Basic information

2020/0066(COD) COD - Ordinary legislative procedure (ex-codecision procedure) Regulation	Procedure completed
Capital Requirements Regulation: adjustments in response to the COVID-19 pandemic Amending Regulation 2013/575 2011/0202(COD) Amending Regulation 2019/876 2016/0360A(COD) **Subject** 2.50.03 Securities and financial markets, stock exchange, CIUTS, investments 2.50.04 Banks and credit 2.50.05 Insurance, pension funds 2.50.08 Financial services, financial reporting and auditing 2.50.10 Financial supervision 4.20 Public health 4.20.01 Medicine, diseases **Legislative priorities** The EU's response to the Covid-19 pandemic	

Key players

European Parliament	**Committee responsible**	**Rapporteur**	**Appointed**
	ECON Economic and Monetary Affairs	FERNÁNDEZ Jonás (S&D)	06/05/2020
		Shadow rapporteur KARAS Othmar (EPP) NAGTEGAAL Caroline (Renew) GIEGOLD Sven (Greens /EFA) VAN OVERTVELDT Johan (ECR) ZANNI Marco (ID)	
Council of the European Union			
European Economic and Social Committee			

Key events

Date	Event	Reference	Summary
		COM(2020)0310	Summary

28/04/2020	Legislative proposal published		
13/05/2020	Committee referral announced in Parliament, 1st reading		
09/06/2020	Vote in committee, 1st reading		
10/06/2020	Committee report tabled for plenary, 1st reading	A9-0113/2020	
17/06/2020	Decision by Parliament, 1st reading	T9-0157/2020	Summary
17/06/2020	Results of vote in Parliament		
18/06/2020	Results of vote in Parliament		
19/06/2020	Results of vote in Parliament		
24/06/2020	Act adopted by Council after Parliament's 1st reading		
24/06/2020	Final act signed		
26/06/2020	Final act published in Official Journal		
16/07/2020	End of procedure in Parliament		

Technical information

Procedure reference	2020/0066(COD)
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)
Procedure subtype	Legislation
Legislative instrument	Regulation
Amendments and repeals	Amending Regulation 2013/575 2011/0202(COD) Amending Regulation 2019/876 2016/0360A(COD)
Legal basis	Treaty on the Functioning of the European Union TFEU 114
Mandatory consultation of other institutions	European Economic and Social Committee
Stage reached in procedure	Procedure completed
Committee dossier	ECON/9/02868

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE652.396	20/05/2020	
Amendments tabled in committee		PE652.494	27/05/2020	
Committee report tabled for plenary, 1st reading/single reading		A9-0113/2020	10/06/2020	
Text adopted by Parliament, 1st reading/single reading		T9-0157/2020	17/06/2020	Summary

Council of the EU

Document type	Reference	Date	Summary

Draft final act	00018/2020/LEX	24/06/2020	

European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2020)0310	28/04/2020	Summary
Commission response to text adopted in plenary	SP(2020)326	04/08/2020	

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
ECB	European Central Bank: opinion, guideline, report	CON/2020/0016 OJ C 180 29.05.2020, p. 0004	20/05/2020	
EESC	Economic and Social Committee: opinion, report	CES2226/2020	10/06/2020	

Additional information

Source	Document	Date
European Commission	EUR-Lex	

Final act

Regulation 2020/0873
OJ L 204 26.06.2020, p. 0004

Capital Requirements Regulation: adjustments in response to the COVID-19 pandemic

2020/0066(COD) - 17/06/2020 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted a legislative resolution on the proposal for a regulation of the European Parliament and of the Council amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards adjustments to be made in response to the COVID-19 pandemic.

As a reminder, the proposal aims to introduce targeted changes to EU banking prudential rules (the Capital Requirements Regulation or CRR) with a view to introducing temporary relief from capital requirements in order to maximise banks' ability to lend and absorb losses related to the COVID-19 pandemic, while preserving their resilience.

