Procedure file

Basic information

COD - Ordinary legislative procedure (ex-codecision procedure) Regulation	2021/0342(COD)	Awaiting Parliament's position in 1st reading

Amendments to the Capital Requirements Regulation

Amending Regulation Regulation 2013/575 2011/0202(COD)

Subject
2.50.03 Securities and financial markets, stock exchange, CIUTS, investments
2.50.04 Banks and credit
2.50.08 Financial services, financial reporting and auditing
2.50.10 Financial supervision

Legislative priorities
Joint Declaration 2021
Joint Declaration 2022
Joint Declaration 2023-24

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs		25/10/2021
		S&D FERNÁNDEZ Jonás	
		Shadow rapporteur	
		epp KARAS Othmar	
		renew europe. BOYER Gilles	
		NIINISTÖ Ville	
		ID ZANNI Marco	
		ECR VAN OVERTVELDT Johan	
		PAPADIMOULIS Dimitrios	
Council of the European Union			
European Commission	Commission DG	Commissioner	
	Financial Stability, Financial Services and Capital Markets Union	MCGUINNESS Mairead	
European Economic and			

Social Committee

Key events

27/10/2021	Legislative proposal published	COM(2021)0664	Summary
17/01/2022	Committee referral announced in Parliament, 1st reading		
24/01/2023	Vote in committee, 1st reading		
24/01/2023	Committee decision to open interinstitutional negotiations with report adopted in committee		
10/02/2023	Committee report tabled for plenary, 1st reading	A9-0030/2023	Summary
13/02/2023	Committee decision to enter into interinstitutional negotiations announced in plenary (Rule 71)		
15/02/2023	Committee decision to enter into interinstitutional negotiations confirmed by plenary (Rule 71)		
11/12/2023	Approval in committee of the text agreed at 1st reading interinstitutional negotiations	PE757.233 GEDA/A/(2023)006587	

Forecasts

24/04/2024	Debate in plenary scheduled

Technical information

Procedure reference	2021/0342(COD)
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)
Procedure subtype	Legislation
Legislative instrument	Regulation
	Amending Regulation Regulation 2013/575 2011/0202(COD)
Legal basis	Treaty on the Functioning of the EU TFEU 114
Mandatory consultation of other institutions	European Economic and Social Committee
Stage reached in procedure	Awaiting Parliament's position in 1st reading
Committee dossier	ECON/9/07546

Documentation gateway

Legislative proposal		COM(2021)0664	27/10/2021	EC	Summary
Economic and Social Committee: opinion, report		CES6493/2021	23/03/2022	ESC	
European Central Bank: opinion, guideline, report		CON/2022/0011 OJ C 233 16.06.2022, p. 0014	24/03/2022	ECB	
Committee draft report		PE731.818	30/05/2022	EP	
Amendments tabled in committee		PE734.262	11/08/2022	EP	
Amendments tabled in committee		PE735.427	11/08/2022	EP	

Amendments tabled in committee		PE735.613	18/08/2022	EP	
Amendments tabled in committee		PE735.614	18/08/2022	EP	
Committee report tabled for plenary, 1st reading/single reading		A9-0030/2023	10/02/2023	EP	Summary
Coreper letter confirming interinstitutional agreement		GEDA/A/(2023)006587	06/12/2023	CSL	
Text agreed during interinstitutional negotiations		PE757.233	07/12/2023	EP	

Amendments to the Capital Requirements Regulation

PURPOSE: to amend Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor with a view to making the EU banking sector more resilient to potential future economic shocks.

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 and on an equal footing with the Council.

BACKGROUND: following the major financial crisis of 2008-2009, the EU and its G20 partners in the Basel Committee on Banking Supervision reached the Basel IIII agreement to make banks more resilient to potential economic shocks. Thanks to the reforms already implemented, the EU banking sector entered the COVID-19 crisis on a much more resilient footing. However, while the overall level of capital in EU banks is now satisfactory on average, some of the problems that were identified in the wake of the financial crisis have not yet been addressed.

The proposed amendment to Regulation (EU) No 575/2013 (the Capital Requirements Regulation or CRR) is part of a legislative package that includes also amendments to Directive 2013/36/EU (the Capital Requirements Directive or CRD) and a separate legislative proposal to amend the Capital Requirements Regulation in the area of resolution (the so-called daisy chain proposal).

This package of proposals marks the final step in this reform of banking rules and faithfully implements the international Basel III agreement, while taking into account the specific features of the EU's banking sector.

CONTENT: the proposal amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor aims to contribute to financial stability and to the steady financing of the economy in the context of the post-COVID-19 crisis recovery.

