Capital Requirements Regulation: leverage ratio, net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements

2016/0360A(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 the aftermath of the financial crisis that unfolded in 2007-2008, the Union implemented a substantial reform of the financial services regulatory framework to enhance the resilience of its financial institutions. That reform was largely based on internationally agreed standards. Among its many measures, the reform package included the adoption of Regulation (EU) No 575/2013 (the Capital Requirements Regulation or CRR) and Directive 2013/36/EU (the Capital Requirements Directive) of the European Parliament and of the Council, which strengthened the prudential requirements for credit institutions and investment firms.

While the reform has rendered the financial system more stable and resilient against many types of possible future shocks and crises, it did not address all identified problems.

In its <u>Communication of 24 November 20</u>15, the Commission recognised the need for further risk reduction and committed bringing forward a legislative proposal that would build on internationally agreed standards.

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 makes **amendments to the Capital Requirements Regulation** in order 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).

These amendments relate to:

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- a **binding leverage ratio** which will prevent institutions from excessively increasing leverage, e.g. to compensate for low profitability:
- a binding **net stable funding ratio** (**NSFR**) which will build on institutions' improved
- funding profiles and establishing a **harmonised standard** for how much stable, long-term sources of funding an institution needs to weather periods of market and funding stress;
- more **risk sensitive own funds (i.e. capital) requirements** for institutions that trade to an important extent in securities and derivatives which will prevent too much divergence in those requirements that is not based on the institutions' risk profiles;
- new standards on the **total loss-absorbing capacity** (**TLAC**) of global systemically important institutions (G-SIIs) which will require those institutions to have more loss-absorbing and recapitalisation capacity, tackle interconnections in the global financial markets and further strengthen the EU's ability to resolve failing G-SIIs while minimising risks for taxpayers.

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