

**For release on 20 April, 2010**

## **LMA RESPONSE TO NEW CAPITAL REQUIREMENTS CONSULTATIONS**

The LMA has responded to the European Commission's consultation on reforming the Capital Requirements Directive (CRD4) and the Bank of International Settlements' consultative document – 'Strengthening the resilience of the banking sector'.

The LMA welcomes these papers as constructive approaches to macro and micro-prudential risk management and the creation of a more resilient financial sector.

Whilst acknowledging that the robustness of the financial system can be strengthened by improving both the quantity and quality of capital and improving the liquidity regime, the LMA believes that it is important when considering the various policy options that the various impact-assessments scenarios concentrate on the inevitable trade-off between a tighter and more controlled financial system and the availability and cost of credit.

Aligned to this is the time frame for implementation. If economic recovery and sustainable economic growth are to be achieved, it is important that the timetable promotes a period of transition to meet target ratios, as immediate compliance would cause further reduction in lending, which would impact negatively on the economy. This will be particularly relevant if a leverage ratio is employed. Whilst the LMA recognises some of the merits of a tool which stands outside a bank's individual measurement of risk and restrains unsustainable growth in balance sheet size, the LMA is concerned that such a blunt instrument might force a bank to de-leverage in order to comply. This of course would adversely affect the availability and cost of credit.

Similarly, risk-based measures should not act as a restraint to lending at a time when there are material corporate refinancing requirements, particularly in the area of leveraged finance. Measures should not lead to a two-tier credit environment, disproportionately benefiting larger, better rated companies at the expense of the smaller and lower rated ones. Also, prudence is required in implementing any measures that might penalise the provision of longer-term project finance, which often supports socially desirable initiatives, such as public infrastructure and the development of sources of 'green' energy or waste management facilities.

Finally, it is important, given the global nature and interconnectivity of financial markets, that coordination with other regulators, supervisors and governing bodies is undertaken at both the development and implementation stages, so as to ensure clarity of message and avoid any risk of 'regulatory arbitrage'. Policy should be aligned with other regions, particularly the United States of America.

Clare Dawson, Managing Director of the LMA, said "Increasing capital requirements will impact on the ability to lend and it is important that the calibration is mindful of this when considering policy alternatives if the wider economy is not to suffer."

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**Loan Market Association**

The Loan Market Association was founded in December 1996 by seven leading international banks in London. Its aim was to encourage liquidity and efficiency in both the primary and secondary loan markets by promoting market depth and transparency, as well as by developing standard forms of documentation and codes of market practice. Banks, law firms and other market practitioners/participants are welcome to apply to join the LMA.

The Association was established in anticipation of changing market conditions and of a perceived willingness on the part of the banking community to bring greater clarity, efficiency and liquidity to the relatively under-developed secondary market.

The LMA has gained recognition in the market and has expanded its activities to include all aspects of the primary and secondary syndicated loan markets. It sees its overall mission as acting as the authoritative voice of the syndicated loan market in Europe vis à vis banks, borrowers, regulators and other affected parties.

For more information, please visit [www.lma.eu.com](http://www.lma.eu.com).