Basic information 2001/0086(COD) COD - Ordinary legislative procedure (ex-codecision procedure) Directive European financial markets: financial collateral arrangements and legal certainty, consequences on the SMEs Amended by 2008/0082(COD) Amended by 2012/0150(COD) Amended by 2016/0362(COD) Amended by 2021/0296(COD) Subject 2.50.03 Securities and financial markets, stock exchange, CIUTS, investments

Key players						
European Parliament	Committee responsible Ra		apporteur		Appointed	
	ECON Economic and Monetary Affairs	PÉ (PS	REZ ROYO Ferr SE)	nando	06/11/2000	
	Former committee responsible	For	mer rapporteur		Appointed	
	ECON Economic and Monetary Affairs	PÉ (PS	REZ ROYO Ferr SE)	nando	06/11/2000	
	Former committee for opinion		mer rapporteur f nion	or	Appointed	
	JURI Legal Affairs and Internal Market		HNE Klaus-Heind PE-DE)	er	24/04/2001	
Council of the European	Council configuration		Meetings	Date)	
Union	Economic and Financial Affairs ECOFIN		2401	200	2001-12-13	
	Economic and Financial Affairs ECOFIN 2414 200		2002	2-03-05		
European Commission	Commission DG C		Con	nmissioner		
	Financial Stability, Financial Services and Capital Markets Union					

Date	Event	Reference	Summary
27/03/2001	Legislative proposal published	COM(2001)0168	Summary
05/04/2001	Committee referral announced in Parliament, 1st reading		
22/11/2001	Vote in committee, 1st reading		Summary
22/11/2001	Committee report tabled for plenary, 1st reading	A5-0417/2001	
12/12/2001	Debate in Parliament	$ \bigcirc $	
13/12/2001	Debate in Council		
05/03/2002	Council position published	05530/3/2002	Summary
13/03/2002	Committee referral announced in Parliament, 2nd reading		
23/04/2002	Vote in committee, 2nd reading		Summary
23/04/2002	Committee recommendation tabled for plenary, 2nd reading	A5-0150/2002	
06/06/2002	Final act signed		
06/06/2002	End of procedure in Parliament		
27/06/2002	Final act published in Official Journal		

Technical information		
Procedure reference	2001/0086(COD)	
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)	
Procedure subtype	Legislation	
Legislative instrument	Directive	
Amendments and repeals	Amended by 2008/0082(COD) Amended by 2012/0150(COD) Amended by 2016/0362(COD) Amended by 2021/0296(COD)	
Legal basis	EC Treaty (after Amsterdam) EC 095	
Stage reached in procedure	Procedure completed	
Committee dossier	ECON/5/15704	

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee report tabled for plenary, 1st reading/single reading		A5-0417/2001	22/11/2001	
Committee recommendation tabled for plenary, 2nd reading		A5-0150/2002	23/04/2002	

Council of the EU

Document type		Reference	Date	Summary
Council position		05530/3/2002 OJ C 119 22.05.2002, p. 0012 E	05/03/2002	Summary
European Commission				
Document type		Reference	Date	Summary
Legislative proposal		COM(2001)0168 OJ C 180 26.06.2001, p. 0312 E	27/03/2001	Summary
Commission communica	tion on Council's position	SEC(2002)0278	12/03/2002	Summary
Follow-up document		COM(2016)0430	29/06/2016	Summary
Other institutions and bo	dies	1	-	ı
Institution/body	Document type	Reference	Date	Summary
ECB	Document attached to the procedure	CON/2001/0013 OJ C 196 12.07.2001, p. 0010	13/06/2001	Summary
EESC	Economic and Social Committee: opinion, report	CES1468/2001 OJ C 048 21.02.2002, p. 0001	28/11/2001	

Additional information			
Source	Document	Date	
European Commission	EUR-Lex		

Final act	
Directive 2002/0047 OJ L 168 27.06.2002, p. 0043	Summary

European financial markets: financial collateral arrangements and legal certainty, consequences on the SMEs

2001/0086(COD) - 29/06/2016 - Follow-up document

The Commission presented a report on the appropriateness of Article 3(1) of Directive 2002/47/EC on financial collateral arrangements.

