

## Consultation on the possible impact of the CRR and CRD IV on bank financing of the economy

*1. What role has been played by the CRR and CRD IV requirements in the recapitalisation process, in terms of the timing and overall effect on the levels and quality of capital held by banks? How have market, supervisory and regulatory capitalisation demands interacted to make banks adjust the level of capital they hold to the current level? Whilst these three factors may be interlinked, is it possible to identify which has/have played the most important role?*

CRR/CRD-IV has played a crucial - and most important - role in shaping banks current and near future capital levels. The same goes for the quality of capital, since capital instruments that are not CRR-compliant are phased out, while at the same time, CRR increases the amount of deductions from CET1 to safeguard the quality of capital. In anticipation of increased capital requirements, Dutch banks have improved their capital positions ahead of the CRR/CRD's entry into force in January 2014<sup>1</sup>. Market expectations tend to be influenced by (planned) regulatory standards, and as such may require banks to comply with new standards well before their actual introduction.

It is impossible to say what would have happened in a scenario of no (planned) capital requirement increases, but we suppose that banks would have probably increased their capital buffers regardless because of market expectations. Having realised that financial risks were underestimated, investors might have questioned the sustainability of bank business models that were based on high levels of leverage and excessive maturity mismatches, amongst others. Most likely, investors would have required at least some improvements in banks' (risk-weighted) capital ratios, also in the absence of tougher capital requirements. In our view the same goes for leverage, liquidity and (excessive) maturity mismatches.

*2. If you consider that capital levels go significantly beyond what is necessary in light of the level of risk incurred and posed by banking activities in certain areas, please specify those areas and back up your view with specific evidence.*

We believe the current risk-based required capital levels (ratios) are generally satisfactory at this stage.<sup>2</sup> However, it should be ensured that future requirements (e.g. the discussions in the Basel Committee on the introduction of a new capital floor based on a revised standardised approach) do not lead to an overlap with existing requirements and/or have a disproportionate impact for certain portfolios. Since capital requirements have shown to be important incentives for banks' investment allocation choices, it is important that risk-weighted capital requirements remain aligned with the actual risks of the underlying exposures.

In addition, we feel further fine-tuning would need to be accomplished with respect to the risk-weighting of certain asset classes, notably securitisation. As concluded by the European Banking Authority (EBA) in their recent report on simple, standard and transparent securitisation, capital requirements in the CRR – and more specifically requirements in the revised capital framework for securitisation published by the Basel Committee in December 2014 – for investments by banks in securitisations are not always commensurate to the level of the underlying risks and not always commensurate with capital requirements for comparable instruments (e.g. covered bonds) with similar underlying assets in the pool. This negatively affects bank's incentives to invest in securitisations. A lower demand for securitisations will as a consequence lead to lower issuance, while a more diversified funding mix could be optimal from both a micro- and macroprudential perspective. We therefore strongly support the Commission's initiative to develop a legislative

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<sup>1</sup> DNBulletin, Dutch Banks are keeping up with increasingly stringent Basel III requirements, 18 December 2014. <http://www.dnb.nl/en/news/news-and-archive/dnbulletin-2014/dnb316563.jsp>

<sup>2</sup> A notable exception is the treatment of sovereign exposures within the EU. The Netherlands strongly supports the introduction of non-zero, differentiated risk weights and exposure limits for these exposures.

framework on simple, transparent and standardised securitisations, including a (re)calibration of the capital requirements for these securitisations.<sup>3</sup>

*3. What role have the additional capital requirements and buffers exceeding the harmonised requirements set out in the CRR played in the capitalisation process? Are such additional micro- and macroprudential capital requirements and buffers commensurate to the level of risk incurred and posed by banks? Please back up your view with specific evidence.*

The Dutch central bank (De Nederlandsche Bank, DNB) is the national competent authority responsible for monitoring and enforcing compliance with the requirements imposed under CRD IV and the CRR. In line with international agreements, DNB has developed a method to identify systemic banks and subsequently determine the required systemic buffer level,<sup>4</sup> thereby safeguarding as much as possible that the buffer requirements are commensurate to the level of risk incurred and posed by the aforementioned banks. In April 2014, DNB announced that it intends to impose an additional capital buffer requirement on the four nationally systemic banks in the Netherlands. This systemic buffer will be 3% of risk-weighted assets for ING Bank, Rabobank and ABN AMRO Bank, and 1% for SNS Bank to be phased in between 2016 and 2019<sup>5</sup>. In addition, DNB expects these banks to reach a leverage ratio of at least 4% in 2018 at the latest. It is difficult to assess the effects of this buffer at this stage, as the buffer will be effective from next year onwards. However, it has likely already contributed to the overall increase in capital levels of the four largest Dutch banks.

