6-27-2013

Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on Prudential Requirements for Credit Institutions and Investment Firms and Amending Regulation (EU) No 648/2012

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Classifications

Summarized and linked documents

Miscellaneous information

Text

Prudential requirements for credit institutions and investment firms

SUMMARY OF:

Regulation (EU) 575/2013 - ensuring banks and investment firms control risks and hold adequate capital

SUMMARY

WHAT DOES THIS REGULATION DO?

It aims to strengthen the prudential requirements of banks, requiring them to keep sufficient capital reserves and liquidity. The overall objective is to make banks more robust and resilient in periods of economic stress.

KEY POINTS

Generally, the Regulation establishes a single set of harmonised prudential rules which banks throughout the EU must respect. This so-called **'Single Rule Book'** aims to ensure uniform application of global standards on bank capital (Basel III) in all EU countries.

Specific points include:

— **Higher and better capital requirements**. Banks have to hold a total amount of capital that corresponds to at least 8% of their assets measured according to their risks. Safe assets (e.g. cash) are disregarded; other assets (such as loans to other institutions) are considered more risky and get a higher weight. The more risky assets an institution holds, the more capital it has to have.

- **Liquidity measures**. To ensure banks have sufficient liquidity means (e.g. cash or other assets that can be quickly converted into cash with no or little loss of value), the regulation introduces 2 liquidity buffers:
  - the liquidity coverage ratio which aims to ensure that banks have enough liquidity means in the short term;
  - the net stable funding requirement which aims to ensure that banks have an acceptable amount of stable funding to support their assets and activities over the medium term.
- **Limiting leverage effect**. The regulation introduces a new regulatory instrument called the leverage ratio. Its aim is to limit banks from incurring excessive debts on financial markets. From 2015, banks have to publicly disclose their leverage ratio. If appropriate, the Commission will propose legislation to make this new ratio binding for banks as of 2018.

The Regulation is part of a package of legislation, including a Directive, to strengthen the resilience of the EU banking sector. Directive 2013/36/EU governs the access to deposit-taking activities, while this Regulation establishes the prudential requirements financial institutions need to respect.

WHEN DOES THIS REGULATION APPLY?

From 28 June 2013.

BACKGROUND

European Commission website on capital requirements legislation

ACT

Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

REFERENCES

Act	Entry into force	Deadline for transposition in the Member States	Official Journal
Regulation (EU) No 575/2013	28.6.2013	-	OJ L 176, 27.6.2013, pp. 1-337

Successive amendments and changes to Regulation (EU) No 575/2013 have been incorporated in the original text. This consolidated version is of documentary value only.

RELATED ACTS

Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, pp. 338-436)

Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (OJ L 201, 27.7.2012, pp. 1-59)

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