To recall, Directive 2002/47/EC of the European Parliament and of the Council on financial collateral arrangements as amended by Directive 2009/44 /EC (FCD) creates a **harmonised EU legal framework for the creation and enforcement of collateral**, i.e. 'title transfer financial collateral arrangements' where the full title to the collateral is transferred to the collateral taker or security financial collateral arrangements where the collateral taker receives a security right, e.g. a pledge or a charge. Since the financial crisis, collateral has become increasingly important, driven by a market need for more secured funding and regulatory requirements. In 2009, the FCD was amended to introduce '**credit claims**' as collateral. A 'credit claim' is defined in the FCD as a pecuniary claim arising from an agreement where a credit institution grants credit in the form of a loan.

The 2009 revision of the FCD (Article 3(1)) prevents Member States from requiring that the creation or validity of financial collateral arrangements relating to credit claims be dependent on the performance of a formal act, e.g. registration or the notification of the debtor. **This revision aims to ensure**

that Member States have an option to require formal acts, e.g. registration or notification, relating to credit claims used as collateral for purposes of perfection, priority, enforceability or admissibility in evidence against the debtor or third parties.

Under the 2009 revision, the Commission was asked to report on the continuing appropriateness of the Member State option.

The report focuses on the implementation of Article 3(1) of the revised FCD. Its scope is whether the Directive works effectively and efficiently as regards formal acts required to provide credit claims as collateral.

Implementation of the Directive: Directive 2009/44/EC revising the FCD was adopted on 6 May 2009. It was implemented in most Member States in 2011 and all had transposed it by 2012.

Any quantitative assessment of the impact of Directive 2009/44/EC on the mobilisation of credit claims is challenging (the use of credit claims as collateral rose from 23% to 26% of total collateral used. However, it declined between 2012–2013 from 26% to 19%).

Overall, the objective of the FCD to facilitate the use of credit claims has been achieved. There is evidence that the inclusion of credit claims within the harmonised framework for collateral has facilitated their use in certain jurisdictions.

The FCD also removed formal requirements for the creation or validity of collateral arrangements. In effect, the risk of invalidation of such arrangements has been eliminated, aiding the mobilisation of credit claims.

Differences in the formalities and techniques available to collateralise credit claims still persist between Member States. Nevertheless, even when credit claim collateral remains subjected to national formal requirements, once they are complied with, the collateral benefits from the ease of enforcement introduced by the FCD.

The cross-border use of credit claims collateral is still subject to legal uncertainty due to the effect of different national requirements and the incomplete harmonisation of conflict of laws rules at EU level.

Appropriateness of Article 3(1) of the FCD: the report noted that several policy choices could be considered as regards Article 3(1) of the FCD.

- 1) The status quo could be kept: this is explicitly favoured by twelve Member States that argue the opt-out provision allows for a reasonable balance of the interests.
- 2) Article 3(1) option could be removed: this would oblige Member States to remove all national provisions for credit claims used as collateral that require the performance of formal acts, e.g. registration or notification of the debtor. This is advocated by four Member States arguing that a deletion of the option would create an EU level playing field and enhance legal certainty, fostering the cross-border use of credit claims.
- 3) A review of the FCD could be considered: this could reflect on the harmonisation of substantive law issues, e.g. formal acts required for the perfection, priority, enforceability or admissibility in evidence against the debtor or third parties, when credit claims are used as collateral as well as on the appropriateness of ensuring that set-off is fully excluded with respect to credit claims mobilised as collateral with central banks.

Commission's position: stressing that action at the EU level must respect the principle of proportionality, the Commission considered that formal requirements can fulfil a useful purpose and requiring their complete removal would therefore not be appropriate. Leaving the choice of such requirements to Member States creates difficulties in cross-border situations, but harmonising them may interfere with other interrelated provisions of national law.

