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European Union

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**Interinstitutional File:**  
**2017/0358(COD)**

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## INFORMATION NOTE

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From: General Secretariat of the Council  
To: Permanent Representatives Committee/Council

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Subject: Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the prudential supervision of investment firms and amending Directives 2013/36/EU and 2014/65/EU  
- Outcome of the European Parliament's first reading and Corrigendum procedure  
(Strasbourg, 16 April 2019 and Brussels, 10 October 2019)

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## I. INTRODUCTION

In accordance with the provisions of Article 294 of the TFEU and the Joint Declaration on practical arrangements for the codecision procedure <sup>1</sup>, a number of informal contacts have taken place between the Council, the European Parliament and the Commission with a view to reaching an agreement on this legislative file at first reading.

This file was expected <sup>2</sup> to undergo the Corrigendum procedure <sup>3</sup> in the new European Parliament after adoption by the previous Parliament of its position at first reading.

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<sup>1</sup> OJ C 145, 30.6.2007, p.5.

<sup>2</sup> 8507/19.

<sup>3</sup> Rule 241, EP Rules of Procedure.

## II. VOTES

At its sitting of 16 April 2019 and following informal interinstitutional negotiations, the European Parliament adopted an amendment (without legal linguistic revision) to the Commission proposal and a legislative resolution with a view to the adoption of the abovementioned proposal, constituting the European Parliament's position at first reading. It reflects what had been provisionally agreed between the Institutions.

After finalisation of the adopted text by the legal linguists, on 10 October 2019 the European Parliament approved a corrigendum to the position adopted at first reading.

With this corrigendum, the Council should be able to approve the position of the European Parliament as set out in the Annex <sup>4</sup> hereto, thus bringing to a close the first reading for both Institutions.

The act would then be adopted in the wording which corresponds to the Parliament's position.

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<sup>4</sup> The text of the amendments adopted and the European Parliament's legislative resolution are set out in the Annex. The amendments are presented in the form of a consolidated text, where changes to the Commission's proposal are highlighted in bold and italics. The symbol "■" indicates deleted text.

## **Prudential supervision of investment firms (Directive) \*\*\*I**

**European Parliament legislative resolution of 16 April 2019 on the proposal for a directive of the European Parliament and of the Council on the prudential supervision of investment firms and amending Directives 2013/36/EU and 2014/65/EU (COM(2017)0791 – C8-0452/2017 – 2017/0358(COD))**

### **(Ordinary legislative procedure: first reading)**

*The European Parliament,*

- having regard to the Commission proposal to Parliament and the Council (COM(2017)0791),
  - having regard to Article 294(2) and Article 53(1) of the Treaty on the Functioning of the European Union, pursuant to which the Commission submitted the proposal to Parliament (C8-0452/2017),
  - having regard to Article 294(3) of the Treaty on the Functioning of the European Union,
  - having regard to the opinion of the European Central Bank of 22 August 2018<sup>5</sup>,
  - having regard to the opinion of the European Economic and Social Committee of 19 April 2018<sup>6</sup>,
  - having regard to the provisional agreement approved by the committee responsible under Rule 69f(4) of its Rules of Procedure and the undertaking given by the Council representative by letter of 20 March 2019 to approve Parliament's position, in accordance with Article 294(4) of the Treaty on the Functioning of the European Union,
  - having regard to Rule 59 of its Rules of Procedure,
  - having regard to the report of the Committee on Economic and Monetary Affairs and the opinion of the Committee on Legal Affairs (A8-0295/2018),
1. Adopts its position at first reading hereinafter set out;
  2. Calls on the Commission to refer the matter to Parliament again if it replaces, substantially amends or intends to substantially amend its proposal;
  3. Instructs its President to forward its position to the Council, the Commission and the national parliaments.

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<sup>5</sup> OJ C 378, 19.10.2018, p. 5.

<sup>6</sup> OJ C 262, 25.7.2018, p. 35.

**P8\_TC1-COD(2017)0358**

**Position of the European Parliament adopted at first reading on 16 April 2019 with a view to the adoption of Directive (EU) 2019/... of the European Parliament and of the Council on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU**

**(Text with EEA relevance)**

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 53(1) thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Central Bank<sup>7</sup>,

Having regard to the opinion of the European Economic and Social Committee<sup>8</sup>,

Acting in accordance with the ordinary legislative procedure<sup>9</sup>,

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<sup>7</sup> OJ C 378, 19.10.2018, p. 5.

<sup>8</sup> OJ C 262, 25.7.2018, p. 35.

<sup>9</sup> Position of the European Parliament of 16 April 2019.

