

# Amendments to banking capital requirements legislation

## OVERVIEW

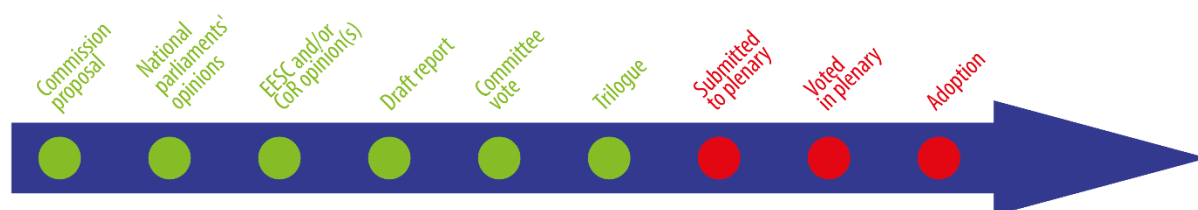
In the aftermath of the 2008 financial crisis, which showed the need for more sophisticated and demanding capital requirements for banks, new regulations were agreed at international level – known as the Basel III Agreements. In the EU, they were implemented essentially by amending the Capital Requirements Directive (CRD) and adopting the Capital Requirements Regulation (CRR).

On 27 October 2021, the Commission tabled two interconnected proposals to amend the CRR and the CRD, respectively. The objective is two-fold: (i) implementing the final arrangements of the Basel Agreement; and (ii) enhancing the harmonisation of banking supervision in the EU.

The main amendments concern the introduction of an 'output floor', i.e. a lower bound for minimum capital requirements calculated using banks' own methods, consideration of environmental, social and governance (ESG) components in risk assessment, and harmonisation of the selection of board members and directors of credit institutions.

The Council issued its common approach in November 2022. The decision by Parliament's ECON Committee to enter negotiations was confirmed in plenary on 15 February 2023. A provisional agreement was reached on 29 June 2023.

<b>Proposal for amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor; Proposal for amending Directive 2014/59/EU; amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor</b>		
<i>Committee responsible:</i>	Economic and Monetary Affairs (ECON)	COM(2021) 663
<i>Rapporteur:</i>	Jonás Fernández (S&D, Spain)	27.10.2021;
<i>Shadow rapporteurs:</i>	Othmar Karas (EPP, Austria); Erik Poulsen (Renew, Denmark) 2021/0341 (COD) / Gilles Boyer (Renew, France) 2021/0342 (COD); Ville Niinistö (Greens/EFA, Finland); Marco Zanni (ID, Italy); Johan Van Overtveldt (ECR, Belgium); Dimitrios Papadimoulis (The Left, Greece)	COM(2021) 664 27.10.2021 <a href="#">2021/0341(COD)</a> ; <a href="#">2021/0342(COD)</a>
<i>Next steps expected:</i>	Approval of the text agreed in trilogue	Ordinary legislative procedure (COD) (Parliament and Council on equal footing – formerly 'co-decision')



## Introduction

On 27 October 2021, the European Commission made two interconnected proposals for the regulation of credit institutions:<sup>1</sup>

- a proposal to amend the regulation on prudential requirements for credit institutions (known as the 'Capital Requirements Regulation' (**CRR**), [575/2013](#)), as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor (**CRR amending proposal**, [COM\(2021\) 663](#));
- a proposal to amend the directive on access to the activity of credit institutions and the prudential supervision of credit institutions capital requirement directive (known as the 'Capital Requirements Directive' (**CRD**), [2013/36/EU](#)), as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks (**CRD amending proposal**, [COM\(2021\) 664](#)).

The legal basis for the proposal is [Article 114](#) of the Treaty on the Functioning of the European Union (**TFEU**), which allows the adoption of measures for the approximation of provisions laid down by law in Member States of the European Union (**EU**), and which have as their object the establishment and functioning of the internal market ([Article 26 TFEU](#)).

