Credit institutions and investment firms: capital adequacy (amend. Direct. 93/6/EEC)

1997/0124(COD) - 16/04/1997 - Legislative proposal

OBJECTIVE: the aim of this proposal is to amend Directive 93/6/EEC on the capital adequacy of investment firms and credit institutions with respect to the use of internal risk-management models for the calculation of market risks and the inclusion of measures to have appropriate capital available to cover the market risks inherent in commodities and commodity derivatives business. SUBSTANCE: the proposal is based on the work of the Basle Committee on Banking Supervision, which led to the publication, in January 1996, of the 'Amendment to the Basle Capital Accord to incorporate Market Risks', introducing into the 1988 Capital Accord a standardized method for the measurement of market risk identical to that already adopted in Council Directive 93/6/EEC. The amendments adopted sought to: - permit Member States to authorize financial institutions to use their own internal models, subject to strict conditions, to calculate capital requirements in relation to market risk, in order to align Community legislation with modern practices; - introduce new capital requirements in order better to cover the market risk associated with commodities and commodity derivatives. The proposed new requirements will, in general, be inferior to those arising from the combined application of the Solvency Ratio Directive and Directive 93/6/EEC, which is to be amended. The proposal for a Directive provides for three methods: - a simplified method imposing a very conservative flat capital requirement which should ensure that regulated institutions that engage incidentally in such risky and complex activities have a comfortable capital cushion; - a maturity ladder approach, which is the most appropriate answer in terms of the necessary capital coverage. The capital charge will generally be lower than under the first method; - the internal models which, at present, are not yet sufficiently developed for all aspects of derivatives activities. Notably, appropriate techniques have yet to be developed for options, which constitute a large element of commodities derivatives activity. The proposed Directive is deliberately intended to encourage such developments. The proposal takes account of the situation of certain investment firms dealing primarily in commodities and commodity derivatives. To give them sufficient time to adapt or upgrade their risk-management systems in order to be able to use internal models, a transitional period may be afforded to them by their Member State to use alternative rates subject to some additional prudential and transparency conditions.