

Investment firms and credit institutions: capital adequacy. Recast

2004/0159(COD) - 14/06/2006 - Final act

LEGISLATIVE ACT: Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast)

CONTENT: the Council has adopted two Directives (see also 2004/0155(COD)), both of which seek to introduce new capital adequacy requirements for banks and investment firms. The Council accepted all of the 11 amendments voted in by the European Parliament following the first reading of the proposal.

The purpose of this Directive is two-fold. Firstly, to recast the Directive *on the capital adequacy of investment firms and credit institutions* (Council Directive 93/6/EEC), which has been frequently amended and secondly, to adopt measures which modernise and update EU provisions on capital adequacy requirements, in line with changing needs and practice.

Part of this modernisation process has been done through the introduction of Basel II provisions on "capital standards", which were adopted in 2004 and agreed to by the G-10. Improved risk management in the capital requirements sector should lead to a more effective allocation of capital, thereby contributing to the EU's overall economic competitiveness.

In adopting this legislation new rules on the capital adequacy requirements applying to investment firms and credit institutions are laid down as are new rules for their calculation and their prudential supervision. The Directive allows the Member States to impose, should they wish to do so, more stringent requirements than those set out in the Directive.

A further feature of the new legislation is its flexibility. The "institutions" (here referring to investment firms or credit institutions) are given the option of choosing from three different approaches, according to their needs. The three approaches refer to: the simple approach; the intermediate approach; and the advanced approach. The simple or intermediate approach will apply as from 2007, whereas the most advanced approach will be available as from 2008.

The new provisions also take account of the needs of SMEs by introducing special capital requirement for lending to small and medium sized enterprises.

ENTRY INTO FORCE: 20 July 2006

TRANSPOSITION: 31 December 2006.