In addition, since the start of the SSM, macro-prudential supervision is – within the banking union – a shared competence between national macroprudential authorities and the ECB/SSM (with the primary responsibility remaining with national macroprudential authorities). This while the responsibility for microprudential supervision on the approximately 130 banks considered “significant” in accordance with the SSM Regulation, has shifted to the SSM. This requires good coordination and cooperation between these authorities, in order to avoid (capital) requirements that are suboptimal, especially regarding potential overlap in various minimum capital and buffer requirements. In our view, this is an important issue that should be addressed in the forthcoming evaluation/report of the Commission on the macroprudential framework in CRD-IV/CRR.

*4. Have increased capital requirements influenced the overall capacity of banks to lend? Which factors, including demand-side factors, regulatory changes and other supply-side factors (such as the volatility of interbank and capital markets), contributed most significantly to the change in the volume of loans? How do you think bank lending would have developed had regulatory changes to capital requirements not been introduced?*

In May 2014 the Dutch central bank (DNB) published the results of a study on bank lending and capital requirements in the Netherlands<sup>6</sup>. DNB investigated the prospects for banks to fulfil their capital needs and mapped the possible consequences for lending to the real economy up until 2018 under various scenarios. All scenarios take into account the increasing risk-based capital requirements that Dutch banks should adhere to (including the systemic buffer), the phasing out of all transitory provisions in CRD-IV/CRR, and the expectation that the four largest Dutch banks reach a leverage ratio of 4% in 2018 at the latest.<sup>7</sup>

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<sup>3</sup> Response of the Netherlands on the European Commission's consultation document on an EU framework for simple, transparent and standardised securitization.

<sup>4</sup> DNB Bulletin, Additional buffer requirement enhances resilience of Dutch systemic banks, 29 April 2014. <http://www.dnb.nl/en/news/news-and-archive/dnbulletin-2014/dnb306988.jsp> for more information

<sup>5</sup> [https://www.esrb.europa.eu/pub/pdf/other/140429\\_Notification\\_Dutch-Central-Bank.pdf?80bc1e8ed26977864606c622af6da6ce](https://www.esrb.europa.eu/pub/pdf/other/140429_Notification_Dutch-Central-Bank.pdf?80bc1e8ed26977864606c622af6da6ce)

<sup>6</sup> DNB Occasional Studies, Bank Lending and Capital, 2014. [http://www.dnb.nl/en/binaries/414634\\_DX0\\_DNB\\_OS\\_12-03\\_eng\\_web\\_tcm47-306789.pdf](http://www.dnb.nl/en/binaries/414634_DX0_DNB_OS_12-03_eng_web_tcm47-306789.pdf)

<sup>7</sup> Letter to parliament, 2014-2015, 32 013, nr. 91. <https://www.rijksoverheid.nl/ministeries/ministerie-van-financien/documenten/kamerstukken/2014/12/18/kamerbrief-inzake-implementatie-kabinetsbeleid-leverage-ratio>

In the base scenario, bank profits, capital market access and available bank capital is deemed to be sufficient to accommodate demand for lending. In two other (adverse) scenarios, capital market access is more limited and bank profits are reduced, which could reduce credit growth (although it is not possible to quantitatively establish to what extent this reduction can be ascribed to the increase in capital requirements, increases in credit risk or other factors). However, these effects will not be seen to the same extent (if at all) if banks are willing and able to raise extra capital or if other market participants increase their credit supply. In a final, more positive scenario, demand for loans increases strongly due to better than expected economic conditions and banks may not be able to accommodate demand fully. However, as noted in a letter by the Dutch government to Parliament, in the latter scenario, banks' profits and capital market access are also likely to increase and this could help accommodate expanding balance sheets. The DNB study concludes that at the current juncture, credit supply does not seem constrained by higher capital requirements and consequently credit demand can be accommodated. So in general, companies with sound business propositions should be able to obtain bank credit.