The objectives of the amending proposals are to strengthen the risk-based capital framework, without significant increases in capital requirements overall, while enhancing the focus on environmental, social and governance risks in the prudential framework. The CRD amending proposal also aims to further harmonise supervisory powers and instruments, while reducing banks' administrative costs related to public disclosures and to improve access to banks' prudential data.

## Context

The allocation of prudential capital (also known as '[own funds](#)') is an essential component of the asset-liability management of credit institutions to prevent insolvency.<sup>2</sup> The prudential capital is determined for each asset as a function of its degree of risk in order to prevent excessive risk taking; at the aggregate level of each individual bank, the assets are 'risk-weighted' and the 'risk-weighted assets' (**RWA**) are computed. The regulator establishes the level of adequate capital – i.e. the capital requirement – that those institutions must hold, and this is expressed as a ratio between the institutions' capital base and their risk-weighted assets.

$$(1) \quad \text{Bank's capital ratio} = \frac{\text{Risk-Weighted Assets (RWA)}}{\text{Capital}} > \text{capital requirement}$$

The regulator sets the weights associated with each asset class and for the value of the ratio,<sup>3</sup> or alternatively, allows banks under certain conditions to determine the risk weights themselves. Because higher capital requirements have a negative impact on credit institutions' returns on equity, the capital requirements need to be coordinated across countries by the Basel Committee on Banking Supervision (**BCBS**)<sup>4</sup> to avoid a regulatory race to the bottom.

In December 2010, the BCBS adopted a set of standards on capital requirements in response to the financial crisis of 2007-2009, known as the '[Basel III framework](#)'.<sup>5</sup> The Basel III framework set out enhanced standards to strengthen financial institutions' capital base, improve risk management and governance, and increase transparency for market participants. In 2013, the Basel III framework was introduced into EU law through the '[CRD-IV package](#)' – the third set of amendments to the original CRD – and the CRR.

However, some components of Basel III needed further specification. Moreover, there was an emerging concern among supervisors that banks' internal methods for capital requirements are so difficult to supervise that some simplification or backstops are needed. Therefore, the BCBS initiated a review of Basel III in 2012, which resulted in a set of provisions known as the '[Basel III finalisation](#)' – agreed in December 2017. In June 2019, the EU [amended](#) the CRR and the CRD to implement the Basel III framework finalisation, referred to as the 'CRD V package'.

## Existing situation

### Internal ratings-based approach vs standardised approach

In order to assess the riskiness of the assets, Basel III allows banking institutions to [opt](#) either for an internal ratings-based (IRB) approach or for the standardised approach offered by the supervisory authorities. An institution which opts for the IRB approach uses its own resources to estimate the probability of default for each class of assets (foundation IRB), and may as well estimate the loss-given-default and the exposure-at-default (advanced IRB) – provided the models and methodologies are approved by the supervisory authority. The IRB is considered to calibrate better the risk assessment and prevent excessive capital allocation. However, some [reports](#) published by the EAB suggest that the large degree of variability in risk weights between the IRB and standardised approaches is unlikely to be justified.

[Analyses](#) performed by the EBA and the ECB show that the capital requirements based on banks' IRB approaches exhibit significant variations, which are probably not justified by the differences in the underlying risks. This has raised doubts about the reliability and comparability of their capital ratios. Moreover, there are fundamental issues with the capital requirements calculated under the standardised approach, which are considered insufficiently sensitive to riskiness and may seem excessive in some cases. In December 2017, the BCBS agreed on a [final set](#) of reforms – known as the 'Basel III finalisation' – to the international banking regulation standards to address these problems, which were observed in several [studies](#) beyond the EU. In March 2018, the G20 Finance Ministers and Central Bank Governors [welcomed](#) these reforms, reiterating that the G20 remain 'committed to the full, timely and consistent implementation and finalisation of the reforms'; on 7 December 2017, the [Financial Stability Board](#)<sup>6</sup> [had issued](#) an opinion supporting the reforms. In 2019, the Commission announced its intention to table a legislative proposal to implement these reforms in the EU prudential framework.