The proposal includes provisions on the following issues:

Strengthen the risk-based capital framework, without significant increases in capital requirements overall

The current CRR stipulates that the amount of capital that a bank must hold to cover the risks to which it is exposed is calculated as a certain percentage (the capital requirement) of its risk-weighted assets. Banks may calculate their risk-weighted assets either under a standardised approach or under an internal model-based approach that allows the banks themselves to estimate the parameters used in the calculation of the capital requirement.

This proposal adds an additional step in the calculation of capital requirements. Specifically, a bank using internal models will now have to follow these steps when calculating its risk-weighted assets:

- Step 1: calculate the risk-weighted assets using whichever model the bank is permitted to use;

- Step 2: calculate the risk-weighted assets using the standardised approach;

- Step 3: multiply the amount obtained with the standardised approach in step 2 by 72.5%;

- Step 4: compare the risk-weighted assets resulting from this calculation in step 3 with the risk-weighted assets obtained with the calculation in step 1. Whichever amount is higher has then to be used to calculate the bank's various capital requirements.

The overall aim of this amendment is to increase the comparability of risk-based capital ratios across banks and restore confidence in those ratios and the soundness of the sector overall. At the same time, the reform is intended to simplify the risk-based framework thanks to better standardisation in the calculation of capital requirements.

Enhance the focus on ESG risks in the prudential framework

The proposal reinforces the need to consistently integrate environmental, social and governance (ESG) risks into banks' risk management systems and in supervision overall. The scope of ESG disclosures is to be extended to all institutions (it currently only applies to large listed ones).

Further harmonise supervisory powers and tools

While Union legislation ensures a minimum level of harmonisation, the supervisory toolkit and procedures vary greatly across Member States. The Commission seeks to improve the current reform by enhancing the enforcement of prudential rules. Supervisors need to have at their disposal the necessary tools and powers to this effect. The proposal seeks to provide supervisors with the necessary powers to assess certain operations (acquisition of qualifying holdings, transfer of assets or liabilities, mergers or divisions) that can be considered material from a prudential perspective insofar as they can alter the prudential profile of a credit institution.

Reduce institutions administrative costs related to public disclosures and to improve access to institutions prudential data

To resolve the issue relating to the access to prudential situations, the Commission proposes to centralise disclosures of prudential information with a view to increasing access to prudential data and comparability across industry. The centralisation of disclosures in a single access point established by EBA is also aimed at reducing the administrative burden for institutions.

Amendments to the Capital Requirements Regulation

The Committee on Economic and Monetary Affairs adopted the report by Jonás FERNÁNDEZ (S&D, ES) on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor.

As a reminder, the proposal amending Regulation (EU) No 575/2013 (the Capital Requirements Regulation or CRR) as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor aims to contribute to financial stability and to the steady financing of the economy in the context of the post-COVID-19 crisis recovery. It aims to strengthen and facilitate the allocation of capital and liquidity within banking groups in Europe without imposing a significant increase in their capital requirements.

The committee responsible recommended that the European Parliament's position adopted at first reading under the ordinary legislative procedure should amend the proposal as follows:

Level of application of the output floor

Members recalled that the output floor represents one of the key measures of the Basel III reforms. It aims at limiting the unwarranted variability in the regulatory capital requirements produced by internal models and the excessive reduction in capital that an institution using internal models can derive relative to an institution using the revised standardised approaches. Those institutions can do so by setting a lower limit to the capital requirements that are produced by institutions internal models to 72.5% of the capital requirements that would apply if standardised approaches were used by those institutions. Implementing the output floor faithfully should increase the comparability of the institutions capital ratios, restore the credibility of internal models and ensure that there is a level playing field between institutions that use different approaches to calculate capital requirements.

To harmonise the internal market for banking, the approach for the output floor should be coherent with the principle of risk aggregation across different entities within the same banking group and the logic of consolidated supervision. At the same time, the output floor should address risks stemming from internal models in both home and host Member States. The output floor should therefore be calculated at the highest level of consolidation in the Union. However, to avoid unintended impacts and ensure a fair distribution of capital, a competent authority may submit a capital redistribution proposal to the consolidating supervisor if it deems that this would lead to an inappropriate distribution of capital among the group entities. The notifying competent authority and the consolidating supervisor should then endeavour to make a joint decision on the application of the output floor, and if they do not reach a decision within three months, EBA should have a legally binding mediation role. EBA should assess the level of application of the output floor by 31 December 2027 in light of potential financial stability concerns and the progress in the banking union.