Nevertheless, different dynamics can appear depending on the size of individual firms searching for funding. Large firms generally have had no trouble in meeting their financing needs through either bank financing or debt issuance. On the other hand, smaller to medium sized firms' (SMEs), hit by a lack of domestic demand, have seen their access to finance deteriorate. This is mostly due to the harmful effects of the economic downturn on SMEs' balance sheets and business prospects. The latter has led to a decrease in the demand for loans, while at the same time banks also take into account the increased riskiness of SME loans when deciding whether or not to approve loan requests. Indeed, even without higher capital requirements and without tightening lending standards, deteriorating SME balance sheets and economic prospects would have led to pressure on credit supply and/or an increase in the risk premium demanded. Moreover, the relatively large number of credit refusals in the Netherlands can also be ascribed to the fact that loan applications often tend to come from SMEs with weak financial positions. All in all, the decline in credit supply in the Netherlands is mainly the result of demand factors, although this cannot be quantified exactly. The market for SME loans is nevertheless characterised by several traditional market failures (such as information asymmetries and high transaction costs) and is heavily reliant in bank-based-finance. The Dutch government has aimed to address these bottlenecks through a number of policy measures supporting SME access to finance.<sup>8</sup>

Higher quality and levels of capital have rendered the Dutch (and European) banking sector more resilient to future financial stress and to be a more sustainable supplier of credit to the real economy. Literature also indicates that better capitalised banks are generally more stable and generous providers of (SME) credit.<sup>9</sup> More generally, any possible negative effects of regulatory changes on the costs and/or availability of credit, should always be balanced against the financial stability benefits that these changes bring. This should also take into account the possible negative spill-over effects of bank crises on the real economy.

*5. Are the effects of increased capital requirements, such as they are, generally temporary and transitional or have structural changes been seen? Has the requirement to hold higher levels of capital increased the cost of funding banks? Has the per-unit cost of bank capital decreased as banks have become less risky?*

In response to the financial crisis and the increased regulatory demands that followed thereafter, to increase their capital buffers, Dutch banks have mostly retained profits, sold or sized down several (foreign) business lines and decreased their exposure to some relatively risky activities (such as commercial property development). As explained above, it cannot be excluded that some of these developments would also have occurred without increased regulatory demands. Overall, banks have become more risk-aware and higher (risk-weighted) capital requirements could further

<sup>8</sup> Letter to Parliament, 2014-2015, 32 637, nr 166. <https://www.rijksoverheid.nl/documenten/kamerstukken/2014/07/08/kamerbrief-aanvullend-actieplan-mkb-financiering>

<sup>9</sup> See for example: Bridges, J., Gregory, D., Nielsen, M., Pezzini, S., Radia, A. Spaltro, M., The impact of capital requirements on bank lending, Working Paper No. 486 of the Bank of England, January 2014 and Marinova, K., Van Veldhuizen, S., Zwart, G., Bank recapitalization, CPB Background Document, 11 July 2014.

incentivize banks to reduce their exposures to relatively risky assets and/or reprice these exposures. It might be too early to tell whether these trends are of a structural nature, now that the economy is recovering.

Higher capital requirements are initially expected to, *ceteris paribus*, (slightly) increase banks' (weighted average) funding costs, given that equity is more expensive than debt due to e.g. the relatively favourable fiscal treatment of debt and guarantees for certain deposit holders. An increase in bank equity can however be expected to gradually exert downward pressure on banks' cost of debt, as the increased distance-to-default for debt providers would lower the default risk premium they demand. Over time, this can again decrease banks' weighted-average funding costs (of course, this effect should be separated from any recent and/or future increases in the cost of debt resulting from the introduction of the new bail-in framework, which will remove the implicit too-big-to-fail subsidy).

However for banks, the cost of equity (or the return on equity requested by investors) is also an important metric. In this respect a few developments are relevant. First, higher capital requirements – in most cases at least doubling from their pre-crisis minima – will no longer make pre-crisis return on equity targets feasible. Second, banks have generally modified their business models, undertaking fewer high-risk activities. This reduced risk profile means lower but more stable expected returns, making it unlikely that bank profits will return to pre-crisis levels.<sup>10</sup> This is in line with the changing business models of banks and the demands that the market, supervisors and society have made on banks since the crisis. Against this background, it is also important that investors and banks adopt realistic return on equity targets.

*6. Have increased capital requirements affected the market for some categories of assets more than others? If so, which ones and how? Which of the provisions contained in the CRR, apart from those establishing capital ratios, are likely to have created the effects experienced by specific markets and/or exposures?*

Please see our earlier comments on the treatment of securitisation in CRD-IV/CRR. Furthermore, the Dutch banking supervisor (DNB) has received signals that the demand for covered bonds has recently increased, which is likely to be partly due to their favourable treatment in the liquidity coverage requirement (LCR) for banks.

