

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

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The Committee on Economic and Monetary Affairs adopted the report by Peter SIMON (S&D, DE) on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the leverage ratio, the 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 and amending Regulation (EU) No 648/2012.

The committee responsible recommended that the European Parliament's position adopted at first reading under the ordinary legislative procedure should amend the Commission proposal as follows.

The proposal to amend Regulation (EU) No 575/2013 (the Capital Requirements Regulation or CRR) provides for a **binding leverage ratio**, designed to prevent institutions from excessive leverage, and a binding net stable funding ratio.

It strengthens risk-sensitive capital requirements in particular in the area of market risk, counterparty credit risk, and for exposures to central counterparties (CCPs). In addition, it requires 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.

The amendments focus on:

- the introduction of a **definition of small and non-complex institutions** for targeted simplifications of requirements with respect to the application of the principle of proportionality and the need to consider the size and risk profile of a small and non-complex institution in relation to the overall size of the national economy in which that institution primarily operates;
- the possibility for existing supervisory authorities be able to use their discretion to bring **the threshold in line with domestic circumstances**. Additional qualitative criteria shall ensure that an institution is only considered to be a small and non-complex institution and able to benefit from the relevant rules for increased proportionality where it fulfils all the relevant criteria;
- the opportunity for small and non-complex institutions to use a **simplified version of the net stable funding ratio (NSFR)**. A simplified, less granular version of the NSFR should involve collecting a limited number of data points, which on the one hand, reduces the complexity of the calculation for small and non-complex institutions in accordance with proportionality;

- the needs to introduce a leverage ratio surcharge, since G-SIIs in financial distress permanently weaken the entire financial system and this could cause a new credit crunch in the Union. Because of that danger to the financial system and to the financing of the real economy, an implicit guarantee for G-SIIs emerges based on the expectation that the state will rescue them. The **leverage ratio for G-SIIs should therefore be raised by 50%** of a G-SII's higher-loss absorbency risk-weighted requirements, in addition to the minimum threshold of 3%;
- the importance, when **transposing the TLAC standard into Union law**, of ensuring that the institutions fulfil the requirements for own funds and eligible liabilities as quickly as possible in order to ensure smooth loss absorption and recapitalisation in resolution;
- the need for a **suitable phase-in period** should, on the one hand, ensure that the implementation of the FRTB Standards does not lead to an abrupt rise in the total own funds requirement for market risks, whilst also ensuring that the phase-in period cannot lead to insufficient own funds requirements for market risks as compared to the status quo;
- the application by financial institutions of gender neutral remuneration policies, as well as the clarification of remuneration disclosures.

Lastly, an amendment stresses that **sovereign bonds** play a crucial role in providing high-quality liquid assets for investors and stable funding sources for governments. However, in some Member States financial institutions have overly invested in bonds issued by their own governments. Banks should continue their effort towards more diversified sovereign bond portfolios.