Basic information

2009/0099(COD) COD - Ordinary legislative procedure (ex-codecision procedure) Directive	Procedure completed
Financial institutions: capital requirements for the trading book and for re-securitisations; supervisory review of remuneration policies Amending Directive 2006/48/EC 2004/0155(COD) Amending Directive 2006/49/EC 2004/0159(COD) **Subject** 2.50.04 Banks and credit 2.50.08 Financial services, financial reporting and auditing	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
ECON Economic and Monetary Affairs	MCCARTHY Arlene (S&D)	20/10/2009

Committee for opinion	Rapporteur for opinion	Appointed
EMPL Employment and Social Affairs	CHRISTENSEN Ole (S&D)	06/10/2009
JURI Legal Affairs	LEHNE Klaus-Heiner (PPE)	02/09/2009

Council of the European Union

Council configuration	Meetings	Date
Economic and Financial Affairs ECOFIN	2972	2009-11-10
Competitiveness (Internal Market, Industry, Research and Space)	3035	2010-10-11

European Commission

Commission DG	Commissioner
Financial Stability, Financial Services and Capital Markets Union	BARNIER Michel

Key events

Date	Event	Reference	Summary
13/07/2009	Legislative proposal published	COM(2009)0362	Summary

14/09/2009	Committee referral announced in Parliament, 1st reading		
10/11/2009	Debate in Council		Summary
14/06/2010	Vote in committee, 1st reading		Summary
28/06/2010	Committee report tabled for plenary, 1st reading	A7-0205/2010	
06/07/2010	Debate in Parliament		
07/07/2010	Decision by Parliament, 1st reading	T7-0274/2010	Summary
07/07/2010	Results of vote in Parliament		
11/10/2010	Act adopted by Council after Parliament's 1st reading		
24/11/2010	Final act signed		
24/11/2010	End of procedure in Parliament		
14/12/2010	Final act published in Official Journal		

Technical information

Procedure reference	2009/0099(COD)
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)
Procedure subtype	Legislation
Legislative instrument	Directive
Amendments and repeals	Amending Directive 2006/48/EC 2004/0155(COD) Amending Directive 2006/49/EC 2004/0159(COD)
Legal basis	Treaty on the Functioning of the EU TFEU 053-p1
Other legal basis	Rules of Procedure EP 165
Stage reached in procedure	Procedure completed
Committee dossier	ECON/7/00464

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE439.301	04/03/2010	
Committee opinion	EMPL	PE430.995	19/03/2010	
Committee opinion	JURI	PE438.167	24/03/2010	
Amendments tabled in committee		PE439.967	31/03/2010	
Committee report tabled for plenary, 1st reading/single reading		A7-0205/2010	28/06/2010	
Text adopted by Parliament, 1st reading/single reading		T7-0274/2010	07/07/2010	Summary

Council of the EU

Document type	Reference	Date	Summary
Draft final act	00035/2010/LEX	24/11/2010	

European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2009)0362	13/07/2009	Summary
Document attached to the procedure	SEC(2009)0974	13/07/2009	
Document attached to the procedure	SEC(2009)0975	13/07/2009	
Commission response to text adopted in plenary	SP(2010)6509	15/09/2010	

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
ECB	European Central Bank: opinion, guideline, report	CON/2009/0094 OJ C 291 01.12.2009, p. 0001	12/11/2009	Summary
EESC	Economic and Social Committee: opinion, report	CES0098/2010	20/01/2010	
ECB	European Central Bank: opinion, guideline, report	CON/2010/0065 OJ C 223 18.08.2010, p. 0001	06/08/2010	Summary

Additional information

Source	Document	Date
National parliaments	IPEX	
European Commission	EUR-Lex	

Final act

Directive 2010/0076
OJ L 329 14.12.2010, p. 0003

Summary

Financial institutions: capital requirements for the trading book and for re-securitisations; supervisory review of remuneration policies

2009/0099(COD) - 24/11/2010 - Final act

PURPOSE: to strengthen rules for capital requirements and remuneration in the banking sector.

LEGISLATIVE ACT: Directive 2010/76/EU of the European Parliament and of the Council amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies.

