Prudential requirements of investment firms

2017/0359(COD) - 27/09/2018 - Committee report tabled for plenary, 1st reading/single reading

The Committee on Economic and Monetary Affairs adopted the report by Markus FERBER (EPP, DE) on the proposal for a regulation of the European Parliament and of the Council on the prudential requirements of investment firms and amending Regulations (EU) No 575/2013, (EU) No 600/2014 and (EU) No 1093 /2010.

As a reminder, the draft Regulation aims to establish an **effective and proportionate prudential framework** to ensure that investment firms authorised to operate in the Union operate on a sound financial basis and are managed in an orderly way, in the best interests of their clients. To this end, it establishes capital requirements, minimum capital levels, concentration risk, liquidity, reporting and publication.

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

Exemptions: under the proposal, the specific prudential regime for investment firms which, by virtue of their size and interconnectedness with other financial and economic actors, are not considered systemic should address the specific business practices of different types of investment firms. The amended text specifies that **where they are a part of an insurance group**, those small and non-interconnected investment firms should also be allowed to avail themselves of an exemption from concentration, disclosure and reporting requirements.

Capital requirements: according to the proposal, the definition and composition of own funds should be aligned with Regulation (EU) No 575/2013 (Own Funds Regulation, or CRR). In order to do so, at least 56% of the capital requirement should be met by investment firms with Common Equity Tier 1 items, while Additional Tier 1 and Tier 2 items could be eligible up to 44% and 25% of regulatory capital, respectively.

By way of derogation, investment firms should be able to exempt non-significant holdings of capital instruments in financial sector entities from deductions if held for trading purposes in order to support market-making in these instruments.

Small and non-interconnected investment firms that prefer to exercise further regulatory caution and avoid reclassification should not be prevented from holding own funds in excess of, or applying measures stricter than, those required by this Regulation.

An investment firm shall be deemed a small and non-interconnected investment firm where it meets all of the following conditions:

- AUM (or assets under management) is less than EUR 1.2 billion;
- COH (or client orders handled) is less than either: (i) EUR 100 million/day for cash trades or (ii) EUR 1 billion/day for derivatives;
- ASA (or assets safeguarded and administered) calculated in accordance with Article 19 is EUR 50 million;
- CMH (or client money held) is EUR 5 million;
- DTF (daily trading flow) is zero;
- NPR (net position risk) or CMG (clearing member guarantee) is zero;
- TCD (trading counterparty default) is zero;

- the balance sheet total of the investment firm is less than EUR 100 million;
- the total annual gross revenue from investment services and activities of by the investment firm is less than EUR 30 million.

If the applicable thresholds are exceeded, an investment firm shall no longer be considered as a small non-interconnected investment firm.

Prudential treatment of assets exposed to activities associated with environmental or social objectives: after consultation with the European Systemic Risk Board (ESRB), the European Banking Authority (EBA) shall assess on the basis of available data and the findings of the Commission’s High-Level Expert Group on Sustainable Finance, whether a **dedicated prudential treatment** of assets exposed to activities associated substantially with environmental or social objectives, in the form of adjusted k-factors or adjusted k-factor coefficients, would be justified from a prudential perspective.

The EBA shall submit a report on its conclusions to the Commission, the European Parliament and the Council no later than two years after the date of entry into force of the Regulation.

Remuneration policy and practices: the proposed Regulation provides that investment firms shall disclose the following information regarding their remuneration policy and practices, including aspects related to **gender neutrality**, for those categories of staff whose professional activities have a material impact on investment firm's risk profile.

At the request of the competent authority, an investment firm shall declare to that authority the total remuneration of each member of its management body or senior management.

Investment policy: investment firms shall disclose information regarding their investment policy such as: (i) the participation rate for all direct and indirect holdings where beneficial ownership exceeds 5% of any class of voting equity securities, broken down by Member State and sector; (ii) the complete voting behaviour at shareholders’ meetings.

Lastly, companies shall only receive **deposits** or other repayable funds from the public and grant credits for their own account once they have obtained authorisation for these activities in accordance with Directive 2013/36/EU (Capital Requirements Directive IV, or CRD IV).