Contractual netting (amend. Directive 89/647 /EEC)

1994/0099(COD) - 27/04/1994 - Legislative proposal

This proposal aimed to amend Annex II of Directive 89/647/EEC on a solvency ratio for credit institutions, which defined the way in which off-balance-sheet items relating to interest and exchange rates were to be treated. The aim of this was to give wider recognition to the risk-reducing effects of bilateral netting agreements. The only type of netting recognised by the current text as risk-reducing was bilateral netting for novation. The proposed amendment would enable the national supervisory authorities to recognise this quality among more types of bilateral netting and, in particular, bilateral netting for "close-out", provided that the legal validity of the netting agreement was established. The proposal gave significant consideration to the work carried out in this area at international level, by supervisory bodies, which ensured coherence with the major international prudential provisions. Since Directive 89/647/EEC was included in the annex to the EEA Agreement as a text that applied to them, the current proposal would naturally be extended to the EEA signatory countries.