Proportionality

The implementation of the outstanding elements of the Basel III reform should avoid a significant increase in overall capital requirements for the EU banking system as a whole and take into account the specificities of the EU economy where there is sufficient evidence that the international framework does not take these specificities into account. In addition, the approach should ensure proportionality of rules and aim to further reduce compliance and reporting costs, in particular for smaller and non-complex institutions, without relaxing prudential standards.

Increasing coverage of external ratings

After the transition period, institutions should be able to refer to credit assessments by external credit assessment institutions (ECAIs) to calculate the capital requirements for a significant part of their corporate exposures. Rating solutions beyond the currently existing rating ecosystem should be developed to incentivise especially larger corporates to become rated. Avenues to attain this goal should consider the requirements related to external credit assessments, or the establishment of additional institutions providing such assessments.

Member States should assess whether a request for the recognition of their central bank as ECAI and the provision of corporate ratings by the central bank for the purposes of this Regulation may be desirable in order to increase the coverage of external ratings.

Prudential treatment of securitisation

The introduction of the output floor could have a significant impact on own funds requirements for securitisation positions held by institutions using the Securitisation Internal Ratings Based Approach(SEC-IRBA). The introduction of the output floor could affect the economic viability of the securitisation operation because of an insufficient prudential benefit of the transfer of risk. A mandate should be given to EBA to report to the Commission on the need to eventually provide for a specific arrangement increasing the risk-sensitivity of the standardised approach of the purpose of the calculation of the output floor.

Environmental, social and governance (ESG) factors and risks

Assets or activities subject to impacts from environmental and/or social factors should be defined by reference to the ambition of the Union to become climate-neutral by 2050 as set out in the EU Climate Law, the EU Nature Restoration Law, and the relevant sustainability goals of the Union.

The technical screening criteria for do no significant harm as well as specific Union legislation to avert climate change, environmental degradation and biodiversity loss should be used to identify assets or exposures for the purpose of assessing dedicated prudential treatments and risk differentials.

To ensure that competent authorities have granular, comprehensive and comparable data for effective supervision, information on ESG exposures should be included in the supervisory reporting of institutions.

Crypto assets

The rapid increase in the financial markets activity on crypto-assets and the potentially increasing involvement of institutions in crypto-assets

related activities should be thoroughly reflected in the Union prudential framework, in order to adequately mitigate the risks of these instruments for the institutions financial stability.

The recently published Basel Committee on Banking Supervision (BCBS) standards on the prudential treatment of crypto asset exposures provide for specific prudential treatment which should be implemented in Union law in due course. The Commission should, if appropriate, adopt a legislative proposal by 31 December 2024 to transpose the various elements of the BCBS standards into EU law. Until the legislative proposal is adopted, institutions' exposure to crypto assets should apply prudent capital requirements.

Transparency

BOYER Gilles	Shadow rapporteur	ECON	19/02/2024	BNP PARIBAS
BOYER Gilles	Shadow rapporteur	ECON	12/02/2024	Deutsche Bank AG
KARAS Othmar	Shadow rapporteur	ECON	30/11/2023	German Bausparkassen
BOYER Gilles	Shadow rapporteur	ECON	30/11/2023	Association for Financial Markets in Europe
FERNÁNDEZ Jonás	Rapporteur	ECON	21/11/2023	American Chamber of Commerce to the European Union
BOYER Gilles	Shadow rapporteur	ECON	26/10/2023	BNP PARIBAS
KARAS Othmar	Shadow rapporteur	ECON	23/10/2023	Chair of the European Banking Authority (EBA)
BOYER Gilles	Shadow rapporteur	ECON	20/10/2023	BNP PARIBAS
BOYER Gilles	Shadow rapporteur	ECON	14/09/2023	Société Générale
BOYER Gilles	Shadow rapporteur	ECON	13/09/2023	Crédit Agricole S.A.
FERBER Markus	Member	21/02/2024	Deutsche Börse Group	
FERBER Markus	Member	08/11/2023	Verband dt. Bürgschaftsbanken	
DE LANGE Esther	Member	22/03/2023	Nederlandse Vereniging van Banken / Dutch Banking Association	
DE LANGE Esther	Member	08/02/2023	International Credit Insurance & Surety Association	
DE LANGE Esther	Member	25/01/2023	Citigroup Inc.	
DE LANGE Esther	Member	01/12/2022	Deutsche Bank AG	
DE LANGE Esther	Member	29/11/2022	Aedes vereniging van woningcorporaties BNG Bank	
LALUCQ Aurore	Member	17/11/2022	Groupe Crédit Agricole	
ANDRESEN Rasmus	Member	16/11/2022	Fridays For Future	