*7. Do you think the phase-out of the transitional provisions under CRR could have an incremental impact on future lending decisions? If so, please explain how.*

Akin to the enhanced requirements on the quantity of capital (e.g. systemic risk buffers), the CRR enables supervisors to apply numerous transitional provisions related to the quality of capital, providing banks with time to adapt to tougher end-state quality of capital requirements. The results of the 2014 Comprehensive Assessment showed that variations in the application of the transitional provisions between SSM Member States allowed significant variation in the quality of the capital between banks in different countries. As of 1 January 2014, the ECB estimated the CET1 impact of total transitional adjustments across all participating banks to be €126.2 billion, if end stage capital definitions would be introduced immediately.<sup>11</sup> Over the coming years this means that the banks concerned will e.g. need to (further) retain profits and/or issue CET1-instruments to improve their end-state CET1 positions to meet these (quality of capital) requirements, on top of measures that need to be taken to meet higher minimum capital ratio requirements (the *quantity* of capital).

Banks will look at both quality and quantity of requirements to capital when determining their response to these requirements. The impact of the phasing-out of the transitional provisions that are applied in the Netherlands, was taken into account in the DNB study referred to in answer #4. In addition, within the SSM, the ECB and national supervisors have made progress in harmonising

<sup>10</sup> DNB, Overview of Financial Stability, Fall 2014. <http://www.dnb.nl/en/news/news-and-archive/persberichten-2014/dnb312967.jsp>

<sup>11</sup> These transitional adjustments are largely driven by the phase-in rules applicable to different CET1 deductions required by the CRR.

the phasing-out of transitional provisions as part of their efforts to reduce the large number of options and national discretions. Only where this harmonisation leads to significantly stricter requirements than anticipated by institutions, this may have an incremental impact on lending decisions.

In any case, it should be stressed that phasing out the transitional provisions would considerably enhance the level playing field between banks in different Member States. The transitional provisions were introduced to allow banks sufficient time to adjust to new, more stricter standards on the quality of bank capital, also because the impact of the introduction of these standards differs significantly between banks in different Member States. If anything, in our view some of these transitional provisions in the CRR may have been formulated too generous, and some exceed the transitional provisions agreed in the Basel III Accord (e.g. the treatment of deferred tax assets that originate from the period before the entry into force of CRD-IV/CRR. Also in the EU, deferred tax credits need not be deducted from CET1).

*8. To what extent has this provision been effective in supporting lending to SMEs? Could you provide any evidence, preferably quantitative, of the change in lending to SMEs due to the introduction of the supporting factor as from 2014?*

As stated earlier, it is not possible to precisely quantify if and to what extent capital charges influence lending decisions. Nevertheless, in our view lending decisions have mainly been driven by other factors than capital requirements (i.e., demand factors). In addition, some banks have indicated to us that banks may choose to ignore the SME supporting factor in bad times, as they prefer to estimate credit risks as precisely as possible and subsequently make sure that they hold sufficient amounts of capital to cover unexpected credit losses. We therefore look forward to the responses of market parties and supervisors to this consultation and to the EBA consultation on the application of the SME supporting factor.<sup>12</sup>

*9. What specific difficulties do banks face when lending to SMEs, compared to when lending to larger corporates? Are these related to the CRR? How could the CRR and other prudential regulations contribute to addressing some of these difficulties in other ways than by adjusting rules for SMEs, or do they need to be resolved by some other means? If so, what other means would be adequate?*

Lending to SMEs entails three specific difficulties:

1. High transaction costs;
2. Information asymmetries;
3. SME lending is generally relatively (credit) risky compared to large corporates.

Specific difficulties that banks face when lending to SMEs are firstly related to the relatively high transactions costs (notably for loans < EUR 250.000). Assessing individual business plans and performing background checks entail fixed costs for banks, while the loan and therefore expected returns in absolute terms are relatively small. Secondly, while banks try to solve information asymmetries through screening and monitoring, for SME loans information asymmetries are relatively large and the cost of lending is relatively high. Banks require information on which they can form an opinion regarding creditworthiness, and smaller companies are not always able to supply this information in time or in full. Banks could translate this uncertainty into higher risk premiums, but this might lead to relatively more high-risk loan applications ('gambling for resurrection'). Another option is to make acceptance criteria more stringent, which leads to more SME application rejections. Finally, SME loans are generally more risky than loans to larger corporates, which means not only higher capital charges, but also a higher required rate of return (i.e. higher interest rate). The greater risk of SME loans are mostly due to the fact that many SMEs have been hit hard by the crisis, which is reflected in reduced financial buffers, lower profitability

<sup>12</sup> When evaluating the supporting factor, it should also be taken into account that the Basel Committee considers this factor to be a 'material deviation' from the Basel III framework.

and a decline in the collateral value of assets (these often consist of property). Moreover, the main need of SMEs is financing of working capital, and generally it is difficult for banks to evaluate the risk and return on general working capital.

