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

2011/0202(COD) - 21/12/2017 - Follow-up document

This Commission staff working document forms part of the review of the prudential treatment of investment firms, included in the 2017 Commission Work Programme as a REFIT exercise.

As a reminder, the objective of the review is to ensure an appropriate application of capital, liquidity and other key prudential requirements for these firms.

As set out in Regulation (EU) No 575/2013 (Capital Requirements Regulation), this review is carried out in consultation with the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) and the national competent authorities represented in these European Supervisory Authorities (ESAs).

The document:

- provides an overview of the business models of investment firms and nature of the market they operate in;
- explains the current prudential framework for investment firms and summarises the problems it represents and the problems and costs of the current framework;
- sets out the objectives for the review and the EBA's policy advice for a new prudential regime for investment firms;
- assesses the content and impact of the EBA advice for non-systemic firms.

Problems with the current prudential regime: the document stated that over time, there have been a number of changes in the prudential regulation of credit institutions. In particular, the internationally agreed standards developed in the Basel Committee on Banking Supervision have made prudential requirements more detailed and complex. In addition to the in-built complexity and lack of risk-sensitivity of the current regime, there is the added complexity of differing national transpositions and use of options in the framework.

Overcoming these problems implies setting the objectives below:

- more appropriate, risk-sensitive prudential requirements;
- a framework that accommodates investment firms for the business they conduct and avoids regulatory arbitrage;
- a streamlined regulatory and supervisory toolkit.

In conclusion, the document stressed that compared to the status quo, the EBA recommendations are considered to be an appropriate and proportionate means of achieving the objectives of the review in an effective and efficient manner.

More generally, the EBA advice is a clear positive step towards a prudential framework for investment firms which can both underpin the safe functioning of investment firms on a sound financial basis while not hindering their commercial prospects.