Capital Requirements Regulation: transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and the large exposures treatment of certain public sector exposures denominated in non-domestic currencies of Member States

2016/0360B(COD) - 23/11/2016 - Legislative proposal

PURPOSE: reinforce the existing provisions of Union law which lay down uniform prudential requirements for banks and investment firms across the Union (reform of the EU banking sector).

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 and Directive 2013/36/EU 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**.

Now that work on important additional reforms has been completed, such as the Basel Committee on Banking Supervision (Basel Committee) and the Financial Stability Board (FSB), **the outstanding problems should be addressed**.

In its Communication of 24 November 2015, the Commission recognised the need for further risk reduction and committed bringing forward a legislative proposal that would build on internationally agreed standards.

The need to take further concrete legislative steps in terms of reducing risks in the financial sector has also been recognised also by the Council in its Conclusions of 17 June 2016 and by the European Parliament in its resolution of 10 March 2016.

IMPACT ASSESSMENT: the impact assessment, rejected on 7 September 2016, was subsequently strengthened by adding: (i) a better explanation on the policy context of the proposal (i.e. it relation to both international and EU policy developments); (ii) more details on stakeholders' views; (iii) further evidence on the impacts of the various policy options that are explored.

As shown by the simulation analysis and macroeconomic modelling developed in the impact assessment, there are limited costs to be expected from the introduction of the new requirements, in particular the new Basel standards such as the leverage ratio and the trading book.

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

It 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 global standard setters (i.e. the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB)):

- 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 establish 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;
- the introduction of more accurate reporting of the risks to which banks are exposed.

In order to improve the **lending capacity of banks** to support the EU economy, the proposal aims in particular at:

- **enhancing the capacity of banks to lend to SMEs and to fund infrastructure projects**. As far as SMEs are concerned, the proposed recalibration of the own funds requirements for bank exposures to SMEs is expected to have a positive effect on bank financing of SMEs. This would primarily affect SMEs which currently have exposures beyond EUR 1.5 million as these exposures do not benefit from the SME Supporting Factor under the existing rules;
- applying the current framework in a more proportionate manner, taking into account the situation of non-complex, small banks, reducing the administrative burden linked to some rules in the area of remuneration (namely those on deferral and remuneration using instruments, such as shares), which appear disproportionate for these banks;
- ensuring a smooth interaction with existing requirements such as for central clearing and collateralisation of derivatives exposures, or a gradual transition to some of the new requirements are necessary.

DELEGATED ACTS: the proposal contains provisions empowering the Commission to adopt delegated acts in accordance with Article 290 of the Treaty on the Functioning of the European Union.