## Preparation of the proposal

The Commission has published the impact assessments of the proposals.<sup>7</sup> It argues that the deficiencies of internal models for calculating risk-based capital requirements can be addressed by the ECB and EBA to some extent, but not entirely, given the flexibility offered by the current framework to design internal models such as the internal-ratings based approach (see box above). The impact assessment also shows that implementing the new capital requirements in the proposal could lead to an increase in the total minimum capital requirements of 6.4 % to 8.4 % in the long term (by 2030). The EBA estimates that a limited number of large institutions (10 out of 99 institutions in the test sample) may have to raise, collectively, additional capital of less than €27 billion.<sup>8</sup> More generally, while institutions would incur one-off administrative and operational costs to implement the proposed changes in the rules, no significant increases in costs are expected. In addition, the simplifications implied by several of the preferred options (e.g. removal of internally modelled approaches, centralised disclosures) are expected to reduce costs compared to today.

## The changes the proposal would bring

Overall, the proposals have two objectives: (i) strengthening financial stability; and (ii) enhancing the financing of the economy in the post-pandemic context. For this purpose, they aim to:

- 1 strengthen the risk-based capital requirements framework with a non-significant increase of required capital;
- 2 enhance the focus on environmental, social and governance (ESG) risks in the framework;
- 3 enhance the harmonisation of supervision;
- 4 reduce the administrative costs related to public disclosures and improve access to prudential data in financial institutions.

## The CRD amending proposal

More specifically, the CRD amending proposal would [clarify](#) the powers of supervisory authorities, preserving the independence of staff and bodies and bringing harmonisation at the same time. The amendments would expand the list of supervisory powers to cover operations such as 'acquisitions by a credit institution of a material holding in a financial or non-financial entity' ([new Chapter 3 in the current Title III](#)), the 'material transfer of assets or liabilities' ([new Chapter 4](#)) and 'mergers and divisions' ([new Chapter 5](#)).

The CRD amending proposal 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. The amending directive introduces clauses to [Article 91](#) with a view to clarifying the role of banks and competent authorities in checking the compliance of board members, including the timing of such assessments, and setting minimum requirements for key function holders.

[Article 91a](#) introduces the 'suitability assessment of members of the management body by the entities'. This specifies, in particular, that the institutions shall ensure that information on the suitability of members of the management body remains 'up-to-date' and, where requested, that the institution shall 'communicate that information to the competent authorities'. [Clause 91b](#) specifies that Member States shall ensure that 'competent authorities assess whether members of the management body of the entities as referred to in Article 91(1) fulfil the criteria and requirements set out [in the CRD]'; and, for the assessment, that the institutions 'shall submit the initial application of the relevant member of the management body to the competent authorities without undue delay after the internal suitability assessment is completed'. That application must be accompanied by all the information and documentation necessary for the competent authorities to carry out the suitability assessment effectively. The competent authorities must complete the assessment within 80 working days.

The amending directive also introduces the ESG risks, by requiring institutions to include the latter in the evaluation of internal capital needs in the short-, medium- and long-term. Moreover, the management of the bank must develop 'concrete plans' to address these risks. It also [enhances](#) the sustainability dimension in the prudential framework to ensure better management of ESG risks; states that 'competent authorities shall ensure that institutions test their resilience to long-term negative impacts of environmental, social and governance factors, both under baseline and adverse scenarios within a given timeframe, starting with climate-related factors' ([new Clause 87a](#)); and mandates the EBA to specify further the criteria for assessing ESG risks.

