

Amendments to the Capital Requirements Regulation

2021/0342(COD) - 10/02/2023 - Committee report tabled for plenary, 1st reading/single reading

The Committee on Economic and Monetary Affairs adopted the report by Jonás FERNÁNDEZ (S&D, ES) on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor.

As a reminder, the proposal amending Regulation (EU) No 575/2013 (the Capital Requirements Regulation or CRR) 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. It aims to strengthen and facilitate the allocation of capital and liquidity within banking groups in Europe without imposing a significant increase in their capital requirements.

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

Level of application of the output floor

Members recalled that the output floor represents one of the key measures of the Basel III reforms. It aims at limiting the unwarranted variability in the regulatory capital requirements produced by internal models and the excessive reduction in capital that an institution using internal models can derive relative to an institution using the revised standardised approaches. Those institutions can do so by setting a lower limit to the capital requirements that are produced by institutions' internal models to 72.5% of the capital requirements that would apply if standardised approaches were used by those institutions. Implementing the output floor faithfully should increase the comparability of the institutions' capital ratios, restore the credibility of internal models and ensure that there is a level playing field between institutions that use different approaches to calculate capital requirements.

To harmonise the internal market for banking, the approach for the output floor should be coherent with the principle of risk aggregation across different entities within the same banking group and the logic of consolidated supervision. At the same time, the output floor should address risks stemming from internal models in both home and host Member States. The output floor should therefore be **calculated at the highest level of consolidation** in the Union. However, to avoid unintended impacts and ensure a fair distribution of capital, a competent authority may submit a **capital redistribution proposal** to the consolidating supervisor if it deems that this would lead to an inappropriate distribution of capital among the group entities. The notifying competent authority and the consolidating supervisor should then endeavour to make a joint decision on the application of the output floor, and if they do not reach a decision within three months, EBA should have a legally binding mediation role. EBA should assess the level of application of the output floor by **31 December 2027** in light of potential financial stability concerns and the progress in the banking union.

Proportionality

The implementation of the outstanding elements of the Basel III reform should avoid a significant increase in overall capital requirements for the EU banking system as a whole and take into account the specificities of the EU economy where there is sufficient evidence that the international framework does

not take these specificities into account. In addition, the approach should ensure proportionality of rules and aim to further reduce compliance and reporting costs, in particular for smaller and non-complex institutions, without relaxing prudential standards.

Increasing coverage of external ratings

After the transition period, institutions should be able to refer to credit assessments by external credit assessment institutions (ECAIs) to calculate the capital requirements for a significant part of their corporate exposures. Rating solutions beyond the currently existing rating ecosystem should be developed to incentivise especially larger corporates to become rated. Avenues to attain this goal should consider the requirements related to external credit assessments, or the establishment of additional institutions providing such assessments.

Member States should assess whether a request for the recognition of their central bank as ECAI and the provision of corporate ratings by the central bank for the purposes of this Regulation may be desirable in order to increase the coverage of external ratings.

Prudential treatment of securitisation

The introduction of the output floor could have a significant impact on own funds requirements for securitisation positions held by institutions using the Securitisation Internal Ratings Based Approach (SEC-IRBA). The introduction of the output floor could affect the economic viability of the securitisation operation because of an insufficient prudential benefit of the transfer of risk. A mandate should be given to EBA to report to the Commission on the need to eventually provide for a specific arrangement increasing the risk-sensitivity of the standardised approach of the purpose of the calculation of the output floor.

Environmental, social and governance (ESG) factors and risks

Assets or activities subject to impacts from environmental and/or social factors should be defined by reference to the ambition of the Union to become climate-neutral by 2050 as set out in the EU Climate Law, the EU Nature Restoration Law, and the relevant sustainability goals of the Union.

The technical screening criteria for ‘do no significant harm’ as well as specific Union legislation to avert climate change, environmental degradation and biodiversity loss should be used to identify assets or exposures for the purpose of assessing dedicated prudential treatments and risk differentials.

To ensure that competent authorities have granular, comprehensive and comparable data for effective supervision, information on ESG exposures should be included in the supervisory reporting of institutions.

Crypto assets

The rapid increase in the financial markets’ activity on crypto-assets and the potentially increasing involvement of institutions in crypto-assets related activities should be thoroughly reflected in the Union prudential framework, in order to adequately mitigate the risks of these instruments for the institutions’ financial stability.

The recently published Basel Committee on Banking Supervision (BCBS) standards on the prudential treatment of crypto asset exposures provide for specific prudential treatment which should be implemented in Union law in due course. The Commission should, if appropriate, adopt a legislative proposal by 31 December 2024 to transpose the various elements of the BCBS standards into EU law. Until the legislative proposal is adopted, institutions’ exposure to crypto assets should apply prudent capital requirements.