Given the specificities of SME-loans, banks price these characteristics into their credit offers to SMEs. In some cases this pricing implies that a proposal to an SME is perceived to be unattractive from the perspective of the SME (especially for smaller SMEs), so that credit is not extended. These underlying specificities/characteristics of SME's are therefore very important to take into account, and are in itself not caused by (higher) bank capital requirements. Therefore, the Dutch government is aiming to address issues related to information asymmetries, high transaction costs and the concentration of bank-based-financing of SME's by other means, through a number of (legislative and non-legislative) measures. These include, amongst others: (i) supporting the development and growth of alternative sources of financing, (ii) standardising SME credit information<sup>13</sup> and (iii) providing specific guarantees on micro-SME loans.<sup>14</sup> In addition, in September 2015 the Dutch government – in cooperation with the Dutch Banking Association and employers and SME organisations – launched a portal to improve information to SMEs on access to finance.<sup>15</sup>

*10. Has the CRR influenced the capacity of banks to provide loans to infrastructure projects? Which provisions are most relevant?*

*11. What are the specific difficulties that banks face when lending to infrastructure projects? Are they related to the CRR? How could the CRR and other prudential regulations contribute to addressing some of these difficulties or do they need to be resolved by some other means? If so, what other means would be adequate?*

*12. Should infrastructure projects continue to be treated as loans to corporate borrowers? If not, why? What common features of infrastructure projects or their subsets would justify a separate treatment from loans to corporate borrowers?*

Answer to questions 10-12: currently we see no reason to propose changes to the CRR regime for infrastructure projects.

*13. Should the provisions contained in the CRR allow for more differentiation in how they are applied to banks of different sizes or with different risk-profiles? How can they do this without compromising the objective of achieving financial stability and creating a level playing field within the single banking market? Are there any provisions that could potentially be applied with greater differentiation? If so, what are these provisions? Provided application on a differentiated basis is desirable, what considerations could be relevant to make such a differentiated application? Are any concrete changes desirable in this context? If so, what are these changes and the associated costs and benefits?*

The consultation paper correctly identifies several areas where the CRR already differentiates the capital requirements – and the way in which these need to be calculated – between banks with different risk profiles, activities and/or preferences. More generally, it should be noted that all capital requirements in the CRR – pending an EU agreement on the leverage ratio – are *risk-sensitive*, which by definition already ensures differentiation with respect to differences in banks' asset profiles. Furthermore, for important risk categories the framework offers relatively simple standard approaches as well as more complex alternative based on internal models. At the current juncture, we do not see areas where the (risk-weighted capital) requirements in the CRR for (certain types of) banks are significantly out of line with the underlying risks. Over the next couple of years, the EU risk-weighted capital requirements will be complemented with a leverage ratio

<sup>13</sup> Standard Business Reports (SBR+).

<sup>14</sup> Letter to Parliament, 2014-2015, 32 637, nr 166.

<sup>15</sup> <http://www.nationalefinancieringswijzer.nl/>

requirement. We share the intention of the EBA and the Commission to investigate whether this requirement would need to be introduced in a differentiated manner, more specifically whether the required minimum leverage ratio would need to be set in proportion to banks' business models and/or size (e.g. in the Netherlands the four domestic systemically important banks are expected to meet a minimum leverage ratio of 4% in 2018 at the latest). Such an investigation however, should not weaken the requirements for internationally active banks.

In this regard it is interesting to note that EBA is currently working on a review of the CRR/CRD-IV capital requirements for investment firms, which includes an evaluation of the proportionality of the current regime. This is expected to be followed by a second phase, during which EBA and ESMA will work on a new categorisation of investment firms, based on their systemic importance rather than on their activities. Work will also be done towards a new investment firm specific prudential regime that provides for more simplicity, risk sensitivity and proportionality.

