



Martin Merlin
Director
Directorate D
Regulation and prudential supervision of financial Institutions
DG FISMA

24 June 2016

Subject: Commission consultation on further considerations for the implementation of the NSFR in the EU

Dear Mr Merlin,

I am writing to you concerning the Commission's consultation on the implementation of the Net Stable Funding Ratio (NSFR) in the European Union. We very much welcome that the Commission has decided to seek feedback from different stakeholders on the best way to implement and calibrate this new and important prudential measure. The EACT supports the Commission's efforts to enhance confidence in the banking sector and to make banks safer and more stable, as non-financial companies have also greatly suffered from the financial crisis and the subsequent economic downturn.

However, we believe that financial regulation should be designed and implemented in a manner that does not unduly further penalise non-financial companies. In this respect, we are concerned by the proposed treatment of derivatives liabilities under the NSFR and its potential impact on liquidity and price.

In particular, it seems to us that the proposal that gross derivative liabilities be subject to an additional 20 per cent Required Stable Funding factor (RSF), together with other elements of the BCBS NSFR standard, would substantially impact banks' derivatives operations by requiring them to hold considerably more assets for their derivatives' liabilities. It would therefore increase the cost of derivatives transactions for non-financial corporate end-users. In our view banks are very likely to externalise this increase in costs as much as possible by increasing end-user prices and making non-financial companies pay for much of the extra regulatory cost. We have read industry estimates that the additional funding requirement would be in excess of 300 billion euros across the banking sector. It goes without saying that even if only a part of this cost would be transferred to corporate end-users, it would represent a major burden on the EU real economy.

We would like to emphasize that the vast majority of non-financial companies use derivatives exclusively for mitigating financial risk that routinely arises from their business activities. In

Head office: 3 rue d'Edimbourg – CS 40011 – F-75008 Paris – France
Phone: +33 1 42 81 53 98 – Fax: +33 1 42 81 58 55 – E-mail: secretary@eact.eu – Website: www.eact.eu
VAT number: FR 79 791 577 414 APE code: 9499Z

order to manage financing activities and mitigate risks linked to currency, interest rate and to lesser extent commodity risk, non-financial corporate end-users require access to liquid and reasonably priced derivative instruments. Punitive regulation could end up not only increasing the cost of hedging, but also constraining companies' ability and willingness to hedge, and increasing market risk for companies in the real economy. We do not believe this would be in line with the Commission's priority of supporting jobs and economic growth, and financing of the real economy. Hedging is an important part of prudent and sound company risk management that benefits companies by making them more stable and less volatile and improving the overall risk profile and credit worthiness of companies. Hedging is therefore very much linked to companies' ability to employ, invest and grow.

Due to the potentially far-reaching consequences of the implementation of the NSFR, we would plead for more in-depth analysis to be conducted on the expected impact and the possibility to re-think the design and the calibration of this measure. It is in our view important to analyse not only the added cost for financial institutions but the manner in which that cost will be channelled into the real economy and its impact on economic activity.

We hope you will share these concerns, given that the post-crisis financial reform has already had a detrimental impact on the availability and pricing of derivative instruments to non-financial companies. We of course remain at your disposal for expressing our concerns at your convenience.

Yours sincerely,

A handwritten signature in black ink, consisting of a stylized 'J' and 'S' followed by a long, sweeping horizontal line that curves upwards at the end.

Jean-Marc Servat
Chair – European Association of Corporate Treasurers