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The Council unanimously agreed a general approach on two proposals - the so-called "CRD 4" package - amending the EU's rules on capital requirements for banks and investment firms, with a view to negotiations with the European Parliament.

It called on the presidency to start negotiations with the European Parliament, on the basis of the Council's general approach. The aim is to reach agreement on the texts at first reading, if possible by June 2012 as requested by the European Council. The proposals set out to amend and replace the existing capital requirement directives and divide them into two new legislative instruments: this regulation establishing prudential requirements that institutions need to respect and a directive governing access to deposit-taking activities. They are aimed at transposing into EU law an international agreement approved by the G-20 in November 2010 the so-called Basel 3 agreement concluded by the Basel Committee on Banking Supervision.

The regulation would be directly applicable in order to prevent divergences in implementation at national level.

The presidency's compromise text sets capital requirements and introduces initial liquidity requirements from 2013, according to national provisions, and a fully calibrated EU liquidity requirement from 2015.

To address longer term funding issues, the draft regulation calls on the Commission to submit by 31 December 2016 a report and, if appropriate, a legislative proposal for a stable funding requirement.

The draft regulation also provides for the introduction of a leverage ratio from 1 January 2018, if agreed by Council and Parliament on the basis of a report to be presented by the Commission in 2016.

Specifically, the draft regulation would require banks and investment firms to hold common equity tier 1 (CET 1) capital of 4.5% of risk weighted assets, up from 2% applicable under current rules (4.5% from 2015 onwards; in 2013 within the range of 3.5% to 4.5%; and in 2014 within the range of 4% to 4.5%). The total capital requirement remains unchanged at 8%.

The presidency's draft defines CET 1 capital instruments using 14 criteria, similar to those set out in Basel 3, and mandates the European Banking Authority (EBA) to monitor the quality of instruments issued by institutions.

Moreover, the draft regulation provides the opportunity for Member States to impose, for up to two years (extendable), stricter prudential requirements for domestically authorised financial institutions (i.e. requirements on level of own funds, requirements for large exposures, public disclosure requirements, the level of the capital conservation buffer, liquidity requirements and risk weights for targeting asset bubbles in residential and commercial property). Such a decision by a national authority could only be overruled if, following a negative opinion by the EBA, the European Systemic Risk Board (ESRB) or the Commission, the Council votes by qualified majority against the measures.

Member States would also be able to increase risk weights for residential and commercial property and intra financial sector exposures beyond those provided in the regulation and up to 25%.

The Commission, for its part, would also have the possibility to impose for one year stricter prudential requirements, via delegated acts addressed to all Member States.