CONTENT: it is widely recognised that weaknesses in the regulatory framework on capital requirements for the banking sector and in the risk management of financial institutions contributed to the crisis in global financial markets. The provisions of this Directive constitute steps in the reform process in response to the financial crisis. In line with the conclusions of the G-20, the FSB and the Basel Committee on Banking Supervision, further reforms may be necessary,

Following a first reading agreement reached with the European Parliament, the Council adopted a directive aimed at:

- strengthening capital and disclosure requirements and disclosure for the trading book and for re-securitisation instruments in the banking sector; and

- ensuring that remuneration policies in the banking sector do not generate unacceptable levels of risk.

Capital requirements: the directive sets higher and reinforced capital requirements for certain assets that banks hold in the trading book and for resecuritisation instruments. Such investments entail higher risks on account of their complexity and their sensitivity to losses. This is in line with the approach envisaged by the Basel Committee on Banking Supervision.

Disclosure: the directive also enhances disclosure requirements, in line with internationally agreed standards, in several areas such as securitisation exposures in the trading book and

sponsorship of off-balance-sheet vehicles.

Remuneration policy: the Directive also introduces a requirement that the remuneration policies of financial institutions be subject to supervisory oversight. As a result, supervisory authorities will from now on have to monitor the implications of remuneration policies for the risk management of financial institutions.

More specifically, the directive:

- imposes a binding obligation on credit institutions and investment firms to have remuneration policies and practices that are consistent with and promote **sound and effective risk management**;

- brings remuneration policies within the scope of supervisory review, so that supervisors may require firms to take measures to rectify any problems that they may identify;

- states that the competent authorities should also have the power to impose or apply financial or non-financial penalties or other measures for breach of a requirement under Directive 2006/48/EC, including the requirement to have remuneration policies that are consistent with sound and effective risk management.

Because excessive and imprudent risk-taking may undermine the financial soundness of credit institutions or investment firms and destabilise the banking system, it is important that the new obligation concerning remuneration policies and practices should be implemented in consistent manner and should cover all aspects of remuneration including salaries, discretionary pension benefits and any similar benefits.

The Directive specifies **clear principles on sound remuneration** to ensure that the structure of remuneration does not encourage excessive risk-taking by individuals or moral hazard and is aligned with the risk appetite, values and **long-term interests of the credit institution or investment firm**. These principles are as follows:

- the assessment of the performance-based components of remuneration should be based on longer-term performance and take into account the outstanding risks associated with the performance. The assessment of performance should be set in a multi-year framework of at least three to 5 years;

- **variable remuneration should constitute a balanced proportion of total remuneration**. It is essential that an employee's fixed salary represents a sufficiently high proportion of his total remuneration to allow the operation of a fully flexible variable remuneration policy, including the possibility to pay no variable remuneration. In order to ensure coherent remuneration practices throughout the sector, it is appropriate to specify certain clear requirements. Guaranteed variable remuneration is not consistent with sound risk management or the pay-for-performance principle and should, as a general rule, be prohibited;

- **a substantial portion of the variable remuneration component, such as 40 to 60 %, should be deferred over an appropriate period of time**. Moreover, a substantial portion of the variable remuneration component should consist of shares, share-linked instruments of the credit institution or investment firm, subject to the legal structure of the credit institution or investment firm concerned or, in the case of a non-listed credit institution or investment firm, other equivalent non-cash instruments and, where appropriate, other long-dated financial instruments that adequately reflect the credit quality of the credit institution or investment firm.

Credit institutions and investment firms should ensure that the total variable remuneration does not limit their ability to strengthen their capital base.

Regarding entities that benefit from exceptional government intervention, priority should be given to building up their capital base and providing for recovery of taxpayer assistance. Any variable remuneration payments should reflect those priorities.

Good governance structures, transparency and disclosure: the text stresses that good governance structures, transparency and disclosure are essential for sound remuneration policies.

In order to ensure adequate transparency to the market of their remuneration structures and the associated risk, **credit institutions and investments firms should disclose detailed information on their remuneration policies**, practices and, for reasons of confidentiality, aggregated amounts for those members of staff whose professional activities have a material impact on the risk profile of the credit institution or investment firm.That information should be made available to all stakeholders (shareholders, employees and the general public).