## The CRR amending proposal

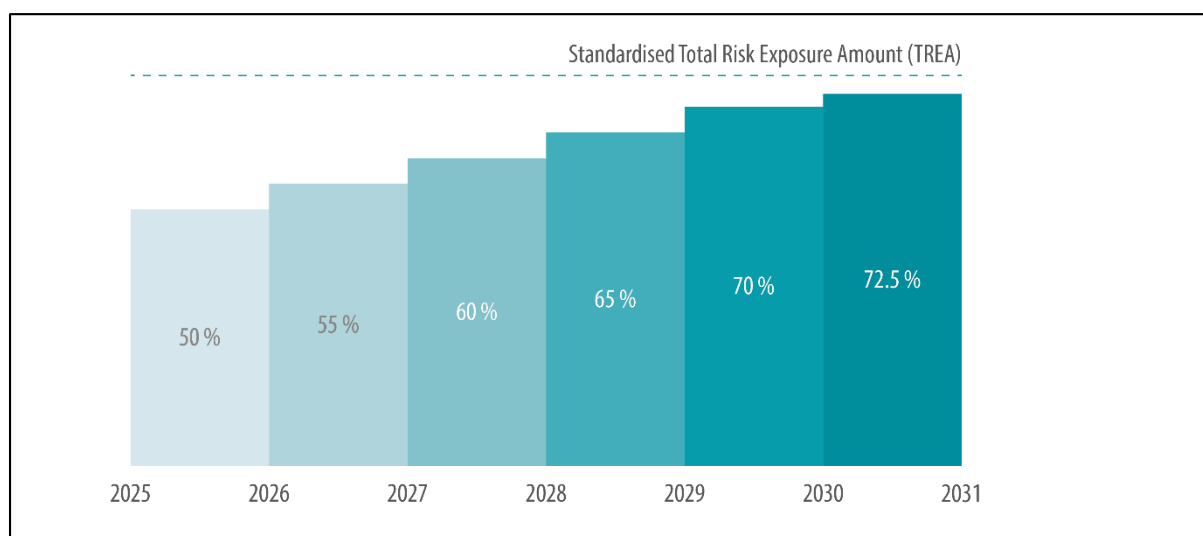
The CRR amending proposal essentially focuses on the capital requirements of banks. The major innovation in the proposal is the introduction of a lower bound for the minimum capital requirements calculated using banks' internal methods (such as the IRB approach) equivalent to 72.5 % of the standardised approaches – known as the 'output floor'. The total risk exposure amount ([TREA](#)) is to be used to calculate the minimum (so-called 'Pillar 1') own funds requirements.<sup>9</sup> The 'floored TREA' would be used at parent level only. [CRR Article 92](#) (on own funds requirements) would

thus be [amended](#) so that institutions using the internal methods would need to have a TREA at least equal to 72.5 % of the TREA determined by the standardised approach, as follows:

Total Risk Exposure Amount (TREA) = Max [Internal ratings-based TREA; 72.5 % Standardised TREA]

The CRR amending proposal envisages transitional arrangements for the implementation of the floor, as described in Figure 1.

Figure 1 – Transitional arrangements for the implementation of the output floor



Source: EPRS.

The standardised approach for credit risk is also amended in order to increase its risk sensitivity in several aspects, especially off-balance sheet<sup>10</sup> items and commitments, exposure to institutions and corporations, and treatment of corporate risk exposure and of specialised lending risk exposure. For instance, [CRR Article 122](#) would be [amended](#) to reduce the risk weight of the class 3 risk level for which a credit rating is available from 100 % to 75 %. The proposal's amendments to CRR Article 122 would also introduce new asset classes with specific weights, namely project finance, object finance and commodities finance. The risk weights of such project-related funding that benefits from a credit rating would follow the same pattern as that of corporate exposure. The new Clause 122 would also define risk weights in terms of the type of financing, so that it does not reach 150 % (the highest weight on the scale).

The amendments regarding the risk weights used in the standardised approach are modified in a wide range of asset classes, including currency mismatches, secured real assets and subordinated debts, with the aim of creating more granularity in risk weights according to financing characteristics. For instance, risk weights on secured real estate financing take into account the type of financing and the stage of the construction.

The proposal would also reduce the scope of the IRB approach. For instance, for large corporations the use of the advanced IRB approach would no longer be available and any IRB approach would no longer be possible for equity exposure.

The CRR amending proposal would also modify the market risk framework, including 'clarification' of the definition of the trading desk, a derogation that allows a reduction in the total additional value adjustment under extraordinary circumstances, and the criteria for assigning positions to the trading book or to the banking book.

