Electronic money: granting of a single license and home Member State prudential supervision of these institutions

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PURPOSE: to propose a European and Council directive on the taking up, the pursuit and the prudential supervision of the business of electronic money institutions. CONTENT: the main elements of the proposal are as follows: 1) a limited scope of application is suggested, restricting harmonisation regulation to "electronic money institutions", i.e. non-bank providers of e-money services. Electronic money is defined to cover prepaid cards and network money but only if issuance is within a 3-party system, i.e. if the electronic monetary value is accepted as a means of payment by undertakings other then the issuing institution(s). The business of electronic money institutions, other than the issuance of electronic money, is restricted to the provision of closely related financial and non-financial services. The provision of non-financial services delivered through the electronic device is permitted; 2) because of the specific nature of e-money institutions, application of some of the 40 articles of the First and Second banking directives is fully or partly waived. Yet, for the taking up and pursuit of business, e-money institutions are subject to the same conditions as credit institutions, notably with respect to: - prior authorisation; - minimum capital requirements (on a reduced basis); - fit and proper management; - sound and prudent operation; - initial and ongoing owner control. Except for the Money Laundering Directive and the Consolidated Supervision Directive, other EU banking legislation does not apply to e-money institutions unless this is specifically provided for. The proposal also provides that the contractual arrangements must specify if the stored value is redeemable and, if so, the specific contractual conditions; 3) the proposal sets ongoing own funds requirements of 2% of the higher of the institution's current amount or the average of the preceding 6 months total amount of unredeemed e-money issued by the institution in question and not below the initial capital requirement of 500,000 ECU; 4) limitations on investments are proposed, that reflect the need for prudent investment policy of issuers of e-money, to contain in particular the exposure to liquidity risks of issuers. Accordingly, the proposal requires that funds received in exchange for issued electronic money should be invested only in highly liquid assets which attract a 0% credit risk weighting in accordance with the Solvency Ratio Directive. Hedging of market risks by highly liquid exchange-traded derivative instruments subject to a 0% credit risk capital charge would also be allowed. In addition, electronic money institutions may invest in other highly liquid debt instruments and have ancillary liquidity in the form of sight deposits held with Zone A credit institutions. However, such investments are subject to a ceiling of 20 times the institutions' own funds and subject to large exposure limitations at least as stringent as those imposed on banks; 5) competent authorities are required to verify compliance by e-money institutions with the above-mentioned provisions on on-going own funds requirements and limitations on investmentsat least twice a year; 6) Member States may waiver certain provisions of the proposal for e-money institutions underpinning relatively small schemes, provided that the overall unredeemed e-money does not exceed ECU 10 million and the storage device has a capacity of ECU 150 of maximum loading amount. 7) finally, provision is made for a grandfathering as regards th authorisation requirement for e-money institutions already operating at the date of the coming into force of national provisions implementing the European regulation.