Benchmarking at national and European level: in order to promote supervisory convergences in the assessment of remuneration policies and practices, and to **facilitate information collection and the consistent implementation of the remuneration principles** in the banking sector, CEBS should elaborate guidelines on sound remuneration policies in the banking sector.The competent authorities should provide CEBS with that information in order to enable it to conduct similar assessments at Union level.

Home Member State competent authorities shall collect information on the number of individuals per credit institution in **pay brackets of at least EUR 1 million** including the business area involved and the main elements of salary, bonus, long-term award and pension contribution. That information shall be forwarded to the Committee of European Banking Supervisors, which shall disclose it on an aggregate home Member State basis in a common reporting format. The Committee of European Banking Supervisors may elaborate guidelines to facilitate the implementation of this paragraph and ensure the consistency of the information collected.

Report: with regard to the international nature of the Basel framework and the risks associated with a non- simultaneous implementation of the changes to that framework in major jurisdictions, the Commission shall report to the European Parliament and the Council by 31 December 2010 on progress made towards the international implementation of the changes to the capital adequacy framework, together with any appropriate proposals.

ENTRY INTO FORCE: 15/12/2010.

Financial institutions: capital requirements for the trading book and for re-securitisations; supervisory review of remuneration policies

2009/0099(COD) - 10/11/2009

The Council agreed on a **general approach**, pending the European Parliament's opinion in first reading, on a draft directive aimed at:

- at strengthening disclosure and capital requirements for the trading book and re-securitisation instruments in the banking sector;
- preventing remuneration policies that generate unacceptable levels of risk.

It requested the Presidency to pursue negotiations with the Parliament on the basis of its general approach, with a view to adopting the directive in first reading.

Financial institutions: capital requirements for the trading book and for re-securitisations; supervisory review of remuneration policies

2009/0099(COD) - 13/07/2009 - Legislative proposal

PURPOSE: to amend Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies

PROPOSED ACT: Directive of the European Parliament and of the Council.

BACKGROUND: a new capital requirements framework, based on the 'Basel-II' revised international capital framework, was adopted in June 2006 as the Capital Requirements Directive ('CRD'): this comprises Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions (recast) and Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions (recast).

There is widespread recognition that further regulatory reform is needed to address weaknesses in the regulatory capital framework and in the risk management of financial institutions that contributed to the turmoil in global financial markets. As part of its response to the financial crisis, in November 2008 the Commission mandated a High Level Group chaired by Mr. Jacques de Larosière to propose recommendations for reforming the European financial supervision and regulation. Building on the Group's recommendations, in its Communication "Driving European Recovery" for the spring European Council of March 4, 2009the Commission set out an ambitious programme of financial services reform.

The present proposal is one of the several measures that the Commission has already taken to implement that programme.

IMPACT ASSESSMENT: altogether, fourteen different policy options have been assessed. The preferred option is as follows:

- ***Trading Book***: with respect to capital requirements for bank trading books, the following targeted amendments, aligned with what is envisaged by the Basel Committee, will be introduced.
- ***Re-securitizations***: in line with the approach developed by the Basel Committee, re-securitization positions would be assigned a higher capital requirement than other securitisation positions to reflect the higher risk of unexpected impairment losses. For particularly complex re-securitizations, the proposals reinforce both the due diligence requirements and the supervisory process to enforce them.

- ***Disclosure requirements***: these changes will improve investor understanding of banks' risk profile and, by enhancing transparency, reinforce banks' risk management. The incremental administrative burden for the EU banking industry is estimated at EUR 1.3 million per year and is expected to fall mostly on larger institutions with more advanced approaches to risk management.
- ***Supervisory Review of Remuneration Policies***: the proposed amendments will impose oblige credit institutions and investment firms to have remuneration policies that are consistent with effective risk management. The relevant principles will be set out in the CRD, but will be closely aligned with those set out in Commission Recommendation on remuneration policies in the financial services sector. Making the relevant principles of the Recommendation binding will increase the rate of compliance by credit institutions and investment firms.

CONTENT: the Commission is proposing a further revision of EU rules on capital requirements for banks that is designed to tighten up the way in which banks assess the risks connected with their trading book; impose higher capital requirements for re-securitisations; increase market confidence through stronger disclosure requirements for securitisation exposures; and require banks to have sound remuneration practices that do not encourage or reward excessive risk-taking.

