Amendments to the Capital Requirements Regulation

2021/0342(COD) - 24/04/2024 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 424 votes to 130, with 17 abstentions, a legislative resolution 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 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 European Parliament's position adopted at first reading under the ordinary legislative procedure amends the proposal as follows:

Level of application of the output floor

The output floor represents one of the key measures of the Basel III reform. It aims to limit the unwarranted variability in the own funds 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 standardised approaches. By setting a lower limit on the own funds requirements that are produced by institutions' internal models of 72.5 % of the own funds requirements that would apply if standardised approaches were used by those institutions, the output floor limits the risk of excessive reductions in capital.

The rigorous application of the output floor will improve the comparability of institutions' capital ratios, restore the credibility of internal models and ensure a level playing field between institutions that use different approaches to calculate their capital requirements.

In order to ensure that own funds are appropriately distributed and available to protect savings where needed, the output floor should apply at all levels of consolidation, unless a Member State considers that that objective can be effectively achieved in other ways, in particular as regards groups, such as cooperative groups with a central body and affiliated institutions situated in that Member State. In such cases, a Member State should be able to decide not to apply the output floor on an individual or sub consolidated basis to institutions in that Member State, provided that, at the highest level of consolidation in that Member State, the parent institution of those institutions in that Member State complies with the output floor on the basis of its consolidated situation.

Increase the coverage of external credit ratings

Corporate lending in the Union is predominantly provided by institutions which use the Internal Ratings Based Approach (the 'IRB Approach') for credit risk to calculate their own funds requirements. Most Union corporates, however, do not seek external credit ratings. To avoid a disruptive impact on bank lending to unrated corporates and to provide enough time to establish public or private initiatives aiming to increase the coverage of external credit ratings, it is necessary to provide for a transitional period.

During that transitional period, institutions using the IRB Approach should be able to apply a favourable treatment when calculating their output floor for investment grade exposures to unrated corporates, whilst initiatives to foster a widespread use of credit ratings should be established. Any extension of the transitional period should be substantiated and limited to four years at most.

After the transitional period, institutions should be able to refer to credit assessments by nominated ECAIs to calculate the own funds requirements for a significant part of their corporate exposures.

The transitional period should be used to significantly expand the availability of ratings for Union corporates. To that end, rating solutions beyond the currently existing rating ecosystem should be developed to incentivise especially larger Union corporates, to become externally rated.

Prudential treatment of securitisation transactions

The introduction of the output floor could have a significant impact on the own funds requirements for securitisation positions held by institutions using the Securitisation Internal Ratings Based Approach or the Internal Assessment Approach. During a transitional period, institutions using the Securitisation Internal Ratings Based Approach or the Internal Assessment Approach should be able to apply a favourable treatment for the purpose of calculating their output floor to their securitisation positions that are risk weighted using either of those Approaches. EBA should report to the Commission on the need to possibly review the prudential treatment of securitisation transactions, with a view to increasing the risk sensitivity of the prudential treatment.

Environmental, social and governance (ESG) factors

Regulation (EU) No 575/2013 should reflect the importance of environmental, social and governance (ESG) factors and a full understanding of the risks of exposures to activities that are linked to overall sustainability or ESG objectives.

Assets or activities subject to the impact of environmental or social factors should be defined by reference to the ambition of the Union to become climate-neutral by 2050 as set out in EU legislative on climate, on nature restoration and the relevant sustainability goals of the Union.

The technical screening criteria in relation to the principle of ‘do no significant harm’, as well as specific Union legal acts 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.

In order to ensure that competent authorities have at their disposal data that are granular, comprehensive and comparable for the purposes of an effective supervision, information on exposures to ESG risks should be included in the supervisory reporting of institutions. No later than 12 months after the entry into force of the amending regulation, ESMA will prepare a report on whether ESG risks are appropriately reflected in ECAI credit risk rating methodologies submit this report to the Commission. On the basis of the report, the Commission should where appropriate, submit a legislative proposal.

Crypto-assets

By 30 June 2025, the Commission should, where appropriate, submit a legislative proposal to introduce a dedicated prudential treatment for crypto-asset exposures, taking into account the international standards and Regulation (EU) 2023/1114. Until the date of application of the legislative act, institutions should calculate their own funds requirements for crypto-asset exposures as follows:

- crypto-asset exposures to tokenised traditional assets should be treated as exposures to the traditional assets that they represent;

- exposures to asset-referenced tokens whose issuers comply with Regulation (EU) 2023/1114 and that reference one or more traditional assets should be assigned a risk weight of 250 %;

- crypto-asset exposures other than those referred to in points (a) and (b) should be assigned a risk weight of 1 250 %.