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NOTE

from:	General Secretariat of the Council
to:	Delegations
Subject:	**Plenary session of the European Parliament** **Joint Debate: Capital requirements Directive (CRD IV)** **Strasbourg, 16 April 2013**

The Rapporteur Mr. Karas, EPP, AT welcomed the agreement reached as a considerable success both for the European Parliament and for Europe as a place to do business, as well as for the single market. He stressed that some 8,300 banks operating in the EU would be regulated through the proposed single legislation. He expressed satisfaction that the legislation under consideration would help promote the financing of the real economy, strengthen the financing of SMEs and achieve a level playing field to avoid burdening citizens in case of crisis. The proposed rules provided for a transposition into EU law of the Basel III rules and noted that this had been achieved thanks to the positive negotiating spirit of the five major political groups. He highlighted the most important elements contained in the draft legislation: more stringent rules on equity capital, reinforced liquidity ratio, financing of the real economy, risk reduction for taxpayers, better regulation of the banking sector through a limitation of mandates of board members, capping of bonuses with a fix ratio to remuneration, and transparency rules in the form of reporting to the Commission on figures of turnover, profits, people employed etc.

He stated that this draft legislation was laying the foundations for banking supervision and for the banking union and was providing a clear and determinate answer to the crisis.

Mrs Creighton on behalf of the Council delivered the speech in Annex.

Mr. Barnier on behalf of the Commission, stated that the draft legislation proposal dating back to July 2011 was to be a cornerstone of the single rulebook for improved governance of the 8,300 banks of the European union. He referred to the qualitative and quantitative requirements for capital and liquidity ratios to help banks withstand shocks and learn the lessons of the banking crisis which had brought to light how insufficient previous regulation measures were. He thanked the current and previous Presidencies leading negotiations, the rapporteur and the shadow rapporteurs, all of whom had been instrumental in reaching an agreement. He illustrated the measures introduced by the draft legislation and stressed the importance of restoring citizens' confidence in the way banks were operating. He referred to proposals to be put forward by the Basel committee, notably on the leverage ratio, by the end of 2013 and to an amendment to be made to Art 416.5 to avoid anticipating on the conclusions to be drawn by the Basel Committee. He indicated that the draft legislation, which should be in force by 2014, would have probably helped prevent the Cypriot banking crisis had it been in place earlier. He announced further proposals towards a banking Union to be presented in June, in particular one establishing an independent EU resolution authority.

On behalf of political groups,

Mrs. Wortman Kool (EPP, NL) welcomed the directives as an essential piece of legislation to strengthen the stability of the banking sector. She thanked the rapporteur for helping reach an agreement on a text which provides for higher capital buffers for systemically important banks, preventive measures to avoid having to bail out banks with public money, regulation of bonuses to avoid short term profit leading behaviors, and measures to facilitate credit for SMEs. She considered capital requirement rules as essential to safeguard the stability of the sector. She stated the resolve of the European Parliament to move forward and faster and expressed some concern at the statements issued following the informal Council meeting in Dublin. She encouraged the Commission to come forward with further proposals to finalize the legislative package on crisis resolution so as to be able to have the legislation in place before the next European elections.

Mr. Bullman, S&D, DE greeted what he saw as a great achievement and paid tribute to the rapporteur and EP negotiators who had showed that the European Parliament was determined to bring about credible solutions to tackle the root causes of the crisis, and so deserved the confidence of citizens. He noted that the banks continued to resist learning lessons from the crisis, welcomed the differentiation of banks provided for in the draft legislation while noting that his group would have wished greater differentiation of banks' risk profiles. He considered that national ministries of finance were less ambitious in regulating banks and stated that the European Parliament would advocate stricter rules for other segments of the financial sector ctors such as shadow banking, hedge funds, and rating agencies.

Mrs Bowles, ALDE, UK welcomed the deal reached after long and technically complex negotiations. She stated that the focus on bonuses was masking other important achievements, such as buffers of capital and liquidity ratios which would limit risky behaviour. She expressed satisfaction that trade finance in the EU was now leading in the world. She stressed that attention had been given in the process to the need to legislate in a way that would not put trade and services at risk in this period marked by poor growth. She stated that those actors and banks that had been behaving in a way that had exposed economies should remain under close scrutiny and possibly blacklisted. She expressed confidence that with this new legislation the right tools for adequate macroprudential supervision were in place.

Mr. Lamberts, Greens/EFA, BE welcomed the outcome as a major step forward in regulating the banking sector, and in preventing banks from setting their own rules. He mentioned the liquidity rules, the separation of systemically significant banks from the others, and rules for the first time on remuneration. He stated that bonuses had been the main reason why banks had taken such high risks. He stressed that a competitive market required transparency and open competition and welcomed provisions for country by country reporting. He expressed satisfaction that the institutions had managed to thwart the lobby power of banks, thanks to the determination of both the Council of Ministers and the European Parliament which had stood up to opacity and bankers bonuses. He considered that bankers weighted assets were a further issue on which rules would be needed and on which the Parliament was working with the Commission. He regretted the position taken by some Finance ministers in the process, who in his view were acting more in defense of the banks than the general interest. He considered that the UK government had played a positive role in the process in calling for ambitious regulation and thanked Commissioner Barnier and the rapporteur Karas for their open and non ideological approach.