The proposal also introduces modifications to the credit valuation adjustment (**CVA**), which is the market value (fair value) accounting adjustment to the price of derivative transactions. In particular, the definition of the CVA risk is modified to capture the credit spread risk of a counterparty and the



market risk of the portfolio of transactions traded by the institution with that counterparty. It also modifies the 'own funds' that can be used for CVA risk.

The amendments also cover the operational risk and the leverage ratio. The calculation of the total exposure measure is adjusted to align the treatment of client-cleared derivatives with international standards.

Finally, by introducing new provisions, the different types of ESG risks are harmonised, and institutions would be required to report ESG risk exposure to the supervisory authorities.

## Advisory committees and European authorities

In its [opinion](#) of 29 July 2022, the European Economic and Social Committee (EESC) supports a forward-looking capital policy using a risk-weight approach, while also considering the 'need to boost the competitiveness of EU banks and to increase the financing of sustainable growth'. It also welcomes the implementation of the remaining elements of the international standards agreed by the BCBS, which are meant to enhance the stability of the EU financial market.

However, the EESC calls on legislators to make sure that the proposals envisage a proper balance between the two complementary objectives, namely (i) ensuring that EU banks become more resilient, and (ii) the need to ensure financial soundness and competitiveness in the sector to support the role of banks in financing the real economy.

The EESC calls on the Commission to perform periodic assessments of the actual impact of the proposals, in order to evaluate whether their implementation contributes to more financial market stability and resilience in the banking sector, while also taking into account the competitiveness of EU banks.

The EESC also welcomes the Commission's approach of strengthening the focus on ESG risks in the prudential framework, including better accounting for financial market risks related to climate change.

## National parliaments

The deadline for the submission of reasoned opinions on the grounds of subsidiarity was 8 February 2022 for both proposals. No subsidiarity concerns were raised, either about the proposal for an amending directive ([COM\(2021\) 663](#)) or the proposal for an amending regulation ([COM\(2021\) 664](#)).

## Stakeholder views<sup>11</sup>

In its [opinion](#) of 24 March 2022, the ECB welcomes the proposals, which would enhance the prudential framework for credit institutions in various areas, emphasising the importance of finalising the EU implementation of the Basel III reforms in a 'timely, full, and faithful manner', because there are key shortcomings in the current EU legislative framework. It welcomes the introduction of an output floor, but notes that the significant transitional arrangements envisaged would lead to lower risk weights than those envisaged in the Basel standards. The implementation of the new standardised approach for credit risk envisaged by the proposals is welcome too, although it notes 'with concern' that there are several 'gaps' with the Basel III standards, which leave the EU institutions exposed to 'pockets of unaddressed risks'.

In its [opinion](#) of 27 April 2022, the ECB supports the CRD amending proposal, which it considers an appropriate instrument for strengthening the EU prudential framework and tackling emerging risks to banks (especially those stemming from the climate crisis). The ECB argues that the proposal will harmonise rules and powers across the EU, which would be implemented evenly across banks, regardless of the EU country in which they are headquartered.<sup>12</sup>

[Finance Watch](#), a European non-governmental organisation for the protection of consumers,<sup>13</sup> [argues](#) that the proposal is less ambitious than the global agreements, at the expense of consumers.

In fact, although it welcomes the initiative, Finance Watch notes that the 'primary and overarching objective of the Basel III process – to restore financial stability and protect EU citizens and society at large from excessive risk-taking in the banking sector – is no longer mentioned as a policy objective in the Commission's list of trade-offs that shaped its legislative proposal'. Instead, it merely commits to 'implement the Basel III agreement faithfully'. Finance Watch regrets that the large and globally systemic banks would be allowed to continue operating with lower levels of capital, on average, providing them with a competitive advantage over smaller and mid-sized banks. Moreover, the systemic risk emanating from a poorly capitalised banking sector would remain, and taxpayers would remain liable to underwriting the losses of underperforming banks.

## Legislative process

Announced in plenary on 17 January 2022,<sup>14</sup> the two proposals were referred in the European Parliament to the Committee on Economic and Monetary Affairs (**ECON**); the rapporteur for both proposals is [Jonás Fernández](#) (S&D, Spain).

