

Capital Requirements Directive

Recast of Directive 2000/12/EC

Explanatory meeting with Croatia and Turkey
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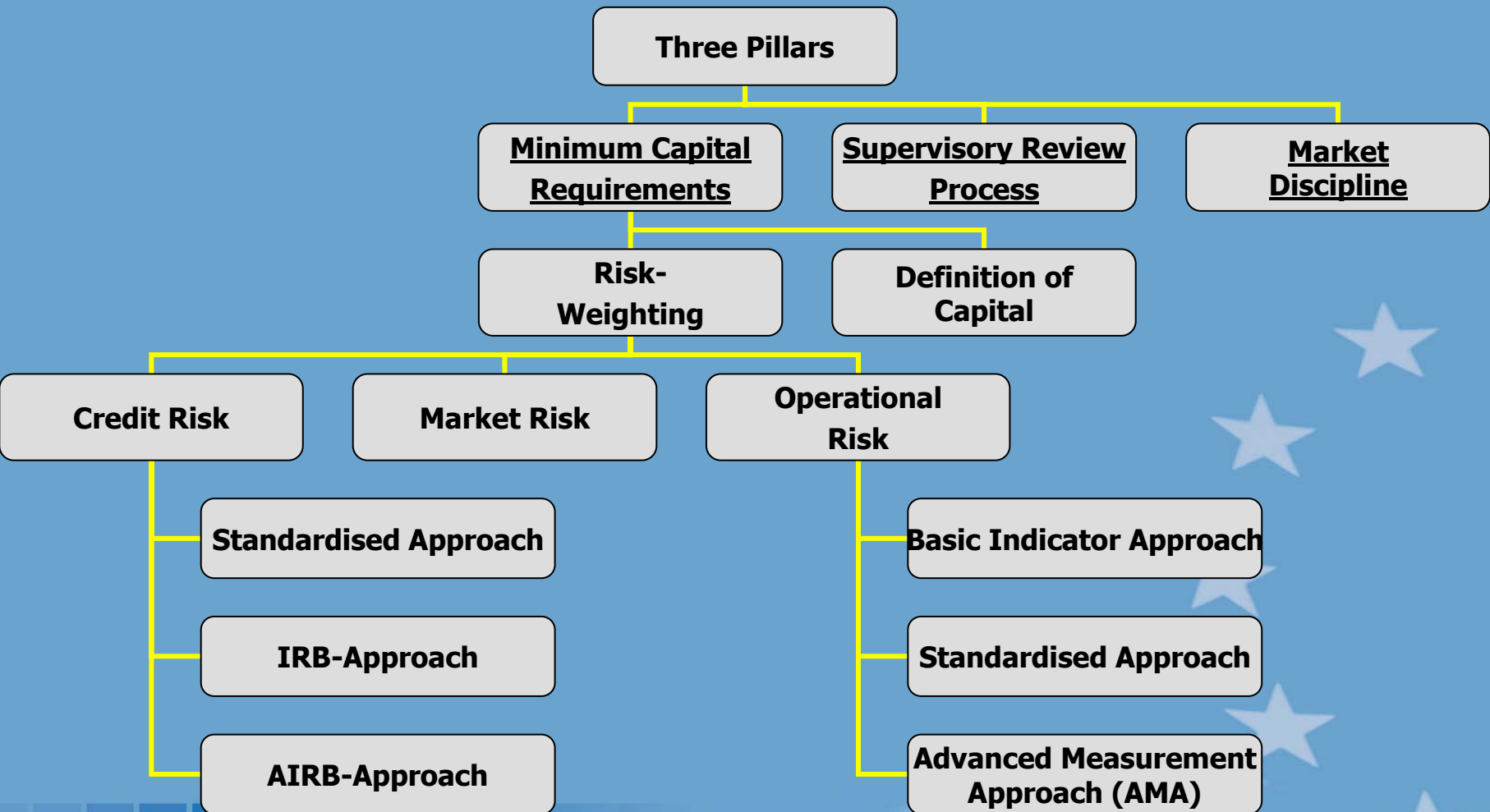
Objectives of the CRD

- Introduce the “Basel II” framework, agreed at G-10 level, into EU legislation
- But tailored to reflect specific features of EU financial markets
- A more risk-sensitive framework for capital requirements for banks and investment firms
- Incentives for financial institutions to improve risk management
- More efficient allocation of capital in the EU, boosting the overall economy

History of Directive 2000/12/EC

- A consolidation in 2000 of nearly all the EU banking directives
 - 77/780/EEC (First Banking Directive)
 - 89/299/EEC (Own Funds Directive)
 - 89/646/EEC (Second Banking Directive)
 - 92/30/EEC (Consolidated Supervision Directive)
 - 92/121/EEC (Large Exposures Directive)
 - 96/10/EC (Netting Directive)
- Will be renamed Directive 2006/yy/EC on formal adoption of the CRD