Under the new rules, banks will be restricted in their investments in highly complex re-securitisations if they cannot demonstrate that they have fully understood the risks involved, while national supervisory authorities will review banks' remuneration policies and have the power to impose sanctions if the policies do not meet the new requirements.

The main amendments are as follows:

Capital requirements for re-securitisations: re-securitisations are complex financial products that have played a role in the development of the financial crisis. In certain circumstances, banks that hold them can be exposed to considerable losses. The proposal will impose higher capital requirements for re-securitisations, to make sure that banks take proper account of the risks of investing in such complex financial products. For particularly complex re-securitizations, the proposals reinforce both the due diligence requirements and the supervisory process to enforce them. For investments in re-securitizations of particularly high complexity, banks will have to demonstrate to their supervisor that necessary due diligence standards have been met. If they cannot do so, a general deduction from capital would apply. In instances where compliance with required due diligence is found to be inadequate, institutions would be debarred from future investment in such instruments.

In exceptional cases where a bank cannot demonstrate to its regulator that it has complied with the required due diligence in respect of a highly complex re-securitisation, a risk weight of 1250% will be applied to the position in that re-securitisation. This capital treatment applies to new re-securitisations issued after 31 December 2010, and will only apply to an existing re-securitisation position after 31 December 2014 if new underlying exposures are added or substituted after that date. Accordingly, the 1250% risk weight cannot be applied to banks' legacy positions in re-securitisations (unless the underlying exposures of those positions are changed after the end of 2014).

Disclosure of securitisation exposures: proper disclosure of the level of risks to which banks are exposed is necessary for market confidence. The new rules will tighten up disclosure requirements to increase the market confidence that is necessary to encourage banks to start lending to each other again. In particular, the disclosure requirements will in future cover the risks not only of securitisation positions in the non-trading book, but also those in the trading book.

Capital requirements for the trading book: the trading book consists of all the financial instruments that a bank holds with the intention of re-selling them in the short term, or in order to hedge other instruments in the trading book. The proposal will change the way that banks assess the risks connected with their trading books to ensure that they fully reflect the potential losses from adverse market movements in the kind of stressed conditions that have been experienced recently. Capital requirements for securitisations in the trading book are currently calculated as if these instruments were normal debt positions. This contrasts with the banking book, where there is a separate, more differentiated and risk sensitive set of capital requirements. This proposal envisages that the trading book capital requirements be based on those for equivalent securities in the banking book.

Remuneration policies and practices within banks: under the current European supervisory framework, there is no requirement that the remuneration policies of financial institutions should be subject to supervisory oversight. As a result, supervisory authorities have generally not focused on the implications of remuneration policies for risk and effective risk management.

The purpose of this proposed amendment to the CRD is:

- to impose a binding obligation on credit institutions and investment firms to have remuneration policies and practices that are consistent with and promote **sound and effective risk management**, accompanied by **high level principles** on sound remuneration;
- to bring remuneration policies **within the scope of the supervisory review** under the CRD, so that supervisors would be able to require the firm to take measures to rectify any problems that they might identify;
- to ensure that supervisors may also impose **financial or non-financial penalties** (including fines) against firms that fail to comply with the obligation.

The requirement will apply to credit institutions and to investment firms that are authorised and regulated under Directive 2004/39/EC on markets in financial instruments. The **scope** of the obligation is restricted to remuneration for staff whose professional activities have a material impact on the risk profile of the bank or investment firm. This targets the remuneration policies for those individuals who take decisions that may affect the level of risk assumed by the institution.

The principles on sound remuneration are not intended to prescribe the amount and form of remuneration, and institutions remain responsible for the design and application of their particular remuneration policy. Prudential oversight in the course of the supervisory review would focus on whether the remuneration policies and practices are consistent with sound risk management given the nature of the firm's business. In order to align supervisory assessments, and to assist firms in complying with the principles, the proposal requires CEBS to ensure the existence of guidelines on sound remuneration policies.

If a supervisor identifies problems it may require the credit institution or investment firm to take qualitative or quantitative measures to address those problems. Those measures may include a ('qualitative') requirement for the firm to rectify the situation by changing its remuneration structure to reduce the inherent risk and – in appropriate cases – a ('quantitative') requirement for the firm to hold additional own funds against the risk.

