European Parliament

Banking union

Parliament is expected to vote on provisional agreements on amendments to the Capital Requirements Directive (CRD) and to the Capital Requirements Regulation (CRR) during the April II plenary session. The CRD and CRR provide the prudential framework in the EU banking single rulebook. The Commission tabled a package of two interconnected proposals to amend the CRR and the CRD in 2021. The objective is two-fold: (i) implement final Basel Agreement arrangements; and (ii) enhance harmonisation of banking supervision in the EU.

Background

The requirement for prudential capital – also known as 'own funds' – is essential to preventing bank failures. Own funds are determined for each asset class according to its riskiness and by assigning it a 'weight': the riskier the asset, the higher the weight. Asset-class weights are 'standardised' and determined by the supervisor for all banks. Alternatively, a bank may opt to use an 'internal model' to determine its own weights, upon approval by the supervisor. Regulators have observed discrepancies between standardised and internal model weights, which they considered excessive on average. The Basel Committee – the main forum for regulatory coordination (hence the 'Basel Agreement') – decided to take coordinated action to reduce these discrepancies.

European Commission proposal

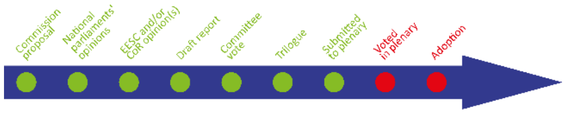
The major innovation in the Commission's proposal is the introduction of a lower bound – the 'output floor' – for the capital requirements of banks using their internal models, equivalent to 72.5 % of the standardised approaches. The transition period is set at six years. The Commission's proposal also considers environmental, social and governance (ESG) components in the risk assessment. It also aims to harmonise the 'fit-and-proper framework' for the appointment of directors, which, according to the Commission, remains 'largely principle-based' and insufficiently detailed.

European Parliament position

Reports from Parliament's Committee on Economic and Monetary Affairs (ECON) support the Commission's package of proposals. The report on the CRR amendments extends the derogation limit to up to four years, and risk-weighted exposure should be calculated on a group consolidated basis. The ECON report on CRD amendments states the specificity of climate-related environment risks 'requires that such risks be managed over a period of at least ten years', and requires that banks disclose their exposure to crypto-assets. Parliament also requested that unsuitable persons be excluded from management boards of large banks.

Provisional political agreements on the two proposals were reached between Council and Parliament negotiators in June 2023. They retain the main lines of the Commission proposal, and most of the committee's amendments. The 'output floor' would be applied at an entity level, and fully implemented within a transitional period. When assessing the value of collateral, banks will now take ESG risks into account. Disclosure of crypto-asset exposure will be mandatory.

First-reading reports: 2021/342(COD) and 2021/0342(COD); Committee responsible: ECON; Rapporteur: Jonás Fernandez (S&D, Spain). For further information see our 'EU Legislation in progress' briefing.



Outcome of the Conference on the Future of Europe: This proposal is relevant for measure 12(4).

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