ZIA Response to European Commission Consultation on the Banking Package 2021

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ZIA German Property Federation welcomes the opportunity to comment on the European Commission proposal (Banking Package 2021).

Even though we see improvements compared to the initial package of the Basel Committee, the proposal will inevitably lead to more difficult financing conditions for the economy. The envisaged amendments are insufficient to absorb the negative economic consequences. We therefore suggest further amendments in the legislative process:

Output floor:

The European Commission has decided to implement the output floor for banks that use internal risk calculation models. At the same time, the Commission considers P2R and SyRB as vehicles, which absorb risks in the same way as intended by the application of the output floor. Therefore, the requirements for P2R and SyRB should be frozen in order to prevent an automatic increase triggered by the output floor.

However, it is difficult to imagine national supervisors would allow material reductions. Moreover, it is not defined which elements exactly are considered as "double counting" and what could be used as compensation. By applying the output floor to all legally prescribed capital buffers, including those specific to Europe, the proposal goes beyond the Basel requirements. This leads to an additional burden for banks and has a significant impact on EU banks' competitiveness. We therefore recommend the application of the "parallel stacks approach".

Companies without external ratings:

A transitional period will allow credit institutions to apply a preferential risk weighting of 65% to loans for companies without ratings, assuming the probability of default is below 0.5%. The transitional period will last at least until 2032 to allow for external ratings via public or private initiatives.

Due to the temporary solution, we have significant concerns. Instead, a permanent solution applying beyond 2032 for all loans, including real estate loans, is needed. The current regulation will expire just when the output floor will show its full effect and, in combination with the lack of ratings, will ultimately lead to an additional burden. Due to the high costs, SMEs will probably work without external ratings in the future. This will cause lasting damage to Europe's economy.

Income producing real estate (IPRE):

The proposal contains the possibility of a "hard test" for regional markets. A supervisory authority can prove that certain loss rates have not been exceeded. Accordingly, loans to IPRE, whilst facing lower risks, would have to be treated like ordinary real estate financing. This applies to both residential and commercial real estate financing, whereby commercial real estate must be weighted with higher risk (60%) than residential real estate (20%) via the loan-splitting approach. We welcome this step, although unequal treatment of commercial and residential real estate is inappropriate.

Financing land acquisition, development or construction (ADC):

In the context of Basel III, the introduction of a new exposure class of financing land acquisition for project developers was strongly criticised. The introduction was associated with an across-the-board increase in risk weighting from 50% to speculative 150%. The European Commission's draft allows a reduction to 100% if risk-minimising factors can be demonstrated.

Despite small corrections, the ADC risk weighting is still too high. Reductions only apply to residential properties and are tied to certain criteria, which could ultimately burden and even prevent the financing of project developments, especially in the commercial sector. Such projects risk to be financed by alternative, unregulated entities and to inevitably result in higher risk for market stability of the financing sector.

ZIA German Property Federation and its members stand ready for further exchange on these issues.

Yours sincerely,

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About ZIA

The **German Property Federation (ZIA)** is the leading umbrella association for the property sector. With its registered office in Berlin and a European office in Brussels, it speaks through its more than 350 members, including 30 associations, on behalf of approximately 37,000 industry companies right across the value chain. ZIA provides comprehensive, unified representation for the interests of the real estate sector in all its diversity at both national and European level, including as a member of the Federation of German Industries (*BDI*) and the German Economic Institute (*IW*). The President of the association is Dr Andreas Mattner.

With more than 837,000 companies and approximately 3.5 million employees, the real estate sector is one of the largest and most dynamic in Germany. It generated approximately €644 billion in 2021, approximately 20% of Germany’s gross value added and therefore more than the automotive sector, for example. The sector is aware of its role in climate protection and therefore reduced its CO_2-emissions from 209 to 120 million tons per annum between 1990 and 2020.

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