

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

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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 directive of the European Parliament and of the Council amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.

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 Directive 2013/36/EU of the European Parliament and of the Council (Capital Requirements Directive) 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 importance of **streamlining the coordination mechanism** between authorities, simplifying the activation of macroprudential policy tools and enhancing the macroprudential toolbox to enable authorities to respond to systemic risks in an efficient and timely manner;
- the revision of the respective competences of macro-prudential authorities established at Member State and Union level, so as to better delineate responsibilities for risk assessment and policy development, including coordination and reporting procedures between authorities;
- the pivotal role that the **European Systemic Risk Council** (ESRC) should play in coordinating macro-prudential measures and in transmitting information on planned macro-prudential measures to the Member States, in particular by publishing on its website the macro-prudential measures adopted and by sharing information between authorities after notification of planned macro-prudential measures;
- consistent application by credit institutions and investment firms of the principle of **equal pay for equal work** by demonstrating that their remuneration policies are non-discriminatory between women and men;
- the use of **own funds add-ons** imposed by the competent authorities to cover the risks incurred by certain institutions as a result of their activities. However, these requirements should not conflict with the specific treatment provided for in Regulation (EU) No 575/2013 to avoid unintended impacts on financial stability, credit supply and the real economy;

- the introduction of a leverage ratio adjustment for global systemically important institutions (G-SIIs) to be set at **50%** of a G-SIIs risk-weighted higher-loss absorbency requirements;
- the need to take into account the size, structure and internal organisation of institutions and the nature, scope and complexity of their activities in the context of supervisory review and evaluation;
- the possibility for competent authorities to **tailor the method of application of the review and evaluation process** to capture the common characteristics and risks of institutions with a comparable risk profile. However, such tailoring should not prevent the competent authorities from taking into account the specific risks affecting each institution, nor alter the institution-specific nature of the measures imposed;
- the importance of the **completion of banking union** for the smooth functioning of cross-border markets and for bank customers to benefit from the positive effects that result from a harmonised and integrated European banking market ensuring a level playing field for European banks. The Commission should therefore, after close consultation with the European Central Bank (ECB), the ESRB and the European Banking Authority (EBA), review the current framework, while maintaining a balanced and prudentially sound approach towards home and host countries and taking into account potential benefits and risks for Member States and regions.

The amended text provides that where two or more institutions in the Union, which are part of the same group of third countries, they shall be required to have a **single intermediate parent undertaking established in the Union**. Competent authorities may allow institutions to have two intermediate EU parent companies under certain conditions. The provisions relating to the exercise of supervision on a consolidated basis are specified.

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.