In addition, competent authorities must also have the power under the CRD to impose penalties for a breach of any requirement of the Directive (including the proposed requirement in relation to remuneration policies). This sanctioning power is separate from the power to require firms to take qualitative or quantitative measures. The amendment is intended to ensure that supervisors have both financial and non-financial sanctions at their disposal.

BUDGETARY IMPLICATION: the proposal has no implication for the Community budget.

Financial institutions: capital requirements for the trading book and for re-securitisations; supervisory review of remuneration policies

2009/0099(COD) - 12/11/2009 - European Central Bank: opinion, guideline, report

Opinion of the European Central Bank on a proposal for a Directive of the European Parliament and of the Council amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies.

The European Central Bank (ECB) received a request from the Council of the European Union for an opinion on this proposal on 10 September 2009.

The ECB welcomes the proposed directive as regards capital requirements for bank trading books and for re-securitisations, which are broadly consistent with the approach recently developed by the Basel Committee on Banking Supervision.

The ECB is of the view that there is the need to align further the requirements of the proposed directive to the revised Basel II market risk framework. In particular, the ECB suggests introducing in Annex II point (1) of the proposed directive an exemption for correlation trading activities from the requirement that all securitisation exposures in the trading book receive the standardised specific risk treatment.

Furthermore, the ECB notes that the quantitative impact study currently being conducted by the Basel Committee on Banking Supervision may lead to recalibration of 'correlation trading activities'. Should the impact study indeed lead to the recalibration of the Basel II market risk framework, the ECB strongly supports making a corresponding alignment of the proposed directive, or any amendment to it, in order to ensure fair international competition in this area.

The ECB also welcomes the introduction of remuneration provisions in Annex I to the proposed directive, which are in line with the commitment of the G20 leaders to implement international compensation standards aimed at ending practices that lead to excessive risk-taking.

Moreover, the ECB supports the application of the provisions for remuneration policies at the group level, to ensure consistent treatment of risk-taking employees in all jurisdictions where EU banks operate. Finally, the ECB highlights that when introducing international standards that primarily address significant financial institutions into Community law, which applies to all credit institutions (including small ones), the proportionality principle, as laid down in the Treaty, should be applied appropriately.

Where the ECB recommends amending the proposed directive, specific drafting proposals are set out in the Annex accompanied by an explanation. These proposals do not address the more general observations made above, but deal more specifically with remuneration policies.

Financial institutions: capital requirements for the trading book and for re-securitisations; supervisory review of remuneration policies

2009/0099(COD) - 06/08/2010 - European Central Bank: opinion, guideline, report

EUROPEAN CENTRAL BANK OPINION on a proposal for a Directive of the European Parliament and of the Council amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re- securitisations, and the supervisory review of remuneration policies.

On 12 November 2009, the European Central Bank (ECB) issued an opinion on the abovementioned proposal for a Directive (*please refer to the summary dated 12/11/2009*). On 7 July 2010, the European Parliament adopted the proposed directive, which is now subject to the Council of the European Union's formal adoption. This opinion is based on the version of the proposed directive adopted by the European Parliament.

The ECB is concerned about the **extension of the waiver for exposures in the form of covered bonds, collateralised by loans secured by residential and commercial real estate**, contained in Annex I, paragraph 2(c)(ii) to the proposed directive. The extension of the waiver from 31 December 2010 to 31 December 2013 allows unlimited use of senior units issued by securitisation entities securitising residential and commercial real estate exposures in the cover pool of covered bonds. Moreover, the adopted text removes the reference to the most favourable credit quality required for these units.

The proposed directive, thus, affects UCITS-compliant covered bonds and asset-backed securities (ABSs) eligible for Eurosystem credit operations, as laid down in Guideline ECB/2000/7 of 31 August 2000 on monetary policy instruments and procedures of the Eurosystem. In this respect, the Eurosystem's collateral framework imposes a stricter treatment from a risk management perspective, e.g. higher haircuts and rating requirements, on

ABSs compared to UCITS-compliant covered bonds. A possible consequence of the proposed directive could be to provide strong incentives for monetary policy counterparties to package their ABSs into the cover pool of such covered bonds, thereby obtaining more favourable treatment, to the detriment of the Eurosystem's risk exposure.

