European Parliament

Prudential requirements for credit institutions and investment firms

The new framework for 'simple, transparent, and standardised' (STS) securitisations has implications for the overall prudential framework for credit institutions and investment firms. The Commission has proposed to amend the existing Capital Requirements Regulation (CRR) accordingly, to adjust risk retention profiles to reflect properly the specific features of STS securitisations. Parliament is due to vote on the proposal during the October II plenary session.

Background

With regard to banking, the existing Capital Requirements Regulation ((EU) 2013/575) lays down uniform rules for credit institutions and investment firms concerning general prudential requirements regarding own funds relating to − among other things − elements of credit risk, market risk, operational risk and settlement risk.

European Commission proposal

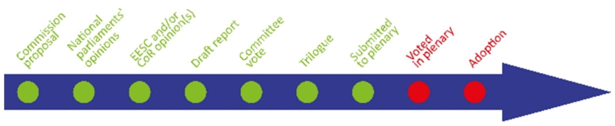
The proposal to recalibrate the CRR requirements entailed linkages between the new securitisation regulation and the CRR; the calculation of minimum capital needs for securitisation positions; a new hierarchy of approaches (internal ratings-based; then external ratings-based; then standardised); a more risk-sensitive prudential treatment of STS securitisations; and the treatment of specific exposures.

European Parliament position

The Council agreed on its general approach on 7 December 2015. It proposed to alter the articles of the CRR on exposure value, on the hierarchy of calculation methods and on the determination of capital charges. On 8 December 2016, the Committee on Economic and Monetary Affairs (ECON) adopted its report. It proposed to revise the hierarchy of methods; to entrust the European Systemic Risk Board with macroprudential oversight of the EU securitisation market, and the European Banking Authority with microprudential oversight; and to empower the Commission to adjust the risk floor levels and important prudential metrics. Lastly, it called to broaden the scope of the biannual report on the securitisation market and the measures to be taken to counter adverse effects on financial stability.

On 30 May 2017, the Parliament and the Council reached an agreement on the proposal. According to its main points, the hierarchy of calculation methods is modified (internal ratings-based; then standardised, and then external ratings-based, only if standardised cannot be used); the Commission must report to the Parliament and the Council after three years on the impact of the hierarchy of methods and of the calculation of the risk-weighted exposure amounts of securitisation positions on issuance and investment activity, the effects on the financial stability of the EU, and the effects on the ability of financial institutions to provide a sustainable and stable funding channel to the real economy – with particular attention to SMEs. Lastly, further power is given to the European Banking Authority to draft regulatory technical standards in a number of articles (exposure value and determination of regulatory capital according to the internal-Based and standardised approaches), to monitor the range of practices in the area of tranche maturity and to conduct a review with regards to significant risk transfer. The text is due to be the subject of a first-reading vote during the October II session.

First-reading report: 2015/0225(COD); Committee responsible: ECON; Rapporteur: Othmar Karas (EPP, Austria). For further information, see our 'EU Legislation in progress' briefing.



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