The EBA could in our view, in analogy to its work on investment firms, also investigate the proportionality of CRR/CRD-IV for banks. It is important to avoid a situation in which both existing banks as well as potential new entrants become 'too small to comply'. Smaller banks and banks with more specialised and/or innovative business models – including credit unions – are necessary to challenge and/or complement larger (incumbent) banks. This is not only important from a competition and efficiency point of view: a more diverse and less concentrated banking sector is also beneficial for overall financial stability. This notion was also put forward in a recent publication of DNB.<sup>16</sup>

In addition, low barriers to entry and expansion are key features of contestable markets, and are therefore an important determinant of competitive intensity. Regulation such as CRD-IV/CRR, while absolutely necessary, can act as a barrier to entry. To address this risk, analysis is needed on how to ensure that possible new entrant banks are able to get authorisation quicker and easier, e.g. by temporarily applying lower capital and/or liquidity requirements, which are subsequently scaled up as the bank is becoming fully established.

*14. Which areas of the CRR could be simplified without compromising the Regulation's objective of ensuring prudence, legal certainty and a level playing field? Are there areas that could be simplified, but only for specific types of bank or business models? Would it be useful to consider an approach where banks that are capitalised well above minimum requirements or that are less exposed to certain risks could be subject to simplified obligations? What would be the risks with such an approach?*

Even when all the requirements set out in CRR/CRD-IV can be justified on prudential grounds, on an individual basis, the combined effect of all these requirements can indeed be challenging for banks in terms of timely and correct compliance. In our view, this notion might be most relevant for potential/new entrants – especially insofar as these new entrants are not already part of an established banking group – which is also particularly relevant from a competition and financial stability point of view (see answer to question 13).

In the Netherlands, in June 2014 the Dutch Authority for Consumers and Markets published a report<sup>17</sup> in which it made recommendations to lower entry barriers for new entrants. In response, the Dutch government has requested Actal<sup>18</sup> to review the regulatory requirements that are demanded in order to identify regulation that could pose an (unnecessary) barrier to entry for financial institutions to join or grow in the Dutch retail banking sector and review the proportionality of such regulation. The report, including the response to the report by the Dutch government, is due to be published soon.

<sup>16</sup> DNB Bulletin, Perspective on the structure of the Dutch banking sector, June 2015. <http://www.dnb.nl/en/news/news-and-archive/dnbulletin-2015/dnb323320.jsp>

<sup>17</sup> ACM, Barriers to entry into the Dutch retail banking sector, June 2014. <https://www.acm.nl/en/publications/publication/13257/Barriers-to-entry-into-the-Dutch-retail-banking-sector/>

<sup>18</sup> Actal is the Dutch Advisory Board on Regulatory Burden, which is an independent and external advisory body that advises government and Parliament on how to minimize regulatory burdens.

Pending the publication of these documents, we would at this stage already emphasise the importance of taking into account – especially when CRR/CRD-IV is revised in future – the combined impact of all regulatory requirements on CRD-IV/CRR on new as well as incumbent market participants. We would also support further analysis on the idea to simplify the regulatory requirements for banks significantly exceeding their minimum capital requirements, thereby looking at the pros as well as the cons. Any simplification could in our view also be applied to banks exceeding their minimum leverage ratio requirement to a significant extent.<sup>19</sup>

*15. What additional measures could be taken in the area of prudential regulation to further promote integration and enhance a level playing field? Can you indicate specific examples and evidence of discretions that affect the cost and availability of bank lending?*

In line with some of our previous comments, the Netherlands supports efforts to further harmonise the application of:

- a) options and national discretions (ONDs) in CRR/CRD-IV – especially when related to the quality of capital;
- b) the internal model based approach used by a significant number of EU banks ('IRB-banks') to estimate credit risk parameters and hence determine risk-weighted exposures.

With respect to a), diverging national (supervisory or regulatory) practices currently lead to significant divergences in the quality of capital of between banks in different Member States. In relation to b), IRB-banks show significant differences in estimating credit risk for identical exposures in low default portfolios (sovereign, financial institutions and large corporates exposures). Both a) en b) therefore negatively affect the level playing field for banks within and between Member States.

These issues are being addressed by a number of factors. For example, most of the OND's affecting the quality of capital will expire automatically by 2018. Further, EBA is developing technical standards and guidelines to enhance harmonisation in IRB modelling. In addition, for Member States within the SSM, the SSM will harmonise the application of a significant number ONDs that do not require amending national and/or EU legislation, as well as IRB-supervision. In our view, Member States should be willing to tackle any remaining issues in relation to a) and b) by means of amending national and/or relevant EU legislation where necessary.

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<sup>19</sup> Of course this would first require an agreement on introducing a binding EU leverage ratio standard, which the Netherlands strongly supports.