

# European Commission plans stricter rules for banks

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 Sunday, 28 February 2010 |  European Affairs



The European Commission has launched a public consultation on further possible changes to the Capital Requirements Directive (CRD) aimed at strengthening the resilience of the banking sector and the financial system as a whole. The proposed changes, known as 'CRD IV', following two earlier Commission proposals amending the CRD, relate to seven specific policy areas, most of which reflect commitments made by G20 leaders at summits in London and Pittsburgh during 2009. These commitments included building high-quality capital, strengthening risk coverage, mitigating pro-cyclicality and discouraging leverage, as well as strengthening liquidity risk requirements and forward-looking provisioning for credit losses. All interested stakeholders are invited to reply to the consultation by 16 April 2010, indicating what impact the potential changes would have on their activities. The results will feed into a legislative proposal scheduled for the second half of 2010.

Seven areas of potential action are as follows:

- Liquidity standards: Introducing liquidity standards that include a liquidity coverage ratio requirement underpinned by a longer-term structural liquidity ratio.
- Definition of capital: Raising the quality, consistency and transparency of the capital base.
- Leverage ratio: Introducing a leverage ratio as a supplementary measure to the Basel II risk-based framework based on appropriate review and calibration.

- Counterparty credit risk: Strengthening the capital requirements for counterparty credit risk exposures arising from derivatives, repos and securities financing activities.
- Countercyclical measures: A countercyclical capital framework will contribute to a more stable banking system, which will help dampen, instead of amplify, economic and financial shocks.
- Systemically important financial institutions: The Commission is consulting on appropriate measures to deal with the risk posed by such institutions.
- Single rule book in banking: The Commission is consulting on areas where more stringent requirements might be necessary. In addition, the Commission is consulting on the appropriate prudential treatment of real estate lending. This is part of the Commission's commitment to create a single rule book in Europe.

European rules requiring banks build up more capital when economic conditions are buoyant, so that they can better weather the hard times, moved a step closer on Friday as European Union officials prepared for a new tranche of bank legislation.

[The European Commission](#) [1] is asking for views on a fourth round of revisions to the so-called Capital Requirements Directive, which sets out rules for the amount of capital banks have to hold.

The previous two rounds also involved measures to improve the safety of the banking system in the wake of the 2008 financial crisis – including tighter rules in areas such as securitisation, large exposures and remuneration.

This time, seven further issues are being considered, including countercyclical measures, which officials believe would help create a more stable banking environment. The consultation document discusses two possible approaches – namely, through-the-cycle provisioning for expected credit losses, which has been used in Spain, and additional capital buffers.

But the former idea is controversial and would take regulators into largely uncharted territory. As the consultation paper notes, an earlier consultation on through-the-cycle provisioning called for a cautious approach and most respondents suggested that this should be postponed until other accounting-related changes, dealing with loan loss provisioning, were resolved.

Other issues which form part of the consultation include liquidity standards, leverage ratios, and how to handle large, systemically important financial institutions.

The consultation is expected to pave the way for draft legislation from the European Commission in the second half of 2010. The new EU internal market commissioner Michel Barnier said on Friday that new rules were vital in order to be better prepared for the crises of tomorrow.

But he added that he wanted to consult widely first. Officials say that not all the issues consulted on will necessarily form part of the legislative package, but appear fairly enthusiastic about including some countercyclicality measures.

✘ Tags: [Barnier](#) [3], [Basel III](#) [4], [Commission](#) [5]

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