## Parliament's negotiating position

The draft reports for interinstitutional negotiations were presented in the ECON committee on 30 May 2022 by rapporteur Jonás Fernández. The reports, on the amending regulation proposal and the amending directive proposal, were adopted by the Committee on 24 January 2023. The Committee's decision to enter into interinstitutional negotiations was announced in plenary on 13 February 2023, and confirmed in plenary on 15 February 2023.

Some notable changes put forward by the [report](#)<sup>15</sup> on the CRD amending proposal include areas of ESG, where it states that the specificity of climate-related environment risks 'requires that such risks be managed over a period of at least ten years' ([Recital 12a](#)), and that the EBA should base its scenarios on scientific evidence ([Recital 34](#)). Moreover, in the amendment to [CRD Article 23](#), the 'EBA shall develop draft regulatory technical standards specifying the minimum list of information to be provided', and submit those standards to the Commission within 18 months of the date of entry into force. [Recital 34a](#) was also introduced to emphasise that 'institutions need to integrate into the definition and implementation of their policies and activities the role of promoting sustainable development' as set out in the regulation establishing the framework for achieving climate neutrality ([Regulation 2021/1119](#)) and the competent authorities should assess the extent to which institutions address ESG. The text also supports proportionality, as it adds that 'small and non-complex institutions should be given more flexibility in line with the principle of proportionality' ([Recital 38](#)). Lastly, the Commission amendment giving the ECB competence for the assessment of mergers or divisions of large institutions ([Article 27k](#)) is [deleted](#) in Parliament's position text, leaving assessment to the competent authorities of the Member States.

The most notable changes put forward by the [report](#)<sup>16</sup> on the CRR amending proposal include the introduction of [Recital 42a](#), which affirms that the involvement of institutions in crypto-asset-related activities should be thoroughly reflected in the EU prudential framework, which inadequately captures the risks inherent to crypto-assets. The report calls on the Commission to adopt a proposal by 31 December 2024 to transpose the [standards](#) agreed in December 2022 by the BCBS. However, until the legislative proposal is adopted, institutions' exposure to crypto-assets should apply prudent own funds requirements. Article 451 is amended (new [Article 451b](#)) to provide for information provision in this regard, and a risk weight of 1 250 % should be applied until then (new [Article 461b](#)).

The transitional provisions for the output floor were retained, with an extension of the derogations limited to up to four years. Moreover, the report would amend Article 92 ([Article 92-a](#)) in such a way that risk-weighted exposure should be calculated on a consolidated basis. However, the competent authority responsible for supervising a subsidiary of an EU parent institution may submit a capital redistribution proposal to the parent institution's supervisor. Where the authorities do not reach a

joint decision, the EBA shall have a 'legally binding mediation role' to resolve disputes between competent authorities.

The report also acknowledges ([Recital 30b](#)) that the output floor may have a significant impact on the economic viability of the securitisation operations. A mandate should thus be given to the EBA to report to the Commission on the need to eventually provide for a specific arrangement increasing the risk-sensitivity of the standardised approach for calculating the output floor.

In addition, Article 116 (on exposure to public entities) is [amended](#) in such a way that the EBA would be obliged to 'maintain a publicly available database of all public-sector entities [...] which competent authorities consider as having no difference in risk as exposures to the central government, regional government or local authority in whose jurisdiction the public-sector authority is established' (new [Article 36b](#)).

The report also requires further legislative action. For instance, it provides that, by 31 December 2025, the EBA should submit a report on the 'implementation of the international standards on own funds requirements for market risk in third countries'; on the basis of that report, and if appropriate, the Commission will submit a legislative proposal to ensure a level playing field ([Amendment 193](#)).

## The Council's negotiating position

In November 2022, the Council [agreed](#) on its position. For the Council, the 'output floor' should apply both at banking group level and at the level of each individual bank, although Member States can allow application of the output floor at the highest level of consolidation for entities in their country.

