

Updating of references and the alignment of terminology following amendments to Regulation (EU) No 575/2013. Prudential requirements for credit institutions and investment firms

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The Council was briefed by the Presidency on **progress in negotiations** with the European Parliament on two proposals amending the EU's rules on capital requirements for banks and investment firms ("CRD 4").

The proposals set out to amend and replace the existing Capital Requirement Directives and divide them into two new legislative instruments:

- a Regulation establishing prudential requirements that institutions need to respect and
- a [Directive](#) governing access to deposit-taking activities.

The Cypriot Presidency stated its objective of **finalising negotiations as soon as possible**. As the incoming presidency, it has held its first "trilogues" and scheduled further meetings with the Parliament on 11 and 12 July.

Work under the previous Danish Presidency was **almost completed on the Directive**, with only a few key open issues remaining, and **talks are now focused on the Regulation**.

The negotiations with the Parliament are aimed at adoption of the Regulation and Directive at first reading.

Outstanding issues include a proposed flexibility package, bankers' remuneration, crisis management, sanctions, the balance of power between the authorities of "home" and "host" countries, corporate governance, and powers to be given to the European Banking Authority (EBA).

General approach: the Council agreed a general approach on the two proposals on 15 May with a view to negotiations with the European Parliament.

The Regulation would be directly applicable in order to prevent divergences in implementation at national level.

Own funds: the presidency's compromise text sets capital requirements and introduces initial liquidity requirements from 2013, according to national provisions, and a fully calibrated EU liquidity requirement from 2015.

To address **longer term funding issues**, the draft regulation calls on the Commission to submit by 31 December 2016 a report and, if appropriate, a legislative proposal for a stable funding requirement.

The draft regulation also provides for the introduction of a **leverage ratio** from 1 January 2018, if agreed by Council and Parliament on the basis of a report to be presented by the Commission in 2016. More specifically, the draft Regulation would require banks and investment firms to hold common equity tier 1 (CET 1) capital of 4.5% of risk weighted assets, up from 2% applicable under current rules (4.5% from 2015 onwards; in 2013 within the range of 3.5% to 4.5%; and in 2014 within the range of 4% to 4.5%). The total capital requirement remains unchanged at 8%.

According to the presidency's draft, CET 1 capital instruments are defined using 14 criteria, similar to those set out in Basel 3, and mandates the European Banking Authority (EBA) to monitor the quality of instruments issued by institutions.

Stricter prudential rules: the draft Regulation provides the opportunity for Member States to impose, for up to two years (extendable), stricter prudential requirements for domestically authorised financial institutions (i.e. requirements on level of own funds, requirements for large exposures, public disclosure requirements, the level of the capital conservation buffer, liquidity requirements and risk weights for targeting asset bubbles in residential and commercial property). Such a decision by a national authority could only be overruled if, following a negative opinion by the EBA, the European Systemic Risk Board (ESRB) or the Commission, the Council votes by qualified majority against the measures.

Member States would also be able to increase risk weights for residential and commercial property and intra financial sector exposures beyond those provided in the regulation and up to 25%. The Commission, for its part, would also have the possibility to impose for one year stricter prudential requirements, via delegated acts addressed to all Member States.