At the same time, and without prejudice to the ECB welcoming regulatory steps which mitigate the reliance of legislation on external ratings, the ECB has some concerns about the **removal of the reference to the most favourable credit quality required for these units**, as this could further undermine the credibility and transparency of the covered bonds market and, ultimately, have consequences for financial stability.

In general, the aim for the regulators in the near future should be to remove the waiver and develop a rigorous set of criteria for assets to be included in the cover pool of covered bonds which: (i) does not rely on external ratings; and (ii) is strong enough to secure market confidence in covered bonds, while allowing financial institutions sufficient time to adjust their respective business models. The reduction of the limit of the nominal amount of the outstanding issue from 20% to 10%, contained in Annex I, paragraph 2(c)(i) and (ii) to the proposed directive, can be seen as a positive movement in this direction.

Financial institutions: capital requirements for the trading book and for re-securitisations; supervisory review of remuneration policies

2009/0099(COD) - 07/07/2010 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 625 votes to 28, with 37 abstentions, a resolution amending the proposal for a directive of the European Parliament and of the Council amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies. The amendments are the result of a compromise between Council and Parliament. The main amendments are as follows:

Remuneration policies: the text states that the new obligation concerning remuneration policies and practices should be implemented in a consistent manner and should cover all aspects of remuneration including salaries, discretionary pensions benefits and any other similar benefits. In this context, discretionary pension benefits means discretionary payments granted by a credit institution to an employee on an individual basis payable by reference to or expectation of retirement and which can be assimilated to variable remuneration.

It is appropriate to specify clear principles on sound remuneration to ensure that the structure of remuneration does not encourage excessive risk-taking by individuals or moral hazard and is aligned with the risk appetite, values and long-term interests of the institution. These principles are as follows:

- the remuneration policy is in line with the business strategy, objectives, values and long-term interests of the credit institution, and incorporates measures to avoid conflicts of interest;
- where remuneration is performance related, the assessment of the performance must be set in a multi-year framework in order to ensure that the assessment process is based on longer term performance and that the actual payment of performance-based components of remuneration is spread over a period which takes account of the underlying business cycle of the credit institution and its business risks. The total variable remuneration must not limit the ability of the credit institution to strengthen its capital base. Guaranteed variable remuneration must be exceptional and occur only in the context of hiring new staff and is limited to the first year;
- to minimise incentives for excessive risk-taking variable remuneration should be a balanced proportion of total remuneration. It is essential that an employee's fixed salary represents a sufficiently high proportion of their total remuneration to allow the operation of a fully flexible variable remuneration policy, including the possibility to pay no variable remuneration. In order to assure coherent remuneration practices throughout the sector, it is appropriate to specify certain clear requirements. Guaranteed variable remuneration is not consistent with sound risk management or the pay-for-performance principle and should, as a general rule, be prohibited;
- **a substantial portion, which is at least 40 % of the variable remuneration component must be deferred over a period** which is not less than three to five years and is correctly aligned with the nature of the business, its risks and the activities of the member of staff in question. Remuneration payable under deferral arrangements vests no faster than on a pro-rata basis. In the case of a variable remuneration component of a particularly high amount, at least 60 % of the amount is deferred. The length of the deferral period is established in accordance with the business cycle, the nature of the business, its risks and the activities of the member of staff in question;
- **a substantial portion, which is at least 50 % of any variable remuneration should consist of shares**, share-linked instruments of the credit institution or investment firm, subject to the legal structure of the institution concerned or, in case of a non-listed credit institution, in other equivalent non-cash instruments, and where appropriate, other long dated financial instruments that adequately reflect the credit quality of this institution;
- **in the case of credit institutions that benefit from exceptional government intervention**: (i) variable remuneration must be strictly limited as a percentage of net revenues when it is inconsistent with the maintenance of a sound capital base and timely exit from government support; (ii) the relevant competent authorities shall require credit institutions to restructure compensation in a manner aligned with sound risk management and long-term growth, including inter alia and when appropriate establishing limits to the remuneration of Directors; and (iii) no variable remuneration should be paid to the directors of that institution unless this is justified.

These principles are applied by credit institutions at group, parent company and subsidiary levels, including those established in offshore financial centres.

Review: by April 2013, the Commission shall review and report on the provisions on remuneration, with particular regard to their efficiency, implementation, enforcement, taking into account international developments. That review shall identify any lacunae arising from the application of the principle of proportionality to the provisions. The Commission shall submit this report to the European Parliament and the Council together with any appropriate proposals.