The Council also added 'technical improvements' to the areas of credit risk, market risk and operational risk, and added 'enhanced' proportionality rules for small banks, particularly concerning disclosure requirements for small and non-complex institutions.

The Council further considered the 'national specificities and practices' as regards a fit and proper framework, and a more 'proportionate and targeted' framework for cooling-off periods has been imposed for staff and members of governance bodies of competent authorities before they can take up positions in supervised institutions.

Lastly, the Council's position aims to harmonise minimum requirements applicable to branches of third-country banks and the supervision of their activities in the EU, and to harmonise supervisory tools and powers to make the framework more suited to Member States' specific market conditions.

## Provisional agreement

On 27 June 2023, the European Parliament and the [Council](#) reached a [provisional agreement](#), with the following main components:<sup>17</sup>

### ➤ Capital requirements

The 'output floor' would be applied at an entity level, and fully implemented within a transitional period. However, the Commission will assess the overall situation of the banking system, in cooperation with the EBA and the ECB, by the end of 2028, and report to Parliament and to the Council on the appropriateness of the framework.

### ➤ Environmental social and governance (ESG) risks

ESG risks are an important aspect of the amendments, and take into account the EU's carbon neutrality objective in particular. When assessing the value of collateral, banks will take into account ESG risks; the EBA will assess whether a dedicated prudential treatment for exposures to ESG risks is required. They also agreed on lower risk weight for exposures to the EU Emissions Trading System (40%) to fight climate change, and to support the role of banks in financing the green transition.



- **Crypto-asset risks**  
Banks will have to disclose their exposure to crypto-assets, and capital requirements will be put in place until the Commission makes a legislative proposal consistent with the work of the Basel Committee.
- **Management board and conflicts of interest**  
New provisions would promote diversity and gender balance on management boards. A harmonised 'fit and proper' framework for assessing the suitability of members of the institutions' management bodies and key function holders will be implemented, and their suitability will require the approval of the competent authorities. Moreover, a 'cooling-off period' will be required for staff and members of governance bodies of competent authorities before they can take up positions in supervised institutions.
- **Third-country regime**  
The agreement would harmonise minimum requirements applicable to branches of third-country banks and the supervision of their activities in the EU.

## Next steps

The provisional political agreement will have to be approved first by the ECON committee, then by a plenary vote. The Council also has to approve the deal before it can come into force.

## EUROPEAN PARLIAMENT SUPPORTING ANALYSIS

De Haan J., [Resolving Banks: The Retail Challenge](#), DG IPOL, European Parliament, October 2022.

Grigaite K., Magnus M. and Pacheco Dias C., [Update on recent banking developments](#), DG IPOL, European Parliament, October 2021.

Stamegna C., [Amending capital requirements: The 'CRD-V package'](#), EPRS, European Parliament, July 2019.

Stamegna C., [Amending the bank resolution framework – BRRD and SRMR](#), EPRS, European Parliament, June 2019.

Resti A., Banks' internal rating models – time for a change? The 'system of floors' as proposed by the Basel Committee, DG Internal Policies, European Parliament, November 2016.

## OTHER SOURCES

[Amendments to the Capital Requirements Directive \(2021/0341\(COD\)\)](#), Legislative Observatory (OEIL), European Parliament.

[Amendments to the Capital Requirements Regulation \(2021/0342\(COD\)\)](#), Legislative Observatory (OEIL), European Parliament.

European Banking Authority, [Risk Assessment of the European Banking System](#), December 2020.