Mrs Ford, ECR, UK stated that the legislative package was not compliant with Basel, that tax payers' money needed to be protected, and that before paying state or senior depositors, small savers needed to be protected and paid first. She considered that the legislation did not provide for a level playing field in the single market and looked forward to further work to create adequate protection for SMEs, mortgage holders, etc. She underlined that the ability for Member States to protect their own high standards was to be safeguarded. She said that remuneration needed to be regulated at a global level.

Mr. Bloom, EFD, UK described the achieved result as the triumph of hope over experience. He considered that the situation was a flawed banking system, where bankers can lend money which they do not have, but that a great deal of regulation was the wrong type and that the real issues had not been solved with the proposed legislation. He considered that this was bound to happen because of the separation of bank functions, with commodity banks on one hand and investment banks on the other. He considered it outrageous that no bankers or central bankers were in prison. He said that printing money was counterfeiting and should not be allowed.

Mr. Klute, GUE/NGL, DE welcomed the outcome as a significant step forward towards stabilization and regularization of the banking sectors. He expressed particular support for the differentiation achieved within the banking sector and the recognition of the specific status of the regional banks and saving banks which, according to him, should not be given up as they had proven to be strong in the crisis. He welcomed the newly introduced transparency rules and bonuses regulation. He regretted that the requirements for own capital as initially proposed had not been accepted, although he considered the final deal on this at a level of 15% as not too bad a result. On the leverage ratio, he stated a preference for delegated acts rules and would have preferred that negotiation on this could continue.

In their individual interventions, MEPs largely echoed previous interventions. Many of them paid tribute to the work by the Rapporteur and the shadow rapporteurs. Ms Goulard, ALDE, FR in particular stressed that the European Parliament was gaining respect from citizens when it worked in the way demonstrated by the Rapporteur and the whole EP negotiating team on this legislation.

Many MEPs welcomed the agreement on the draft legislation as an important step forward towards better financial regulation, with greater responsibility on banks and fewer risks for taxpayers (Feio, EPP, PT, El Khadraoui, S&D, NL, Thyssen, EPP, NL, Angelilli, EPP, IT), while stressing that efforts towards improved banking regulation and supervision had to be pursued at an accelerated pace.

Several MEPs expressed satisfaction

- at the limits set on the level of bonuses (Morganti, EFD, IT, Mc Carthy, S&D, UK), while others considered that the legislation ought to be more stringent on this issue (Balz, EPP, DE, Martin, NI, NL);
- at the differentiation provided for in the draft legislation between bigger and smaller banks, while others considered that the specificity of some banks had not been taken sufficiently into account or that the draft legislation was favouring big banking institutions to the expense of smaller ones which would be subject to take-overs by bigger ones (Angourakis, GUE/NGL, EL);
- at the transparency provisions introduced through the draft legislation (Goulard, ALDE, FR).

MEPs stressed the need to restore growth and job creation throughout the EU, to ensure that banks play their role at the service of the real economy and ensure access to credit for SMEs which are the backbone of the EU's economy (Pallone EPP, IT, Angelilli, EPP, IT), and the need for further regulation of the financial sector, in particular the shadow banking sector. Some suggested separating commercial from investment activities within banks as was the case until the 1990s (Morganti, EFD, IT), and to better regulate activities by fund managers (Martin, NI, NL). Some suggested that the CRD IV legislation and the Basel III rules (Kamall, ECR, UK) might not be sufficient and that more would need to be done both at EU and international level (Langen, EPP, DE), including to ensure reciprocity and a level playing field (Beres, S&D, FR Klinz, ALDE, DE, Ferber, EPP, DE). Several of them criticized the Council for dragging its feet and some of the Finance Ministers of the Member States as acting as defenders of the financial and banking lobby's interests rather than defending the general interest (Beres, S&D, FR). Some of them expressed concerns at the messages coming out of the Informal Economic and Financial Council meeting in Dublin (Thyssen, EPP, NL).

Mr. Barnier on behalf of the Commission welcomed the fact that most MEPs who took the floor expressed support for this legislation. He confirmed the determination of the Commission to pursue the regulatory process of the remaining elements on the Banking Union, with a proposal for a European resolution authority to be tabled before the summer break, based on the current treaty provisions. He stated that a targeted amendment of the Treaty could be decided later to confirm and consolidate certain elements of the legislation, but that this was not a pre-requisite to move forward on the Resolution Authority. In reply to questions by MEPs, he stated that proposals were under preparation as a follow-up to the conclusions of Likkanen report; and that the intention of the Commission was to reinforce the responsibility of shareholders on bonuses. He said that the text voted on that day did indeed comply with Basel III rules whilst taking into account the specific features of the EU banking sector, which is composed of over 8300 banks financing 75% of the EU, many of which are mutual system banks and/or cooperative banks. He said that the Commission was also keen to watch closely to ensure a level playing field with the USA. He referred to the G20 discussions, as well as to the work on regulating shadow banking, on providing for staff diversification not only based on gender in the financial sector, on consumer protection (small accounts) and on long-term investments and financing of the economy.

