LITHUANIAN BUSINESS CONFEDERATION ICC LITHUANIA

To the European Commission 2022 February 23, No. 22-034VK

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To the Government of the Republic of Lithuania
To the Bank of Lithuania

COMMENTS RE THE POTENTIAL ADVERSE CONSEQUENCES TO LITHUANIAN BUSINESSES PROPOSED CAPITAL REQUIREMENTS REGULATION (CRR3)

The members of the Lithuanian Business Confederation (ICC Lithuania) – various small, medium and large enterprises as well as the largest financial institutions operating in Lithuania, welcome the CRR3 and recognize the contribution of the implementation of the Basel IV standards to global financial stability. However, we see two problematic provisions that deeply concern our members and international partners: 1) the increase in the Credit Conversion Factor (CCF) for technical guarantees from 20 % to 50 %, and 2) the effective maturity recognition for trade finance instead of 2,5 years fixed.

1. ***On the increase in the Credit Conversion Factor (CCF) for Technical Guarantees from 20 % to 50 %***

The change from 20 % to 50 % of CCF for the traditional trade finance products widely used by our companies such as Technical Guarantees is estimated to be unnecessary and overly punitive, as these are considered to be very low risk products which are rarely enforced. This will inevitably increase the cost of these products by 150 %. If adopted, this increase will trigger a severe impact on every EU-based corporation, reduce the competitiveness of our members and undermine our capacity to succeed, in line with our expectations, on our foreign markets.

2. ***On the effective maturity recognition for trade finance instead of 2,5 years fixed.***

Even if the draft revision foresees the possibility to apply the effective maturity (instead of 2,5 years fixed for all transactions) for short-term self-liquidating trade finance transactions, as well as issued or confirmed letters of credit, it is not fully clear whether this is applicable when the Foundation-IRB (internal rating based) method is used. The new element in the proposed text is that the F-IRB method will have to be applied to large corporations (>EUR 500m turnover) which are the largest users of trade instruments. Applying a fixed maturity of 2,5 year for short term self-liquidating trade instruments which have, by definition, a maturity much lower than 2,5 years, will have a severe negative impact on RWA consumption and therefore derived pricing for companies, leading to the same consequences as mentioned above, as EU corporations heavily used short term trade finance products to finance their day to day import and export activities.

The previous CRR already recognised this specificity and therefore it should be clarified that it shall remain as it is.

Sincerely,

Director-general of the Lithuanian Business Confederation
Eglė Radišauskienė

About Lithuania Business Confederation
The Lithuanian Business Confederation is the largest business organization in Lithuania that represents businesses that employ over 200 thousand employees that together create over 20% of the Lithuanian GDP. The mission of the Confederation is to responsibly represent the interests of its members. The Lithuanian Business Confederation is also a national committee of the International Chamber of Commerce in Lithuania.

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