## ENDNOTES

- <sup>1</sup> A 'credit institution' is defined by the CRR and the CRD as 'an undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account' ([CRR Article 4\(1\)](#)).
- <sup>2</sup> (Prudential) capital is equity and equity-like instruments that a credit institution raises, on top of deposits, to finance its activities. Institutions 'allocate' capital to their assets in function of the respective riskiness of the latter; in so doing, capital bears the 'first losses' incurred by the assets, if any. The other liabilities of the institution, especially deposits, bear the subsequent losses. The list of financing instruments that can be used as capital is [established](#) by the CRR.
- <sup>3</sup> Equation (1) shows that, for a given *capital requirement*, the weights on an asset class will determine the capital requirements to hold it.  
In fact, suppose that the *capital requirement* equals 8 %, and the weight on Asset A is **100 %**. As a result, in order for the institution to hold €100 worth of Asset A, it is 'required' to be financed with (at least) **100 % x 8 % x €100 = €8** of capital.  
Instead, suppose the weight on another asset, Asset B, is **50 %**. As a result, in order for the institution to hold €100 worth of Asset B, it is 'required' to be financed with (at least) **50 % x 8 % x €100 = €4** of capital.  
Overall, in order for the institution to hold €100 worth of Asset A and €100 worth of Asset B (total asset = €200), it is 'required' to be financed with (at least) €8 + €4 = **€12** of capital.
- <sup>4</sup> The Basel Committee on Banking Supervision ([BCBS](#)) is the primary global standard-setter for the prudential regulation of banks and provides a forum for regular cooperation on banking supervisory matters. Its 45 members comprise central banks and bank supervisors from 28 jurisdictions.
- <sup>5</sup> There have been three [Basel Accords](#): Basel I (1988), Basel II (2004) and Basel III (2010). However, the Basel III agreement was designed in several phases and the last one was completed in 2017.
- <sup>6</sup> The [Financial Stability Board](#) (FSB) is an international body that monitors and makes recommendations about the global financial system. It promotes international financial stability, by coordinating international standard-setting bodies as they work toward developing strong regulatory, supervisory and other financial sector policies.
- <sup>7</sup> There were three accompanying documents: the impact assessment ([SWD\(2021\) 320](#)) and its executive summary ([SWD\(2021\) 321](#)), on the one hand, and the opinion of the [Regulatory Scrutiny Board](#) (RSB, [SEC\(2021\)380](#)), on the other hand. The RSB is an independent body within the Commission that advises the College of Commissioners.
- <sup>8</sup> According to the EBA study, the 99 institutions in the sample (representing 75 % of EU banking assets) held a total amount of regulatory capital worth €1 414 billion at the end of 2019.
- <sup>9</sup> The TREA is defined in CRD Article 93, and includes, among other things: (i) the capital conservation buffer requirement; (ii) the countercyclical capital buffer requirement; (iii) the buffer requirements for global systemically-important institutions; and (iv) the systemic risk buffer.  
Note that the output floor is also present in the CRD amending proposal through the Pillar 2 requirement and the systemic risk buffer.
- <sup>10</sup> An off-balance sheet item is a contract between the bank and a party for which funds may not be disbursed; they do not appear on the balance sheet of the bank. Under some circumstances, however, the bank may have to make disbursements and/or payments. For instance, commitment loans, whereby a bank commits to lend up to a certain amount at the request of the customer for a period of time, are typical off-balance sheet items. Derivative instruments, whereby gains/losses may be incurred under certain circumstances, are another type of off-balance sheet item.
- <sup>11</sup> This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all different views on the proposal. Additional information can be found in related publications listed under 'European Parliament supporting analysis'.
- <sup>12</sup> For a summary, see the [press release](#) issued on 28 March 2022.
- <sup>13</sup> Finance Watch is an NGO whose [members](#) include the European Consumer Organisation ([BEUC](#)), the European Trade Union Confederation ([ETUC](#)), [Oxfam International](#), [Transparency International](#), and other national consumer and labour associations in the EU and the United Kingdom.
- <sup>14</sup> See the European Parliament Legislative Observatory ([2021/0341\(COD\)](#)) (Amending directive proposal) and ([2021/0342\(COD\)](#)) (Amending regulation proposal) for the details about the legislative procedure in Parliament.
- <sup>15</sup> A total of [568 amendments](#) to the draft report were tabled. The position text was [adopted](#) by ECON with 49 votes in favour to two against (seven abstentions).
- <sup>16</sup> A total of [1 561 amendments](#) to the draft report were tabled. The position text was [adopted](#) by ECON with 41 votes in favour to 14 against (one abstention).
- <sup>17</sup> See also the [Council's press release](#) for more details.

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