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

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This report from the Commission aims to inform the European Parliament and the Council on market developments potentially requiring the use of Article 459 of the Capital Requirements Regulation (CRR) in the past year. It is based on an assessment provided by the European Systemic Risk Board (ESRB).

Background: pursuant to Article 459 CRR, the Commission may impose, for a period of one year, stricter requirements concerning the level of banks' own funds, large exposures, or public disclosure, under specific conditions, in particular upon the recommendation or the opinion of the European Systemic Risk Board (ESRB) or the European Banking authority (EBA).

However, these measures must be necessary to address changes in the intensity of micro-prudential and macro-prudential risks which arise from market developments in the Union or outside the Union affecting all Member States, and be imposed only if the instruments of the CRR and CRD IV are not sufficient to address these risks.

Conclusions and way forward: the Commission considers that it has not yet seen any circumstances that would warrant the use of Article 459 CRR. In accordance with this assessment, neither the ESRB nor the EBA have recommended that the Commission take action under Article 459 CRR at this stage.

The Commissions conclusions are based on the following observations:

- the situation of the EU financial system in the past year is considerably different from circumstances warranting measures under Article 459 CRR in the sense that there is no credit-driven overheating of the economy;
- in the current subdued growth environment, demand for credit should not boost excess leverage in the financial sector. Despite low interest rates, debt of nonfinancial corporations and households, relative to GDP, is not increasing in most EU Member States, and a downward trend is expected to set in once economic growth picks up;
- external developments are unlikely to lead to overheating pressure in the EU economy in the near term as both world GDP and world trade are forecast to grow substantial below long-term trends ;
- the banking sector is not increasing leverage. Banks' regulatory capital ratios picked up during 2015 and remained at about the same level during 2016 according to preliminary EBA data;
- banks' lending has also been subdued in the EU. For example bank lending to the private sector in the euro area has grown by less than nominal GDP in 2015 and 2016;
- lastly, according to the results of the 2016 EBA stress test, the aggregate EU banking sector is satisfactorily resilient to shocks. Changes of risks in this area could be more appropriately addressed by national measures under CRR/CRDIV than by broad-brush measures under Article 459 CRR.

EU financial stability risks identified by the ESRB: over the past year, the ESRB has identified four overarching risks for the European economy:

1. the risk of re-pricing of risk premia in global financial markets, amplified by low market liquidity ;
2. the risk of further weakening of banks and insurers balance sheets ;
3. the risk of deterioration of debt sustainability in sovereign, corporate and household sectors, and
4. the risk of shocks and contagion from the shadow banking sectors.

The report carries out a detailed examination of the relevance of these risks with respect to the adoption of measures under Article 459 of the CRR.