

Capital Requirements Regulation: adjustments in response to the COVID-19 pandemic

2020/0066(COD) - 17/06/2020 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted a legislative resolution on the proposal for a regulation of the European Parliament and of the Council amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards adjustments to be made in response to the COVID-19 pandemic.

As a reminder, the proposal aims to introduce targeted changes to EU banking prudential rules (the Capital Requirements Regulation or CRR) with a view to introducing temporary relief from capital requirements in order to maximise banks' ability to lend and absorb losses related to the COVID-19 pandemic, while preserving their resilience.

The proposed transitional measures include:

- adjusting the timing of the implementation of international accounting standards for bank capital to mitigate the impact of IFRS 9 on regulatory capital ;
- temporarily extend preferential treatment to non-performing loans (NPLs) benefiting from a government guarantee as part of measures to mitigate the economic impact of the COVID-19 pandemic, in compliance with EU state aid rules ;
- postpone the date of application of the leverage ratio buffer by one year, until January 2023, in order to give credit institutions more operational capacity and allow them to focus on the more immediate challenges related to the COVID-19 pandemic;
- bringing forward the dates of application of certain capital relief measures in the CRR, such as the SME and infrastructure support factors allowing more favourable treatment of certain SME and infrastructure exposures, the possibility for banks to treat certain software as their own capital, and provisions for certain loans secured by pensions or salaries.

The European Parliament's position adopted at first reading in accordance with the ordinary legislative procedure supports the amendment of the Capital Requirements Regulation (CRR). However, it amended the Commission proposal as follows:

Temporary prudential filter in view of financial market volatility

In view of the extraordinary impact of the COVID-19 pandemic and the extreme levels of volatility in the financial markets that could lead to increased yields on public debt, which in turn would result in unrealised losses on public debt securities held by banks, Members agreed to introduce a temporary prudential filter to neutralise the negative impact of this volatility.

Temporary treatment of public debt issued in the currency of another Member State

Public financing through the issuance of government bonds denominated in the national currency of another Member State may be necessary to support measures to address the consequences of the COVID-19 pandemic.

To avoid placing undue burdens on institutions investing in such bonds, Members reintroduced transitional arrangements for exposures to central governments and central banks where those exposures are denominated in the domestic currency of another Member State.

Report on overshootings and supervisory powers to limit distributions

The amended text highlights that the European Banking Authority (EBA), the European Central Bank and other competent authorities have issued recommendations to institutions to suspend dividend payments and share buy-backs during the COVID-19 pandemic.

In order to ensure consistent application of such recommendations, it is specified that competent authorities shall use their supervisory powers, including the powers to impose binding restrictions on distributions for institutions or limitations on variable remuneration, where appropriate.

By 31 December 2021, the Commission shall report to the European Parliament and to the Council on whether exceptional circumstances that trigger serious economic disturbance in the orderly functioning and integrity of financial markets justify that during such periods:

- competent authorities shall be permitted to exclude from institutions' market risk internal models overshootings that do not result from deficiencies in those models;
- additional binding powers shall be granted to the competent authorities to impose restrictions on distributions by institutions.