Amendments to the Capital Requirements Regulation

2021/0342(COD) - 27/10/2021 - Legislative proposal

PURPOSE: to amend Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor with a view to making the EU banking sector more resilient to potential future economic shocks.

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 the Council.

BACKGROUND: following the major financial crisis of 2008-2009, the EU and its G20 partners in the Basel Committee on Banking Supervision reached the **Basel IIII agreement** to make banks more resilient to potential economic shocks. Thanks to the reforms already implemented, the EU banking sector entered the COVID-19 crisis on a much more resilient footing. However, while the overall level of capital in EU banks is now satisfactory on average, some of the problems that were identified in the wake of the financial crisis have not yet been addressed.

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 <u>Directive 2013/36/EU</u> (the Capital Requirements Directive or CRD) and a <u>separate legislative proposal</u> to amend the Capital Requirements Regulation in the area of resolution (the so-called 'daisy chain' proposal).

This package of proposals marks the **final step in this reform of banking rules** and faithfully implements the international Basel III agreement, while taking into account the specific features of the EU's banking sector.

CONTENT: the proposal amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor aims to contribute to financial stability and to the steady financing of the economy in the context of the post-COVID-19 crisis recovery.

The proposal includes provisions on the following issues:

Strengthen the risk-based capital framework, without significant increases in capital requirements overall

The current CRR stipulates that the amount of capital that a bank must hold to cover the risks to which it is exposed is calculated as a certain percentage (the 'capital requirement') of its risk-weighted assets. Banks may calculate their risk-weighted assets either under a standardised approach or under an internal model-based approach that allows the banks themselves to estimate the parameters used in the calculation of the capital requirement.

This proposal adds an **additional step in the calculation of capital requirements**. Specifically, a bank using **internal models** will now have to follow these steps when calculating its risk-weighted assets:

- Step 1: calculate the risk-weighted assets using whichever model the bank is permitted to use;

- Step 2: calculate the risk-weighted assets using the standardised approach;
- Step 3: multiply the amount obtained with the standardised approach in step 2 by 72.5%;
- Step 4: compare the risk-weighted assets resulting from this calculation in step 3 with the risk-weighted assets obtained with the calculation in step 1. Whichever amount is higher has then to be used to calculate the bank's various capital requirements.

The overall aim of this amendment is to **increase the comparability of risk-based capital ratios across banks** and restore confidence in those ratios and the soundness of the sector overall. At the same time, the reform is intended to simplify the risk-based framework thanks to better standardisation in the calculation of capital requirements.

Enhance the focus on ESG risks in the prudential framework

The proposal reinforces the need to consistently integrate environmental, social and governance (ESG) risks into banks' risk management systems and in supervision overall. The scope of ESG disclosures is to be extended to all institutions (it currently only applies to large listed ones).

Further harmonise supervisory powers and tools

While Union legislation ensures a minimum level of harmonisation, the supervisory toolkit and procedures vary greatly across Member States. The Commission seeks to improve the current reform by enhancing the enforcement of prudential rules. Supervisors need to have at their disposal the necessary tools and powers to this effect. The proposal seeks to provide supervisors with the necessary powers to assess certain operations (acquisition of qualifying holdings, transfer of assets or liabilities, mergers or divisions) that can be considered material from a prudential perspective insofar as they can alter the prudential profile of a credit institution.

Reduce institutions' administrative costs related to public disclosures and to improve access to institutions' prudential data

To resolve the issue relating to the access to prudential situations, the Commission proposes to centralise disclosures of prudential information with a view to increasing access to prudential data and comparability across industry. The centralisation of disclosures in a single access point established by EBA is also aimed at reducing the administrative burden for institutions.