Whereas:

- (1) Robust prudential supervision is an integral part of the regulatory conditions under which financial institutions provide services within the Union. Investment firms are, together with credit institutions, subject to Regulation (EU) No 575/2013 of the European Parliament and of the Council<sup>10</sup> and to Directive 2013/36/EU of the European Parliament and of the Council<sup>11</sup> as regards their prudential treatment and supervision, while their authorisation and other organisational and conduct requirements are set out in Directive 2014/65/EU of the European Parliament and of the Council<sup>12</sup>.
- (2) The existing prudential regimes under Regulation (EU) No 575/2013 and Directive 2013/36/EU are largely based on successive iterations of the international regulatory standards set for large banking groups by the Basel Committee on Banking Supervision and only partially address the specific risks inherent to the diverse activities of *a large number of* investment firms. The specific vulnerabilities and risks inherent to *those* investment firms should therefore be further addressed by means of *effective*, appropriate and proportionate prudential arrangements at Union level *which help to provide a level playing field across the Union, which guarantee effective prudential supervision while keeping compliance costs in check, and which ensure sufficient capital for the risks of investment firms*.

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<sup>10</sup> 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 (OJ L 176, 27.6.2013, p. 1).

<sup>11</sup> 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, p. 338).

<sup>12</sup> Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (OJ L 173, 12.6.2014, p. 349).

- (3) Sound prudential supervision should ensure that investment firms are managed in an orderly way and in the best interests of their clients. It should take into account the potential for investment firms and their clients to engage in excessive risk-taking and the different degrees of risk assumed and posed by investment firms. Equally, such prudential supervision should aim to avoid *imposing a disproportionate* administrative burden on investment firms. *At the same time, such prudential supervision should make it possible to strike a balance between ensuring the safety and soundness of investment firms and avoiding excessive costs that might undermine the viability of their business activities.*
- (4) Many of the requirements that stem from the framework of Regulation (EU) No 575/2013 and Directive 2013/36/EU are designed to address common risks faced by credit institutions. Accordingly, the existing requirements are largely calibrated to preserve the lending capacity of credit institutions through economic cycles and to protect depositors and taxpayers from possible failure, and are not designed to address *all of* the different risk profiles of investment firms. Investment firms do not have large portfolios of retail and corporate loans and do not take deposits. The likelihood that their failure can have detrimental impacts on overall financial stability is lower than in the case of credit institutions, *but investment firms nevertheless pose a risk which is necessary to address by means of a robust framework.* The risks faced and posed by *most* investment firms are thus substantially different to the risks faced and posed by credit institutions and such differences should be clearly reflected in the prudential framework of the Union.

- (5) Differences in the application of the existing prudential framework in different Member States threaten the level playing field for investment firms within the Union, *hampering the access of investors to new opportunities and better ways of managing their risks*. Those differences stem from the overall complexity of the application of the framework to different investment firms based on the services that they provide, where some national authorities adjust or streamline such application in national law or practice. Given that the existing prudential framework does not address all the risks faced and posed by some types of investment firms, large capital add-ons have been applied to certain investment firms in some Member States. Uniform provisions addressing those risks should be established in order to ensure harmonised prudential supervision of investment firms across the Union.

- (6) A specific prudential regime is therefore required for investment firms which are not systemic by virtue of their size and their interconnectedness with other financial and economic actors. Systemic investment firms should, however, remain subject to the existing prudential framework under Regulation (EU) No 575/2013 and Directive 2013/36/EU. Those investment firms are a subset of investment firms to which the framework laid down in Regulation (EU) No 575/2013 and in Directive 2013/36/EU currently applies and which do not benefit from dedicated exemptions from any of their principle requirements. The largest and most interconnected investment firms have business models and risk profiles that are similar to those of significant credit institutions. They provide “bank-like” services and underwrite risks at significant scale. Furthermore, systemic investment firms are large enough to, and have business models and risk profiles which, represent a threat for the stable and orderly functioning of financial markets on a par with large credit institutions. Therefore it is appropriate that those investment firms remain subject to the provisions set out in Regulation (EU) No 575/2013 and Directive 2013/36/EU.