Moreover, the costs and benefits of any harmonisation would need to be balanced very carefully and should only be considered as part of a broader reform after a thorough evaluation of the FCD. In this context, the Commission stated that Article 3(1) of the FCD seems to continue to be appropriate.

As announced in the 'Action Plan on Building a Capital Markets Union', the Commission has launched a **broad review** on the progress in removing barriers to cross border clearing and settlement with a view, amongst other things, to improving legal certainty in the cross-border exchange of collateral. To this end, the Commission has established an expert group, the European **Post-Trade Forum**, to identify the remaining barriers.

By 2017, the Commission will take forward early targeted work with view to reducing the uncertainty surrounding securities ownership as well as propose uniform rules to determine with legal certainty which national law shall apply to third party effects of the assignment of claims. This will contribute to achieving greater legal certainty also in cases of cross-border mobilisation of credit claims as collateral and correct the drawbacks of the existing situation.

European financial markets: financial collateral arrangements and legal certainty, consequences on the SMEs

2001/0086(COD) - 13/12/2001 - Text adopted by Parliament, 1st reading/single reading

The European Parliament approved the report by Mr Fernando PEREZ ROYO (PES, E) subject to amendments. (Please refer to the previous text). In addition, the Parliament includes an amendment which stipulates that Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this directive by 31 December 2003 at the latest.

European financial markets: financial collateral arrangements and legal certainty, consequences on the SMEs

2001/0086(COD) - 13/06/2001 - Document attached to the procedure

The ECB appreciates that in order to meet the objectives of ensuring an integrated European financial market and supporting the smooth functioning of the single monetary policy in the economic and monetary union, the creation of a uniform minimum legal framework for arrangements set up to limit credit risk in financial transactions through the provision of securities and cash as collateral under both pledge and transfer of title arrangements (including repurchase agreements) is proposed. Moreover, the ECB highly welcomes this initiative as a significant and important effort to further promote the efficient and safe use, both at a domestic level and cross-border level, of financial collateral in order to establishent a sound legal framework for payment and security settlement systems as well as for the operations of central banks.

European financial markets: financial collateral arrangements and legal certainty, consequences on the SMEs

2001/0086(COD) - 06/06/2002 - Final act

PURPOSE: to create a uniform minimum regime for the provision of securities and cash collateral. COMMUNITY MEASURE: Directive 2002/47/EC of the European Parliament and of the Council on financial collateral arrangements. CONTENT: this Directive creates a uniform EU legal framework to limit credit risk in financial transactions through the provision of securities and cash as collateral. Collateral is the property (such as securities) provided by a borrower to a lender to minimise the risk of financial loss to the lender in the event of the borrower failing to meet in full their financial obligations to the lender. Current rules applied to the use of collateral throughout the EU are complex and impractical resulting in uncertainty regarding the effectiveness of collateral as protection in cross-border transactions. Creation of a clear, uniform pan-EU legal framework for the use of collateral would contribute to the greater integration and cost-efficiency of European financial markets by encouraging cross-border business and creating a more competitive European financial market. The Directive creates a uniform minimum regime for the provision of securities and cash as collateral under both pledge and title transfer structures, including repurchase agreements, also called "repos" (where the securities are sold against cash, with a simultaneous agreement to repurchase equivalent securities at a specific price at a future date or on demand). This will contribute to the integration and cost-efficiency of the financial market as well as to the stability of the financial system in the Community, thereby supporting the freedom to provide services and the free movement of capital in the single market in financial services. This Directive focuses on bilateral financial collateral arrangements. In order to improve the legal certainty of financial collateral arrangements, Member States should ensure that certain provisions of insolvency law do not apply to such arrangements, in particular, those that would inhibit the effective realisation of financial collateral or cast doubt on the validity of current techniques such as bilateral close-out netting, the provision of additional collateral in the form of top-up collateral and substitution of collateral. The Directive deals with the following aspects: - formal requirements; - enforcement of financial collateral arrangements; - right of use of financial collateral under security financial collateral arrangements; - recognition of title transfer financial collateral arrangements; - recognition of closeout netting provisions; - certain insolvency provisions disapplied; - conflict of laws. Not later than 27 December 2006, the Commission shall present a report to the European Parliament and the Council on the application of this Directive. ENTRY INTO FORCE: 27/06/2002. IMPLEMENTATION: 27/12 /2003.

