World Council

World Council's Top 10 Advocacy Successes of 2017

1. Reduced Capital Requirements for Most Mortgages

The Basel Committee on Banking Supervision's final version of Basel III significantly reduced capital requirements for most mortgage loans made by community-based financial cooperatives.

As advocated by World Council of Credit Unions, the Committee reduced residential mortgage-loan risk weights by between 5 and 15 percentage points—translating to a capital reduction of between roughly 14 percent and 43 percent per loan—for residential mortgages with at least 20 percent equity or which have mortgage insurance or a guarantee.

For mortgage insurance or guarantees, the risk weighting for the guaranteed amount can be as low as 0 percent if the guarantor is a government-sponsored enterprise, or as low as 20 percent in the case of private mortgage insurance.

Mortgages for second homes or investment properties are treated as owner-occupied residential mortgages for regulatory purposes unless more than 50 percent of the funds needed to pay the mortgage come from rental income.

For other second-home or investment-property mortgages, the Basel Committee's final capital requirements for these loans require less than half as much capital per loan as the Committee originally proposed.

World Council's detailed summary of the final version of Basel III is available here.

2. Capital Add-Back for Expected Credit Loss Accounting Reserves

The Basel Committee on Banking Supervision's final "transitional rules" for regulatory capital included several key changes urged by World Council to reduce compliance costs related to the International Financial Reporting Standard (IFRS) 9 and US GAAP Current Expected Credit Losses (CECL) expected loss accounting rules.

Under the final Basel Committee standard, financial institutions will be allowed to add back the increased reserves required by IFRS 9 or CECL to their regulatory capital ratios for up to five years.

The final version of the standard also retained the Basel III distinction between "general provisions" and "specific provisions" for loan losses, as urged by World Council, even though IFRS 9 and CECL do not include this distinction. Under Basel III, "general provisions" for loan losses are included in an institution's Tier 2 capital.

3. Ending Correspondent Bank "De-Risking" with Clearer Anti-Money Laundering Rules

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering/countering the financing of terrorism (AML/CFT) rules, issued new guidance on private sector information sharing urged by World Council that reduced regulatory burdens on financial cooperatives by significantly increasing the ability of unaffiliated financial institutions to share AML/CFT information, such as to resolve payment system red flags. The new FATF rules should help reduce commercial banks "de risking" their customer bases and make it easier for community-based financial cooperatives to establish and maintain correspondent bank accounts.

The Basel Committee on Banking Supervision also issued similar guidance on correspondent banking AML/CFT compliance advocated for by World Council that should also help reduce banks "de-risking" their customer bases and make it easier for credit unions and other mutuals to provide electronic payments services to their members.

4. Operational Risk Reserves for Community-Based Depository Institutions Reduced

The final version of Basel III reduced operational risk reserves for virtually all community-based financial cooperatives by roughly 20 percent compared to Basel II. At World Council's urging, the Basel Committee established a tiered operational risk reserve structure for Basel III where larger institutions will be subject to higher operational risk reserve requirements on a percentage basis than will apply to community-based institutions.

Under this structure big banks' operational risk reserves will also typically be higher than under Basel II even though Basel III reduced the operational risk reserve requirements for community-based institutions.

5. Community-Based Depository Institutions' Access to Interbank Lending Preserved

The final version of Basel III preserved community-based financial cooperatives' access to the interbank lending market by according favorable regulatory capital treatment for interbank exposures to well-capitalized and adequately capitalized financial cooperatives that do not have a credit rating.

Exposures to well-capitalized and adequately capitalized depository institutions without a credit rating will be treated as though the institution had an "investment grade" credit rating. World Council advocated for this significant change from the Basel Committee's proposal, which would have treated interbank exposures to depository institutions without a credit rating as though the institution had "junk" creditworthiness.

6. Favorable Capital Treatment for Consumer Loans Preserved

The final version of Basel III preserved the 75 percent of face value "regulatory retail" capital risk-weight for most loans to consumers other than first-lien mortgages. World Council urged the Committee to continue to accord favorable capital treatment to consumer loans to help preserve consumers' access to credit and promote financial inclusion.

This category includes credit cards and other unsecured loans to consumers, consumer auto loans and leases, and consumer second-lien mortgages.

7. Capital Requirements for Loans to Small and Medium-Sized Businesses Reduced

The final version of Basel III expanded the application of the 75 percent of face value "regulatory retail" risk-weight to include most loans made to Small or Medium-sized Enterprises (SMEs), which are defined as businesses that have annual revenue of less than EUR 50 million. World Council had advocated for increasing the availability of business credit for SMEs in order to support economic growth and job creation in financial cooperatives' local communities.

Under Basel II, only business loans made to "small businesses" received this favorable capital treatment.

8. Definition of Loan "Default" Extended to 90 Days Past Due

The Basel Committee's final version of its definition of non-performing loans and bonds defined "default" as a loan or bond that has payments at least 90 days past due. World Council strongly supported this new definition of "default," which is less stringent than the 60 days past due "default" standard previously used in many jurisdictions.

The Committee will also permit institutions to assess the performance of consumers' loans on a loan-by-loan basis, rather than treating all of a consumer's loans as being in default when only one of a consumer's loans is in default.

In addition, this final standard placed new restrictions on the ability of large banks following Basel III Internal Ratings-Based approaches to treat consumer loans as performing if they are more than 90 days past due.

9. Serving Unbanked Persons Without Standard ID

The Financial Action Task Force's (FATF) updated its guidance on anti-money laundering/countering the financing of terrorism (AML/CFT) measures and financial inclusion to increase community-based financial cooperatives' flexibility to provide services to underserved individuals who lack standard identification documents such as a passport.

Specifically, the new guidance increased institutions' flexibility to use new or alternative forms of identity documentation, including digital solutions, to conduct customer due diligence, and also allowed institutions to exempt products and services with a low-risk for money laundering or terrorist financing from some AML/CFT controls.

10. Large Banks' Capital Requirements Increased to Level the Playing Field

The final version of Basel III made large banks subject to a new "capital floor" that will not allow them to reduce their capital requirement to less than 72.5 percent of what their capital requirements would be under the Basel III "standardized approach" that is used by community-based financial institutions.

Basel II had no capital floor for big banks and World Council advocated strongly for the Committee to establish one. The new capital floor will reduce the capital arbitrage-related competitive advantages that large institutions using Internal Ratings-Based approaches enjoyed over community-based institutions under Basel II.