- (7) *It is possible that investment firms which deal on own account, which underwrite financial instruments or place financial instruments on a firm commitment basis on a significant scale, or which are clearing members in central counterparties, have business models and risk profiles that are similar to those of credit institutions. Given their size and activities, it is possible that such investment firms present comparable risks to financial stability as credit institutions. Competent authorities should have the option of requiring them to remain subject to the same prudential treatment as credit institutions that fall within the scope of Regulation (EU) No 575/2013 and to compliance with prudential supervision under Directive 2013/36/EU.*
- (8) There may be Member States in which the authorities competent for the prudential supervision of investment firms are different from the authorities that are competent for the supervision of market conduct. It is therefore necessary to create a mechanism of cooperation and exchange of information between those authorities *in order to ensure harmonised prudential supervision of investment firms across the Union which functions promptly and efficiently.*

- (9) *An investment firm may trade via a clearing member in another Member State. Where it does so, a mechanism for sharing information between the relevant competent authorities in the different Member States should be put in place. Such a mechanism should allow the sharing of information between the competent authority for the prudential supervision of the investment firm and either the authority supervising the clearing member or the authority supervising the central counterparty on the model and parameters used for the calculation of the margin requirements of the investment firm where such method of calculation is used as the basis for the investment firm's own funds requirements.*
- (10) To foster the harmonisation of supervisory standards and practices within the Union, the European Supervisory Authority (European Banking Authority) established by Regulation (EU) No 1093/2010 of the European Parliament and of the Council<sup>13</sup> (EBA) should, in close cooperation with the European Supervisory Authority (European Securities and Markets Authority) established by Regulation (EU) No 1095/2010 of the European Parliament and of the Council<sup>14</sup> (ESMA), retain primary competence for the coordination and convergence of supervisory practices in the area of prudential supervision over investment firms within the European System for Financial Supervision (ESFS).

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<sup>13</sup> Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

<sup>14</sup> Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84).

- (11) The required level of initial capital of an investment firm should be based on the services and activities which that investment firm is authorised to provide and *perform*, respectively ■ , according to Directive 2014/65/EU. The possibility for Member States to lower the required level of initial capital in specific situations, as provided for in Directive 2013/36/EU on the one hand, and the situation of uneven implementation of that Directive on the other hand, have led to a situation where the required level of initial capital diverges across the Union. To end that fragmentation, the required level of initial capital should be harmonised *for all investment firms in the Union. With a view to reducing barriers to market entry that currently exist for the multilateral trading facilities (MTFs) and organised trading facilities (OTFs), the initial capital of investment firms that operate an MTF or an OTF should be set at the level referred to in this Directive. Where an investment firm authorised to operate an OTF has been permitted to also engage in dealing on own account under the conditions provided for in Article 20 of Directive 2014/65/EU its initial capital should be set at the level referred to in this Directive.*

(12) Although investment firms should no longer fall within the scope of Regulation (EU) No 575/2013 or Directive 2013/36/EU, certain concepts used in the context of those legislative acts should retain their well-established meaning. To enable and facilitate the consistent reading of such concepts in Union legal acts when used, references in such acts to the initial capital of investment firms, to the supervisory powers of competent authorities for investment firms, to the internal capital adequacy assessment process of investment firms, to the supervisory review and evaluation process of competent authorities for investment firms, *and* to governance and remuneration provisions applicable to investment firms should be construed as referring to the corresponding provisions in this Directive.

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(13) The proper functioning of the internal market requires that the responsibility for prudential supervision of an investment firm, in particular in relation to its solvency *and its financial soundness*, lies with the competent authority of its home Member State. In order also to achieve effective supervision of investment firms in other Member States, where they provide services or have a branch, close cooperation *and exchange of information* with the competent authorities of those Member States should be ensured.

- (14) For information and supervisory purposes, and in particular to ensure the stability of the financial system, competent authorities of host Member States should be able, on a case-by-case basis, to carry out on-the-spot checks and inspect the activities of branches of investment firms on their territory, and to require information about the activities of those branches. Supervisory measures for those branches should, however, remain the responsibility of the home Member State.
- (15) To protect commercially sensitive information, competent authorities should be bound by rules of professional secrecy when conducting their supervisory tasks and when exchanging confidential information.
- (16) To strengthen the prudential supervision of investment firms and the protection of clients of investment firms, auditors should *carry out their verification impartially and* report promptly to the competent authorities those facts which can have a serious effect on the financial situation of an investment firm or on its administrative and accounting organisation.
- (17) For the purposes of this Directive, personal data should be processed in accordance with Regulation (EU) 2016/679 of the European Parliament and of the Council<sup>15</sup>, and with Regulation (EU) 2018/1725 of the European Parliament and of the Council<sup>16</sup>. In particular, where this Directive allows for exchanges of personal data with third countries, the relevant provisions of Chapter V of Regulation (EU) 2016/679 and Chapter V of Regulation (EU) 2018/1725 should apply.

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<sup>15</sup> Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (OJ L 119, 4.5.2016, p. 1).

<sup>16</sup> Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC (OJ L 295, 21.11.2018, p. 39).