European financial markets: financial collateral arrangements and legal certainty, consequences on the SMEs

2001/0086(COD) - 05/03/2002 - Council position

The common position follows the approach of the Commission proposal, with some amendments to the substance and to the presentation of the text. The main changes to the Commission proposal reflect the amendments proposed by the European Parliament and concern: - the persons and institutions covered by the scope of the Directive; - the requirements, which have to be fulfilled by the parties establishing a collateral arrangements in order to be safeguarded by the Directive, as for instance how the arrangement must be evidenced and signed by the Parties; - appropriation by the collateral taker of collateral on the occurrence of an enforcement event; - Article 9 (10 in the original proposal) on conflict of laws, which determines the location of book-entry securities and thereby the applicable law governing proprietary aspects of such securities, as in Article 9(2) in Directive 98/26/EC.

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2001/0086(COD) - 15/05/2002 - Text adopted by Parliament, 2nd reading

The European Parliament adopted the report of Fernando PEREZ ROYO (PES, Spain) and approved the Council's common position.

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2001/0086(COD) - 12/03/2002 - Commission communication on Council's position

The Commission considers that the common position preserves the key element of its proposal and of the Parliament's amendments that were incorporated into the common position during the negotiations in the Council. The Commission supports the text of the common position on this eagerly awaited Directive, being essential for the participants in the wholesale market for achieving an integrated securities market by the end of 2003.

European financial markets: financial collateral arrangements and legal certainty, consequences on the SMEs

2001/0086(COD) - 27/03/2001 - Legislative proposal

PURPOSE: to protect the provision of financial collateral on a bi-lateral basis between two parties to a collateral agreement. CONTENT: since beginning of the 1990's a number of professional bodies have raised awareness about the legal uncertainty faced by payment and securities settlement systems, central banks and participants in the financial markets. This is reflected in the increasing flows in these systems and their signficance for a well functioning modern society. The increased volumes also caused a higher degree of credit exposure for market participants, giving them strong incentives to reduce risk through netting or collateralization. The 1998 Directive on Settlement Finality constitued a milestone in establishing a sound legal framework for payment and securities settlement systems. This Directive is to date the only piece of European legislation regulating cross-border collateral in the context of financial transactions. Further measures are needed to facilitate the efficient use of cross-border collateral. In order to study this issue, the Commisison constituted a Forum Group on Collateral in 1999. In light of this process it has reached the conclusion that the most appropriate way forward is the adoption of a EU Directive on the use of Collateral, by which the sound legal basis laid down by the Settlement Finality Directive for payment and securities settlement systems would be extended generally to transactions in financial markets. On the whole, this present proposal focuses on the provisions of collateral between two parties to a collateral arrangement. The principle objectives of the proposed Directive are: - ensuring that effective and reasonably simple regimes exist for the creation of collateral under either title transfer (including repo) or pledge structures, (i.e. providing that the only perfection requirement or procedure to follow to protect a collateral agreement should be that the interest be notified to, and recorded by, the relevant intermediary maintaining the securities account; - providing limited protection of collateral arrangement from some rules of insolvency law, in particular those that would inhibit the effective realization of collateral or cast doubt on the validity of techniques such as close-out netting, the provision of top-up collateral and substitution of collateral; - creating legal certainty regarding the conflict of laws treatment of book entry securities used as collateral in a cross-border context by extending the principle adopted in Article 9(2) of the Settlement Directive; - limiting the adminstrative burdens affecting the use of collateral in the financial markets by restricting the imposition of onerous formalities on either the creation or the enforcement of collateral arrangements; - ensuring that agreements permitting collateral taker to re-use the collateral for its own purposes under pledge structures are recognised as effective, as for repos. Lastly, a sound and efficient legal regime for limiting credit risk through the use of collateral will improve the functioning and stability of the European financial markets.