



Parliament votes reform package to strengthen EU banks

Plenary sessions 16-04-2013 - 16:50]

From 1 January 2014, EU banks will be stronger. Changes voted by Parliament on Tuesday will cap banker's bonuses to curb speculative risk-taking, step up capital provisions to help banks cope better with crises and stiffen supervision. This EU banking reform package, the most comprehensive so far, should also spur growth, by making it easier for banks to lend to small firms that drive the real economy.

"The new set of rules is the furthest-reaching banking regulation in the EU to date. The new single rule book for all its 8,200 banks is the foundation on which the EU banking union must be built. The single supervisory mechanism will be the roof. We must now add the walls: the resolution framework for banks and deposit guarantee schemes. As legislators, we do not regulate salary levels. The rules on bankers' bonuses will instil fairness and transparency and contribute to a change in banking culture", said lead MEP Othmar Karas (EPP, AT).

Bankers' bonuses

To curb speculative risk-taking, the basic salary-to-bonus ratio will be 1:1. This could be raised to a maximum of 1:2, if approved by at least 66% of shareholders owning half the shares represented, or of 75% of votes if there is no quorum.

To encourage bankers to take a long-term view, a minimum of 25 % of any bonus exceeding 100% of salary, must be deferred for at least five years.

Capital requirements and buffers

EU banks will be required to set aside more and better capital as a cushion against hard times, i.e. a minimum of 8% good-quality capital, of which just over half must be Tier 1, the highest-quality, lowest-risk form (a doubling of today's Tier 1 requirement). This capital must be reasonably liquid, i.e. readily convertible into cash needed to pay depositors and creditors in an emergency.

Banks will also be required to hold a "capital conservation buffer" to absorb losses and protect their capital, and a "countercyclical capital buffer" to ensure that in times of economic growth, they accumulate a sufficient capital base to enable them to continue supplying a stable supply of credit in stress periods.

Lending to the real economy

To encourage banks to lend to small and medium-sized enterprises (SMEs), the new rules will reduce the nominal risk that they must assign to these loans. This in turn will reduce the amount of capital that they must set aside to cover loans that could turn bad, thus making more available for lending.

Disclosure and supervision

The legislation will require banks to disclose profits made, taxes paid and subsidies received country by country, as well as turnover and number of employees. From 2014,

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these figures should be reported to the European Commission and from 2015 made fully public.

Banks will be supervised by EU member states' competent authorities, in collaboration with the European Banking Authority (EBA), whose supervisory powers will be expanded.

Regulation and Directive

The package consists of a Capital Requirements Regulation (CRR), and a fourth edition of the Capital Requirements Directive (CRD IV).

The CRR introduces the first single set of prudential rules for banks across the EU. It applies directly to all banks in EU member states. It should help to ensure that the Basel III international standards for bank capital adequacy are fully respected in all EU member states.

The CRD IV allows EU member states some flexibility, such as the right to require their domestic banks to set aside more capital than is required by the legislation, e.g. to cushion them against property price crashes.

The CRR was approved by 595 votes to 40, with 76 abstentions and the CRD IV by 608 votes to 33, with 67 abstentions.

Next steps

The new rules must be formally approved by the Council of Ministers to apply from 1 January 2014.

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