives can operate under frameworks with properly tailored regulatory burdens.

To that end, a set of high-level principles or weighing-factors that are useful while determining when less complex approaches are as follows:

- Whether the institution has cross-border operations;
- The complexity of the institution's assets and liabilities;
- The asset-size of the institution;
- The extent of the institution's leverage;
- The institution's interconnectedness with the financial system;
- The degree to which the institution reports to multiple prudential supervisors;
- The extent and nature of the institution's off-balance-sheet exposures; and
- The mix of business activities of the institution, such as whether it engages in community banking, commercial banking and/or investment banking.



We support the principles of the Basel Framework and the implementation of CRR and CRD, as it supports banks and other financial institutions who are essential to the market, but we would also ask that credit unions are considered and included in the development of its polices and that the framework allow for appropriate proportional implementation.

Basel III if applied in its fullest form to credit unions will negatively impact underserved communities in Europe, especially in rural areas where credit unions are often the only financial institution serving the community. The continued existence and operation of a successful and viable credit union movement is vital for ordinary people of these Member States. Without the ability to provide CRD IV exemptions and allow national level regulators to tailor regulations appropriate for credit unions, many smaller credit unions and other financial institutions with a social purpose may close or merge into larger institutions, and leave many of the more vulnerable sections of European society without access to basic financial services.

Lastly, ENCU would also like to address part D of the Initiative regarding the EC impact assessment that includes the support of evidence-based information, data collection and better regulation instruments, by requesting that the EC include community-based deposit taking financial institutions such as credit unions as part of your assessment. As stated throughout our response, credit unions and community based financial cooperatives are essential to the mission of financial inclusion, and by their nature, add to healthy competition among all financial institutions, as well providing financial stability within the economy.

The European Network of Credit Unions appreciates the opportunity to comment on the European Commission's Inception Impact Assessment: *Amendments to the Capital Requirements Regulation and the Capital Requirements Directive*. Please do not hesitate to contact me or Denista Marchevska by email at info@creditunionnetwork.eu or phone at +32 2 626 9500 should you have any questions regarding our comments.

Sincerely,

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