Mrs Creighton on behalf of the Council stressed that the agreement could certainly not fully satisfy everybody as it had sought to balance between conflicting demands, given the economic and social realities. She considered however that the result was a good compromise, and that all shared the same objective of ensuring that Europe emerges from the current financial and economic crisis stronger, and better able to serve its citizens. She said that better financial regulation and stronger banks within the EU are one of the building blocks in this context. She stated that the Council could support the proposed amendment to Article 416. 5 d of the draft text aimed at anticipating the conclusion of the future Basel Committee meeting.

The Rapporteur Mr. Karas concluded the debate by expressing satisfaction at the debate which had shown a broad agreement on these issues and at the collective work accomplished. He agreed on the proposed amendment to Article 416 of the draft Regulation. He looked forward to further work on the completion of banking union and on regulating tax heavens and shadow banking. He said that change in culture were being brought about by changes such as the capping of bank bonuses, stated that the EU was pioneering and showing the way to the rest of the world, and reassured that there would not be a distortion of competition as the legislation was to be implemented EU-wide.

Joint Debate: Capital requirements Directive (CRD IV)
the Presidency
Plenary Session of the European Parliament
Strasbourg, 16 April 2013^
(check against delivery)

President,

Honourable Members,

The legislative package you have in front of you today is the result of a great deal of work by both our institutions. On the Council side I would like to pay tribute in particular to the work of the Polish, Danish, and Cyprus Presidencies.

I would also like to thank the rapporteur Mr. Karas, the Chair of the ECON Committee Mrs Bowles and the shadow-rapporteurs Mr. Bullman, Mr. Lamberts and Ms Ford for their cooperation and goodwill in these negotiations. I welcome the fact that we have recently been able to reach political agreement, This means that the new rules can apply from 1 January 2014.

This legislative package will constitute the heart of the Single Rule Book for banks and will pave the way for Banking Union. It also means that we can fulfil our international commitments on financial regulation and implement the Basel III accords on capital and liquidity requirements.

I would like to signal two points which deserve particular attention. Firstly - as we all know - the European Union faces huge challenges in raising its competitiveness and achieving strong economic growth. We therefore have to be careful to avoid a too rapid accumulation of layers of capital buffers and liquidity, without at the same time ensuring that adequate capital is released to the real economy, particularly to SMEs. I think that the package we have negotiated does indeed provide sufficient incentives to achieve this.

Secondly, while the Basel accords concern the largest global banks, our text covers the entire EU financial sector. We have therefore had to include specific provisions to take account of this, whilst ensuring that we still comply with global rules and meet the prudential business requirements.

Members will be fully aware of the key elements of the text on which you will be voting later today, but allow me simply to highlight a few important points.

Perhaps the most fundamental is that banks will have to hold more and better capital and comply with liquidity management requirements. This will be a major safeguard of stability in the financial sector and discourage unreasonable risk taking. We have in particular agreed, in addition to the systemic risk buffer of capital that Member States may introduce, on a buffer that will be specifically applicable to systemically important institutions. This will be mandatory. The rules on capital buffers have been carefully drafted to ensure a proper balance between the supervisory interests of home and host states of banking institutions.

Member States may adopt national measures to counter macro-prudential or systemic risks at national level, but sufficient safeguards have been included to prevent any disruptions to the single market, violation of Basel rules any undermining of prudential supervision.

On Net Stable Funding Ratio, Leverage ratio and Liquidity coverage ratio, we have agreed on a set of rules that strike a right balance between the Basel requirements, prudential supervision, and our ambition to ensure both a secure financial sector and Europe's international competitiveness.

We have also included provisions on transparency requirements. For example, the banks will have to disclose profits made, taxes paid and subsidies received country by country, as well as turnover and number of employees. From 2014 these should be reported to the Commission and from 2015 made fully public.

The package also includes an agreement on the capping of bankers' bonus pay at the ratio of 1:1 to the fixed part of the annual remuneration. The possibilities of raising this ratio to 2:1 with shareholder involvement will be very limited, as is the possibility of paying 25% of the bonus by deferred instruments at discounted rate. I think this is a good compromise, which should help discourage excessive risk taking.

As far as supervision is concerned, the role of the European Banking Authority will be enhanced, as number of important supervisory tasks have been delegated to it.

President, Honourable Members

Our agreement on this legislative package does not mean that our work is at an end. The experience we gain in implementing the legislation will be assessed and evaluated. A number of review clauses have been built into the text which could lead to improvements in the future. They cover, for example, funding for all forms of long term financing for the economy, the regime applicable to large exposures, and the liquidity coverage requirement, as well as limits on exposures to shadow banking entities.

Overall, we consider that the result reached at the end of our negotiations is a very satisfactory outcome, and very much hope that it will receive the support of this parliament. It constitutes a major step towards better regulation of the financial services industry, and should therefore help rebuild trust and confidence of our citizens in the work of Europe's financial services sector.