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The Council broadly endorsed the outcome of the most recent political trilogue with the European Parliament on the CRD 4 package of legislation amending the EU's rules on capital and liquidity requirements for banks and investment firms.

The package sets out to amend and replace existing capital requirements Directives with two new legislative instruments: (i) a Regulation establishing prudential requirements that institutions must fulfil, and (ii) a Directive governing access to deposit-taking activities.

As regards the Regulation, the Council Presidency and the Parliament came to an agreement on the following key issues:

Capital requirements: the Regulation will be directly applicable in order to prevent divergences in implementation at national level. The Regulation:

- will require banks and investment firms to hold common equity tier 1 (CET 1) capital of 4.5% of risk weighted assets (until December 2014 between 4% to 4.5%), up from 2% applicable under current rules. The total capital requirement, which includes tier 1 and tier 2 capital, remains unchanged at 8% of risk weighted assets;
- 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.

Additional capital requirements in the form of buffers are introduced in the Directive.

Liquidity requirements: from 2015,

EU liquidity requirements from 2015 will be introduced, after an initial observation period, by means of a delegated act by the Commission.

The Regulation also:

- requires institutions to hold liquid assets, the total value of which would cover the net liquidity outflows that might be experienced under gravely stressed conditions over a period of 30 days;
- allows institutions, during times of stress, to use their liquid assets to cover their net liquidiy outflows;
- phases in the liquidity coverage ration (LCR) starting at 60% in 2015 and reaching 100% in 2018. A review in 2016 will enable the Commission to delay the introduction of the 100% ratio, if justified by international developments. Until the LCR is fully introduced, Member States may maintain or introduce national liquidity requirements;
- limits liquidity inflows to 75% of liquidity outflows to ensure that banks don't rely only on expected inflows to meet their outflows and instead hold a minimum amount of liquid assets equal to 25% of outflows.

Net stable funding ratio: to address longer term funding issues, the Commission will have to submit by 31 December 2016 a legislative proposal aimed at ensuring that institutions use stable sources of funding.

Leverage ratio: the Regulation will provide 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 by 31 December 2016. This will follow an initial observation period; from 1 January 2015, institutions will be required to disclose their leverage ratio.

The leverage ratio is a non-risk based measure and defined as an institution's tier 1 capital divided by its average total consolidated assets. Different levels would be set for institutions following different business models.

National flexibility - Macro-prudential powers: the Regulation will enable Member States to impose, for up to two years (extendable), stricter macro-prudential requirements for domestically authorised financial institutions in order to address increased risks to financial stability.

These stricter measures can apply to: (i) the level of own funds, (ii) liquidity requirements, (iii) large exposures requirements, (iv) the level of the capital conservation buffer, (v) public disclosure requirements, (vi) intra-financial sector exposures, and risk weights for targeting asset bubbles in the property sector.

The Council can reject, by qualified majority, stricter national measures proposed by a Member State.