The proposed transitional measures include:

- adjusting the timing of the implementation of international accounting standards for bank capital to mitigate the impact of IFRS 9 on regulatory capital ;

- temporarily extend preferential treatment to non-performing loans (NPLs) benefiting from a government guarantee as part of measures to mitigate the economic impact of the COVID-19 pandemic, in compliance with EU state aid rules ;

- postpone the date of application of the leverage ratio buffer by one year, until January 2023, in order to give credit institutions more operational capacity and allow them to focus on the more immediate challenges related to the COVID-19 pandemic;

- bringing forward the dates of application of certain capital relief measures in the CRR, such as the SME and infrastructure support factors allowing more favourable treatment of certain SME and infrastructure exposures, the possibility for banks to treat certain software as their own capital, and provisions for certain loans secured by pensions or salaries.

The European Parliament's position adopted at first reading in accordance with the ordinary legislative procedure supports the amendment of the Capital Requirements Regulation (CRR). However, it amended the Commission proposal as follows:

Temporary prudential filter in view of financial market volatility

In view of the extraordinary impact of the COVID-19 pandemic and the extreme levels of volatility in the financial markets that could lead to increased yields on public debt, which in turn would result in unrealised losses on public debt securities held by banks, Members agreed to introduce a temporary prudential filter to neutralise the negative impact of this volatility.

Temporary treatment of public debt issued in the currency of another Member State

Public financing through the issuance of government bonds denominated in the national currency of another Member State may be necessary to support measures to address the consequences of the COVID-19 pandemic.

To avoid placing undue burdens on institutions investing in such bonds, Members reintroduced transitional arrangements for exposures to central governments and central banks where those exposures are denominated in the domestic currency of another Member State.

Report on overshootings and supervisory powers to limit distributions

The amended text highlights that the European Banking Authority (EBA), the European Central Bank and other competent authorities have issued recommendations to institutions to suspend dividend payments and share buy-backs during the COVID-19 pandemic.

In order to ensure consistent application of such recommendations, it is specified that competent authorities shall use their supervisory powers, including the powers to impose binding restrictions on distributions for institutions or limitations on variable remuneration, where appropriate.

By 31 December 2021, the Commission shall report to the European Parliament and to the Council on whether exceptional circumstances that trigger serious economic disturbance in the orderly functioning and integrity of financial markets justify that during such periods:

- competent authorities shall be permitted to exclude from institutions' market risk internal models overshootings that do not result from deficiencies in those models;

- additional binding powers shall be granted to the competent authorities to impose restrictions on distributions by institutions.

Capital Requirements Regulation: adjustments in response to the COVID-19 pandemic

2020/0066(COD) - 28/04/2020 - Legislative proposal

PURPOSE: to temporarily ease capital requirements to maximise the ability of banks to lend and absorb losses related to the COVID-19 pandemic, while preserving their resilience.

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

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure on an equal footing with the Council.

BACKGROUND: Regulation (EU) No 575/2013 of the European Parliament and of the Council (the Capital Requirements Regulation or CRR) establishes together with Directive 2013/36/EU (the Capital Requirements Directive or CRD) the prudential regulatory framework for credit institutions operating in the Union.

Adopted in the aftermath of the financial crisis in 2007-2008 and largely based on international standards endorsed in 2010 by the Basel Committee on Banking Supervision (BCBS), known as the "Basel III framework", this prudential framework has contributed to enhancing the resilience of institutions operating in the Union and to making them better prepared to face potential difficulties, including difficulties stemming from possible future crises.

The severe economic shock caused by the COVID-19 pandemic and the exceptional containment measures are having a far-reaching impact on the economy. Credit institutions will have a major role to play in the recovery but are likely to suffer from the deterioration of the economic situation.