The new Capital Accord



Key provisions of recast 2000/12/EC

The key provisions of the Directive are:

- the definition of a credit institution
- the rules on what credit institutions can count as capital
- the capital requirements for Credit Risk
- the capital requirements for Operational Risk
- the disclosure requirements

Provisions of recast 2000/12/EC

I: SUBJECT MATTER, SCOPE & DEFINITIONS:

- Articles 1-5

II: REQUIREMENTS for TAKING UP and PURSUIT of BUSINESS of CREDIT INSTITUTIONS

- Articles 6-22

III: FREEDOM OF ESTABLISHMENT & FREEDOM to PROVIDE SERVICES

- Articles 23-37

Provisions of recast 2000/12/EC

IV: RELATIONS with 3rd COUNTRIES:

- Articles 38-39

V: PRINCIPLES & TECHNICAL INSTRUMENTS for PRUDENTIAL SUPERVISION and DISCLOSURE

- Articles 40-149

VI: POWERS of EXECUTION

- Articles 150-151

VII: TRANSITIONAL and FINAL PROVISIONS

- Articles 152-159

Provisions of recast 2000/12/EC

I: SUBJECT MATTER, SCOPE & DEFINITIONS:

Articles 1 -5:

Definition for « credit & financial institutions », » branch », « competent authorities » etc

Provisions of recast 2000/12/EC

II: REQUIREMENTS for TAKING UP and PURSUIT of BUSINESS of CREDIT INSTITUTIONS:

Articles 6,13,17 : authorisation/refusal/withdrawal

Article 8: economic needs

Articles 9-10: initial capital – not less than EURO 5 mio

Articles 11-12: « fit & proper » test

Article 19: qualifying holding in a credit institution

Article 22: corporate governance

Provisions of recast 2000/12/EC

III: FREEDOM OF ESTABLISHMENT & FREEDOM to PROVIDE SERVICES

- **Single European Passport**
- **Home Country Control**
- **Mutual recognition**
- **IV: RELATIONS with 3rd COUNTRIES:**
- Cooperation with competent authorities/supervision on consolidated basis

Provisions of recast 2000/12/EC

V: PRINCIPLES & TECHNICAL INSTRUMENTS for PRUDENTIAL SUPERVISION and DISCLOSURE

- Articles 40-43: tasks of Home and host supervisors
- Articles 44-52: exchange of information and professional secrecy
- Articles 56-67: own funds/definition/calculation on consolidated basis/deduction
- Articles 68-73: level of application
- Articles 74-75: calculation of requirements/minimum level own funds

Provisions of recast 2000/12/EC

- Articles 76-77: credit risk
- Articles 78-83: Standardised Approach/exposure classes/calculation/ECAIs
- Articles 84-89: IRB Approach/approval of competent authorities
- Articles 90-93: credit risk mitigation/Stand. or IRB Approach
- Articles 94-101: securitisation
- Articles 102-105: Operational risk
- Articles 106-119: large exposures
- Articles 120-122: qualifying holdings outside financial sector

Provisions of recast 2000/12/EC

- Articles 124-143: Supervision and disclosure by competent authorities and by credit institutions/cooperation between competent authorities
 - essential and relevant information/form & extent of consolidation/fit & proper test for financial holding companies/information supplied by mixed activity holding companies

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ANNEXES – provide the details rules for the calculation of capital requirements

Annex I

- List of activities subject to mutual recognition

Annex II

- Classification of off-balance-sheet items

Annex III

- Treatment of Derivatives

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Annex IV

- Types of derivatives

Annex V

- Technical criteria on organisation and treatment of risks

Annex VI

- Standardised Approach

Annex VI/Part 1-3

- Risk weighting/Recognition of ECAIs & mapping of their credit assessments/ use of ECAIs' credit assessment for determination risk weights

Annex VII

- Internal Ratings Based Approach

Provisions of recast 2000/12/EC

Annex VII/Part1-4

- Risk weighted exposure amounts + expected losses
- PD, LGD, Maturity
- Exposure value
- Minimum Requirements for IRB Approach

Annex VIII

- Credit risk mitigation

Annex VIII/Part 1-6

- Eligibility / Min.Requirements /Calculation effects of credit risk mitigation/ etc

Provisions of recast 2000/12/EC

Annex IX

- Securitisation

Annex IX/Part 1-4

- Definition purpose of Annex X/Min.requirements of significant credit risk transfer, calculation of risk-weighted exposure amounts, expected loss amounts for securitised exposures/ECAIs/Calculation

Annex X

- Operational risk

Annex X/Part1-5

Basic Indicator Approach/Standardised Approach/Advanced Measurement Approach/Combined use of different methodologies/Loss event type classification

Annex XI-XIV

- Technical and General criteria & requirements/correlation table

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Recast of Directive

2000/12/EC

Further information:

http://europa.eu.int/comm/internal_market/bank/regcapital/index_en.htm

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