Credit institutions: taking up and pursuit of the business. Recast

2004/0155(COD) - 14/06/2006 - Final act

LEGISLATIVE ACT: Directive 2006/48/EC of the European Parliament and of the Council relating to the taking up and pursuit of the business of credit institutions (recast).

CONTENT: The Council adopted two directives aimed at introducing new capital adequacy requirements for banks and investment firms, accepting all amendments voted by the European Parliament in first reading (please refer also to 2004/0159(COD)).

The new requirements are intended to contribute to financial stability and strengthened confidence in the financial system by fostering enhanced risk management by financial institutions. The new requirements are part of the EU's financial services action plan, and are aimed at strengthening the competitiveness of the European economy by lowering capital costs for companies.

The new requirements follow international guidelines established in June 2004 (‘Basel II'agreement) by the Basel committee on banking supervision1, which formulates supervisory standards and recommends best practice for banking supervisory authorities.

The directive enables financial institutions to choose from three different approaches to capital adequacy - simple, intermediate and advanced - depending on which suits them best. The simple and intermediate approaches may be used from the end of 2006 (although banks may still choose to apply the current rules until the end of 2007), and the most advanced approach from the end of 2007.

The new rules set more precise own funds requirements (i.e. the amount of 'internal' capital which banks and investment institutions must hold in order to cover their risks and protect their depositors) for the financing, amongst other things, of small and medium-sized enterprises. The rules provide for preferential treatment for some types of risk capital.

The two directives recast directive 2000/12/EC on the business of credit institutions and directive 93/6 /EEC on the capital adequacy of investment firms and credit institutions, whilst transposing the Basel II agreement into EU law.

ENTRY INTO FORCE: 20/07/2006.

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