

Banking

CRD IV: MEPs want more ambitious rules

By Manon Malère | Tuesday 15 May 2012

Members of the European Parliament want to give member states the possibility to set tougher capital requirements under the reform of prudential rules for financial institutions (CRD IV). Additional requirements for systemically important financial institutions (SIFI) are also proposed with a ratio of up to 10% ⁽¹⁾.

The two opinions, adopted on 14 May by the Committee on Economic and Monetary Affairs (ECON) – which endorse the mandate for the upcoming negotiation with the Council – also make provision for setting a limit on bankers' bonuses, introducing two liquidity ratios and a leverage ratio in the legislation, and facilitating lending to small and medium-sized enterprises. MEPs failed to agree, on the other hand, on making a real differentiation between banks, but the debate is not over yet.

The Ecofin Council was also set to adopt, on 15 May, its general approach on the reform (see separate article).

FLEXIBILITY

MEPs agreed in record time on the 3,000-odd amendments tabled to the two opinions presented by Othmar Karas (EPP, Austria). "It is a strong Parliament that will negotiate with the Council," commented Karas. The negotiations will be difficult, however, particularly on the issue of flexibility under the new rules. This point has sparked heated debate among the member states. France and other countries defend maximum harmonisation of the proposed rules, while others, led by the United Kingdom, defend more flexibility.

MEPs want to give states the possibility to impose tougher capital requirements than those contained in the proposal. There would be rules for this flexibility. MEPs propose to boost the powers of the European Banking Authority (EBA). They also introduce additional capital requirements for SIFIs, financial institutions considered "too big to fail": they would have to hold a supplementary capital buffer of 3% of risk-weighted assets, which could be raised to 10%. These buffers would apply to all exposure.

"We have fought all along to make sure it delivers a robust and reliable system that works across Europe but also allows Britain flexibility. If London and Edinburgh wish to set even more exacting standards than Paris or Frankfurt do, if that is what investors seek, then they should be allowed to," explained Vicky Ford (UK), in charge of this issue for the ECR group.

LIQUIDITY RATIOS

MEPs seek to introduce in the text a short-term liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR). These would be implemented by means of delegated acts. In line with the Basel III agreements, the Commission has proposed an observation period before introducing the LCR, which

would oblige banks to hold quality liquid assets by 2015. The NSFR, the effect of which is to encourage banks to rely on stable resources to finance their activities, would be introduced in 2018 following an observation period.

The ECON committee also provides for a binding leverage ratio that would be implemented immediately through a new legislative proposal. This new instrument is not applied at European level and the Commission's proposal recommends a gradual approach with the possibility of making it binding in 2018, after an observation period. Overall, the higher this ratio the more the financial institution has to increase its capital or reduce its debt on financial markets.

BONUSES

Bankers' bonuses may "no longer exceed their fixed pay. Today, they are sometimes up to 25 times higher," declared Philippe Lamberts (Belgium), on behalf of the Greens-EFA group. Rules for banks' internal governance are also proposed.

SMES

To promote financing of the real economy, MEPs propose to reduce risk-weighting for loans to SMEs (by 30%) and start-ups. The European Association of Chambers of Commerce and Industry (Eurochambres) welcomed this proposal and urged the Council to endorse it. The Commission did not include a measure to this effect in its proposal, preferring first to ask the EBA to examine the feasibility of reducing this risk-weighting in a report on loans to SMEs and natural persons.

Fiercely defended by the Greens-EFA, S&D and EUL-NGL groups, the introduction of a real differentiation between banks (in terms of balance sheets or activities) – connected more broadly to the debate on the separation between retail banks and investment banks – failed to rally a sufficient majority. "We did so partly for the systemically important institutions," but "we needed more differentiation," noted Lamberts. MEPs agreed only to mention the principle in a recital, without details, but they are impatient to see the Commission's proposals. The executive has appointed an expert group, chaired by Erkki Liikanen (Finland), which will present its conclusions on the subject this autumn.

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⁽¹⁾ The Commission proposed a regulation and a directive in July 2011. This fourth revision of the Capital Requirements Directives (2006/48 and 2006/49) will implement the Basel III agreements. This reform concerns more than 8,000 European banks.