Capital Requirements Directive: exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures

2016/0364(COD) - 23/11/2016 - Legislative proposal

PURPOSE: to reduce financial institutions' leverage, and strengthen their stable funding and trading book capital requirements.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with Council.

BACKGROUND: in response to the financial crisis that unfolded in 2007-2008, the EU implemented a substantial reform of the financial services regulatory framework to enhance the resilience of institutions (i.e. credit institutions and investment firms) operating in the EU financial sector, largely based on global standards agreed with the EU's international partners.

However, the adoption of the Basel III framework at international level did not mark the end of the post-crisis reform. Work continued on several elements that were left outstanding at the time. While the reforms have rendered the financial system more stable and resilient against many types of possible future shocks and crises, they do not yet comprehensively address all identified problems.

The Commission recognised the need for further risk reduction in its Communication of 24 November 2015 entitled "Towards the completion of the Banking Union" and committed to bring forward a legislative proposal that builds on the international agreements.

IMPACT ASSESSMENT: the Regulatory Scrutiny Board issued a positive opinion in September 2016 on a resubmitted impact assessment, following a negative opinion. The modelling has shown that public resources required to support the banking system in case of a financial crisis of the size similar to 2007 – 2008 would decrease by 32% – a decline from EUR 51 billion to EUR 34 billion.

CONTENT: the proposal amending Directive 2013/36/EU of the European Parliament and of the Council on the Capital Requirements Directive (CRD) aims to complete the reform agenda by tackling remaining weaknesses and implementing some outstanding elements of the reform that are essential to ensure the institutions' resilience but have only recently been finalised by the Basel Committee on Banking Supervision and the Financial Stability Board (FSB).

- more **risk-sensitive capital requirements**, in particular in the area of market risk, counterparty credit risk, and for exposures to central counterparties (CCPs);
- implementing **methodologies** that are able to reflect more accurately the actual risks to which banks are exposed;
- a **binding Leverage Ratio** to prevent institutions from excessive leverage;

- a **binding Net Stable Funding Ratio (NSFR)** to address the excessive reliance on short-term wholesale funding and to reduce long-term funding risk.
- a requirement for Global Systemically Important Institutions (G-SIIs) to hold minimum levels of capital and other instruments which bear losses in resolution. This requirement, known as **'Total Loss-Absorbing Capacity' or TLAC), will be integrated into the existing MREL** (Minimum Requirement for own funds and Eligible Liabilities) system, which is applicable to all banks, and will strengthen the EU's ability to resolve failing G-SIIs while protecting financial stability and minimising risks for taxpayers.

It is expected that the proposed amendments will start entering into force in 2019 at the earliest.

These proposed amendment to Directive 2013/36/EU (the Capital Requirements Directive or CRD) is part of a legislative package that includes also amendments to Regulation (EU) No 575/2013 (the Capital Requirements Regulation), to Directive 2014/59/EU (the Bank Recovery and Resolution Directive), and to Regulation (EU) No 806/2014 (the Single Resolution Mechanism Regulation).