Provisions to improve corporate governance, transparency and disclosure: The amendments state that:

- credit institutions and investment firms that are significant in terms of their size, internal organisation and the nature, the scope and the complexity of their activities should be required to establish a remuneration committee as an integral part of their governance structure and organisation. The remuneration of the senior officers in the risk management and compliance functions is directly overseen by the remuneration committee;
- credit institutions and investments firms should disclose detailed information on their remuneration policies, practices and, for reasons of confidentiality, aggregated amounts for those members of staff whose professional activities have a material impact on the risk profile of the institution. That information should be made available to all stakeholders (shareholders, employees and the general public);

Benchmarking: in order further to enhance transparency as regards the remuneration practices of credit institutions and investment firms, the competent authorities of Member States should collect information on remuneration to benchmark remuneration trends in accordance with the categories of quantitative information that those institutions are required to disclose under the Directive. The competent authorities should provide CEBS with such information to enable it to conduct similar assessments at Union level.

Home Member State competent authorities shall collect information on the number of individuals per credit institution in pay brackets of EUR 1 million and upwards including the business area involved and the main elements of salary, bonus, long-term award and pension contribution. This information shall be forwarded to the Committee of European Banking Supervisors and it shall disclose this information on an aggregate home Member State basis in a common reporting format. The Committee of European Banking Supervisors may elaborate guidelines to facilitate the implementation of, and ensure consistency of information collected.

Implementing Basel: the resolution states as follows:

- the Directive lays down limited exceptions for certain correlation trading activities, where banks may be allowed by their supervisor to calculate a comprehensive risk capital charge subject to strict minimum requirements. In such cases the bank will be required to subject them to a capital charge equal to the higher of the capital charge according to this internally developed approach and 8% of the capital charge for specific risk according to the standardised measurement method. It will not be required to subject these exposures to the incremental risk charge. It must, however, incorporate them in both the value-at-risk and stressed value-at-risk measures;
- Article 152 of Directive 2006/48/EC requires certain credit institutions to provide own funds that are at least equal to certain specified minimum amounts for the three twelve month periods between 31 December 2006 and 31 December 2009. In the light of the current situation in the banking sector and the extension of the transitional arrangements for minimum capital adopted by the Basel Committee on Banking Supervision, it is appropriate to renew this requirement for a limited period of time until 31 December 2011;
- in order not to discourage credit institutions from moving to the internal ratings-based (IRB) approach or advanced measurement approaches (AMA) for calculating the capital requirements during the transitional period due to unreasonable and disproportionate implementation costs, credit institutions that have moved to the IRB approach or AMA since 1 January 2010 and which have therefore previously calculated their capital requirements in accordance with the less sophisticated approaches may, subject to supervisory approval, be allowed to use the less sophisticated approaches as the basis for the calculation of the transitional floor. Competent authorities should monitor their markets closely and ensure a level playing field within all their markets and market segments and avoid distortions in the internal market.

Stronger Parliamentary Oversight: lastly, the text states that the measures in the Directive are steps in the reform process in response to the financial crisis. In line with the conclusions of the G-20, the Financial Stability Board and the Basel Committee on Banking Supervision further reforms may be necessary, including the need to build counter-cyclical buffers, "dynamic provisioning", the rationale underlying the calculation of capital requirements in Directive 2006/48/EC and supplementary measures to risk-based requirements for credit institutions to help constrain the build-up of leverage in the banking system. In order to ensure appropriate democratic oversight of the process, the European Parliament and the Council must be involved in a timely and effective manner.

The Commission should review the application of these Directives to ensure that its provisions are applied in an equitable way which does not result in discrimination between credit institutions on the basis of their legal structure or ownership model. It is empowered to adopt delegated acts in accordance with Article 290 TFEU in relation to the matters set out in the text. In this instance, the European Parliament or the Council have a period of three months from the date of notification to object to a delegated act. At the initiative of the European Parliament or the Council, this period can be prolonged by three months in significant areas of concern. The European Parliament and the Council may inform the other institutions of their intention not to raise objections. This early approval of delegated acts is particularly indicated when deadlines need to be met, for example to meet timetables set in the basic act for the Commission to adopt delegated acts.