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Transatlantic Consistency in Capital Requirements Directive IV is Crucial

The American Chamber of Commerce to the EU (AmCham EU) has welcomed the European Commission's proposals on the Capital Requirements Directive IV (CRD IV). The European Commission has led efforts to restore financial stability through a range of issues, including higher standards of capital. The international nature of markets and firms is at odds with separate regulatory reforms, and AmCham EU strongly believes that a level playing field for the global financial services industry is essential. We believe that the best way to ensure safer and sounder markets is to strive for international consistency in key areas such as capital, taking into account global companies' need for cross-border financial services.

Basel III implementation

AmCham EU believes that the Basel III regulations should be implemented in a consistent way internationally. AmCham EU commends the EU for its leadership in Basel III implementation and is keen to see non-EU efforts to implement Basel III progress at a pace which does not lead to significant fragmentation of the global regulatory environment. The EU and US have different timetables to implement Basel III and we are concerned that this could result in significant variations between the two regions.

Unintended consequences of divergent Basel III implementation

Notwithstanding AmCham EU's broad support for CRD IV, there are examples in the text which underpin the importance of a transatlantic approach to improved capital requirements. On the issue of derivatives clearing, the G20 has clearly set a principle that banks should be encouraged to use a central clearing house or counterparty, yet there are aspects of CRD IV which, if implemented incorrectly, would violate this principle.

The current Basel III text introduces increased capital requirements for exposure to centrally cleared counterparties (CCPs). This has an impact both on cleared over the counter (OTC) trades, and exchange traded futures and options. Whilst the current CRD IV text encourages banks to clear derivatives through a qualifying central counterparty, the increased capital requirements for exposure to CCPs will potentially have the opposite effect, encouraging banks to act as the clearing member either for their own trades or any of their clients' trades. It is our hope that the defects in the current Basel III treatment of exposures to CCPs are will be addressed and remedied by the current work being done at the Basel Committee on Banking Supervision (BCBS), and consistently implemented in the EU and US. The fact that an important G20 principle could

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POSITION STATEMENT

be undermined demonstrates the importance of close transatlantic cooperation on these issues.

With an aggressive implementation timeline of 1 January 2013, this aspect of CRD IV could ultimately lead to less centrally cleared trades in the EU, which would result in an unlevel playing field with other jurisdictions, especially the US. This feature of CRD IV underlines the importance of synchronising implementation timetables, especially with the US. Inconsistencies in implementing Basel III regulations will not only affect firms' business models and entrench international distortion, but ultimately hinder economic activity and therefore growth.

Global Standards

As noted in a previous AmCham EU paper on the importance of transatlantic cooperation, the strength of the financial services industry in the EU and US economies mean that both areas should set the standard when it comes to market reform and safer financial markets and institutions. However, convergence to the maximum global standard for the sake of international convergence is not necessarily appropriate, and both the EU and US should provide the basis for the work required at the global level.

Whilst recognising that political, policy and economic challenges mean that both areas have their unique constraints, on issues of major importance like the quantity and quality of capital, policymakers should consider reform in a transatlantic context. If not the regulatory regime runs the risk of becoming fragmented and market distortions become embedded, leading to barriers to economic recovery.

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AmCham EU speaks for American companies committed to Europe on trade, investment and competitiveness issues. It aims to ensure a growth-orientated business and investment climate in Europe. AmCham EU facilitates the resolution of transatlantic issues that impact business and plays a role in creating better understanding of EU and US positions on business matters. Aggregate U.S. investment in Europe totalled €1.4 trillion in 2009 and currently supports more than 4.5 million jobs in Europe.

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