

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 **broadly endorsed the outcome of the most recent political trilogue** with the European Parliament on the “CRD 4 package” of legislation amending the EU's rules on capital and liquidity requirements for banks and investment firms.

The package sets out to amend and replace existing capital requirements Directives with **two new legislative instruments**: (i) a Regulation establishing prudential requirements that institutions must fulfil, and (ii) a [Directive](#) governing access to deposit-taking activities.

As regards the Regulation, the Council Presidency and the Parliament came to an agreement on the following key issues:

Capital requirements: the Regulation will be **directly applicable** in order to prevent divergences in implementation at national level. The Regulation:

- will require banks and investment firms to hold common equity tier 1 (CET 1) capital of **4.5%** of risk weighted assets (until December 2014 between 4% to 4.5%), up from 2% applicable under current rules. The total capital requirement, which includes tier 1 and tier 2 capital, remains unchanged at 8% of risk weighted assets;
- **defines CET 1 capital instruments 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.

Additional capital requirements in the form of buffers are introduced in the Directive.

Liquidity requirements: from 2015,

EU liquidity requirements from 2015 will be introduced, after an initial observation period, by means of a delegated act by the Commission.

The Regulation also:

- requires institutions to hold **liquid assets**, the total value of which would cover the net liquidity outflows that might be experienced under gravely stressed conditions over a period of 30 days;
- allows institutions, during times of stress, to use their liquid assets to cover their net liquidity outflows;
- phases in the liquidity coverage ration (LCR) starting at **60% in 2015 and reaching 100% in 2018**. A review in 2016 will enable the Commission to delay the introduction of the 100% ratio, if justified by international developments. Until the LCR is fully introduced, Member States may maintain or introduce national liquidity requirements;

- **limits liquidity inflows to 75% of liquidity outflows** to ensure that banks don't rely only on expected inflows to meet their outflows and instead hold a minimum amount of liquid assets equal to 25% of outflows.

Net stable funding ratio: to address longer term funding issues, the Commission will have to submit by 31 December 2016 **a legislative proposal** aimed at ensuring that institutions use stable sources of funding.

Leverage ratio: the Regulation will provide 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 by 31 December 2016. This will follow an initial observation period; from 1 January 2015, institutions will be required to disclose their leverage ratio.

The leverage ratio is a non-risk based measure and defined as an institution's tier 1 capital divided by its average total consolidated assets. **Different levels would be set** for institutions following different business models.

National flexibility - Macro-prudential powers: the Regulation will enable Member States to impose, for up to two years (extendable), **stricter macro-prudential requirements** for domestically authorised financial institutions in order to address increased risks to financial stability.

These stricter measures can apply to: (i) the level of own funds, (ii) liquidity requirements, (iii) large exposures requirements, (iv) the level of the capital conservation buffer, (v) public disclosure requirements, (vi) intra-financial sector exposures, and risk weights for targeting asset bubbles in the property sector.

The Council can reject, by qualified majority, stricter national measures proposed by a Member State.