Prudential requirements for credit institutions and investment firms. Capital Requirements Regulation (CRR)

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The Committee on Economic and Monetary Affairs adopted the report drafted by Othmar KARAS (EPP, AT) on the proposal for a regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.

It recommends that the European Parliaments position at first reading, under the ordinary legislative procedure, should amend the Commissions proposal as follows:

Objective of the Regulation: considering the devastating effects of the latest financial crisis the overall objectives of this regulation are to encourage economically useful banking activities that shall serve the general interest and to discourage unsustainable financial speculation without a real added value. This implies a comprehensive reform of the ways savings are channelled into productive investments.

Capital: in order to safeguard a sustainable and diverse banking environment in Europe, competent authorities should be empowered to impose significantly higher capital requirements for systemically important institutions that are able, due to their business activities, to pose a threat to the global economy.

Monitoring requirements should be equivalent throughout the Union taking into account the different risk profiles of the institutions. This Regulation should not apply to other types of institution, such as financial institutions that do not take deposits from the public.

Extending the EBAs activities: in assessing systemic relevance of institutions EBA should have regard to size, crossborder distribution and spill over effect, taking into account branch or subsidiary structure, interconnectedness via similarity of business model, or cross-guarantee schemes, or insurance clusters of independent entities with similar business models which may have systemic collective effects.

Given the inevitable extension of powers and tasks for EBA foreseen by this Regulation, the European Parliament, the Council and the Commission should see to it that adequate human and financial resources are made available without delay.

Revising the current regulatory and supervisory framework: supervisory approaches are based on a time horizon of no more than one year (calculation of value at risk, liquidity ratio), thus increasing investors propensity to shorten their investment horizons. The current regulatory and supervisory framework therefore needs to be revised in order to introduce provisions that will foster the long-term investment that the real economy needs. Alongside supervisory surveillance aimed at ensuring financial stability, there is a need for enhancing mechanisms designed to develop an effective surveillance and prevention of potential bubbles in order to ensure optimum allocation of capital in the light of the macroeconomic challenges and objectives, in particular with respect to long term investment in the real economy.

Loans to SMEs and consumers: in order to stimulate growth and job creation, Members have introduced new rules to reduce the risk weighted exposure amounts for credit risk for loans to SMEs and start-ups.

Ensuring maximum harmonisation: for reasons of legal certainty and because of the need for a level playing field within the Union, a single set of regulations for all market participants is a key element for the functioning of the internal market. In order to avoid market distortions and regulatory arbitrage, Pillar 1 measures should therefore ensure maximum harmonisation. As a consequence, the transitional periods provided for in this Regulation are essential for the smooth implementation of this Regulation and to avoid uncertainty for the markets. Member States and competent authorities should avoid adopting any diverging or frontrunning rules that impact or weaken the principle of maximum harmonisation under Pillar Competent authorities should be able to evaluate, under the applicable Pillar 2 processes, whether supervisory action is needed with regard to a certain credit institution or a group of credit institutions.

Deduction of the minority interests included in consolidated Common Equity Tier 1 capital: where the deduction of the minority interests included in consolidated Common Equity Tier 1 capital results in a disproportionate increase of capital requirement for certain types of credit institutions or investment firms, such institutions or firms should be exempted from the application of such rule.

Intermediate financial holding companies: the minority interests arising from intermediate financial holding companies that are subject to the requirements of this Regulation on a sub-consolidated basis may also be eligible (within the relevant limits) to the Common Equity Tier 1 of the group on a consolidated basis, as the Common Equity Tier 1 capital of an intermediate financial holding company attributable to minority interests and the part of that same capital attributable to the parent company support both pari passu the losses of their subsidiaries when they occur.

Overreliance on external credit ratings shall be reduced according to Members and all the automatic effects deriving from ratings should be gradually eliminate. Regulation should, therefore, require credit institutions and investment firms to put in place sound credit granting criteria and credit decision processes. External credit ratings may be used as one factor among others in this process but they should not rely solely or mechanistically on external ratings and these should not prevail.

International cooperation and coordination: these are vital in order to achieve an international level playing field and avoid regulatory arbitrage. In the context of the reluctant implementation of Basel III by the United States of America (USA), it is necessary to ensure that the economy and the banking system in the Union are not be placed at a competitive disadvantage. The Commission should therefore establish, by March 2012, which provisions in this Regulation cannot be implemented in the Union without a simultaneous implementation in the USA.

Accounting standards: common global accounting standards have still to be agreed, which could lead to inconsistency in comparing global implementation of Basel requirements, especially with regard to the calculation of risk-weighted assets, the leverage ratio, liquidity coverage ratio and the definition of groups. In this respect the Commission must strive towards achieving globally consistent accounting standards and at the very least achieving global comparability for prudential regulatory purposes.

Implementation of Basel III: the Commission should provide update reports on an ongoing basis, and at least following the publication of each Progress Report on Basel III implementation by the Basel Committee on Banking Supervisors, on the implementation and domestic adoption of Basel III in other major jurisdictions, including an assessment of the consistency of other countries' legislation or regulations with the international minimum standard to identify differences that could raise level playing field concerns.