The competent authorities have granted banks temporary relief from capital, liquidity and operational requirements so that they can continue to play their role in financing the real economy despite a more difficult environment. As a result of the exceptional situation caused by the COVID-19 pandemic, some of these rules can now be applied more flexibly, allowing banks to focus on lending to households and businesses.

At the same time, it is essential that institutions continue to measure risks in an accurate, consistent and transparent manner to be able to monitor the effects of the pandemic on their balance sheets and avoid jeopardising the resilience of the European banking sector.

This proposal is part of a package of measures taken by the European Commission to mitigate the economic impact of the COVID-19 outbreak across the European Union.

CONTENT: the Commission proposes, as a short-term solution, to introduce targeted changes to EU banking prudential rules (the Capital Requirements Regulation) to maximise the capacity of credit institutions to lend and to absorb losses related to the Coronavirus pandemic, while still ensuring their continued resilience.

Transitional arrangements for mitigating the impact of IFRS 9 provisions on regulatory capital

The Commission proposes to amend the transitional arrangements to mitigate the potentially significant negative impact on institutions' Common Equity Tier 1 capital arising from expected credit loss accounting under IFRS 9.

The application of IFRS 9 during the economic downturn caused by the COVID-19 pandemic may lead to a sudden significant increase in expected credit loss provisions, as for many exposures expected losses over their lifetime may need to be calculated. In order to mitigate these potential negative effects, the Commission proposes to extend the current transitional provisions of the CRR by two years. Thus, the reference date for any increase in provisions that would fall under the extended transitional provisions would be moved from 1 January 2018 to 1 January 2020.

The extension of the transitional period would allow institutions to fully add-back to their CET1 capital any increase in new provisions recognised in 2020 and 2021 for their financial assets that are not credit-impaired. The amount that could be added back from 2022 to 2024 would decrease in a linear manner.

Treatment of publicly guaranteed loans under the non-performing loans prudential backstop

Non-performing loans guaranteed official export credit agencies receive a preferential treatment regarding provisioning requirements under the CRR. It is proposed to temporarily extend this preferential treatment to exposures guaranteed or counter guaranteed by the public sector in the context of measures aimed at mitigating the economic impact of the COVID-19 pandemic, subject to Union State aid rules, where applicable. This would take account of the similar risk profile of these guaranteed exposures.

Leverage ratio buffer application date

The latest revision of the CRR imposed a leverage ratio buffer requirement on global systemically important institutions (G-SIIs). The date of application of this new requirement, initially set at 1 January 2022, shall be extended by one year to 1 January 2023. This would free up credit institutions' operational capacity and allow them to focus on the more immediate challenges associated with the COVID-19 pandemic.

Offsetting the impact of excluding certain exposures from the calculation of the leverage ratio

In accordance with the Basel framework, the CRR grants discretionary power, in exceptional circumstances, to temporarily exclude certain central bank exposures from an institutions' total exposure measure. The exemption may be granted for a limited period of time not exceeding one year.

In order to facilitate the effective transmission of monetary policy actions, this discretion shall be implemented together with the leverage ratio requirement on 28 June 2021. However, the current crisis of the COVID-19 showed that the compensation mechanism was too restrictive.

In order to provide greater flexibility to act in possible future crises, the proposal amends the compensation mechanism. In particular, a credit institution that exercises the discretion shall be required to calculate the adjusted leverage ratio only once, namely at the moment it exercises the discretion. The adjusted leverage ratio will apply throughout the full period during which the discretion is exercised and will not change like under the current offsetting mechanism.

Other application dates

The Commission also proposes that the application dates of some of the capital benefits envisaged in the CRR but not yet applicable need to be anticipated, namely: (i) the provisions on the treatment of certain software assets, (ii) the provisions on certain loans backed by pensions or salaries, (iii) the revised supporting factor for small and medium-sized enterprises (SME) and (iv) the new supporting factor for infrastructure finance. The objective is to allow credit institutions to free up capital and give their lending activity a much-needed boost during the COVID-19 pandemic and its aftermath.