- (18) To safeguard compliance with the obligations laid down in this Directive and Regulation (EU) 2019/... of the European Parliament and of the Council<sup>17+</sup>, Member States should provide for administrative *sanctions* and other administrative measures which are effective, proportionate and dissuasive. In order to ensure that administrative *sanctions* have a dissuasive effect they should be published except in certain *well-defined* circumstances. To enable clients and investors to make an informed decision about their investment options, those clients and investors should have access to information on administrative *sanctions* and other administrative measures imposed on investment firms.
- (19) To detect breaches of national provisions transposing this Directive and breaches of Regulation (EU) 2019/... <sup>++</sup>, Member States should have the necessary investigatory powers and should establish effective *and rapid* mechanisms to report potential or actual breaches.
- (20) Investment firms *which are not considered to be small and non-interconnected* should have *available* internal capital which is adequate in quantity, quality and distribution to cover the specific risks to which they are or may be exposed. Competent authorities should ensure that investment firms have adequate strategies and processes in place to *assess* and maintain the adequacy of their internal capital. *Competent authorities should also be able to request small and non-interconnected investment firms to apply similar requirements where appropriate.*

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<sup>17</sup> Regulation (EU) 2019/... of the European Parliament and of the Council of ... on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 (OJ L ..., ..., p. ...).

<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)) and complete the corresponding footnote.

<sup>++</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

(21) Supervisory review and evaluation powers should continue to remain an important regulatory tool that allows competent authorities to assess qualitative elements, including internal governance and controls, risk management processes and procedures and, where needed, to set additional requirements, including in particular in relation to own funds and liquidity requirements, in particular *for investment firms which are not considered to be small and non-interconnected, and where the competent authority deems it to be justified and appropriate also for small and non-interconnected investment firms.*

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(22) *The principle of equal pay for male and female workers for equal work or work of equal value is laid down in Article 157 of the Treaty on the Functioning of the European Union (TFEU). That principle should be applied in a consistent manner by investment firms.* To align remuneration with the risk profile of investment firms and to guarantee a level playing field, investment firms should be subject to clear principles with regard to corporate governance arrangements and remuneration rules, which *are gender neutral and* which take into account the differences between credit institutions and investment firms. Small and non-interconnected investment firms should, however, be exempt from those rules because the provisions on remuneration and corporate governance laid down in Directive 2014/65/EU are sufficiently comprehensive for those types of investment firms.

- (23) Similarly, the Commission report of 28 July 2016 on the assessment of the remuneration rules under Directive 2013/36/EU and Regulation (EU) No 575/2013 demonstrated that the requirements on deferral and pay-out in instruments laid down in Directive 2013/36/EU are not appropriate for small and non-complex investment firms or for staff with low levels of variable remuneration. Clear, consistent and harmonised criteria for identifying investment firms and individuals that are exempt from those requirements are necessary to ensure supervisory convergence ■ and *a level playing field*. ***Given the important role that high earners play in directing the business and long-term performance of investment firms, effective oversight of the remuneration practices and trends relating to high earners should be ensured. Therefore, competent authorities should be able to monitor the remuneration of high earners.***
- (24) It is also appropriate to offer some flexibility to investment firms in the way investment firms use non-cash instruments to pay variable remuneration, provided that such instruments are effective in achieving the objective of aligning the interests of staff with the interests of various stakeholders, such as shareholders and creditors, and contribute to the alignment of variable remuneration with the risk profile of the investment firm.



- (25) The revenues of investment firms in the form of fees, commissions and other revenues in relation to the provision of different investment services are highly volatile. Limiting the variable component of remuneration to a portion of the fixed component of remuneration would affect the investment firm's ability to reduce remuneration at times of reduced revenues and could lead to an increase of the investment firm's fixed cost base, leading in turn to risks to the investment firm's ability to withstand times of economic downturn or reduced revenues. To avoid those risks, a single maximum ratio between the variable and the fixed components of remuneration should not be imposed on non-systemic investment firms. Instead, those investment firms should set appropriate ratios themselves. ***However, this Directive should not preclude Member States from implementing measures in national law designed to subject investment firms to stricter requirements with regard to the maximum ratio between the variable and the fixed components of the remuneration. Moreover, this Directive should not prevent Member States from imposing such a maximum ratio on all or on specific types of investment firms.***
- (26) ***This Directive should not prevent Member States from adopting a stricter approach with regard to the remuneration when investment firms receive extraordinary public financial support.***

- (27) *Different governance structures are used across Member States. In most cases a unitary or a dual-board structure is used. The definitions laid down in this Directive are intended to embrace all existing structures without expressing a preference for any particular structure. They are purely functional for the purpose of setting out rules aimed at a particular outcome irrespective of the national company law applicable to an institution in each Member State. The definitions should therefore not interfere with the general allocation of competences in accordance with national company law.*
- (28) *Management bodies should be understood to have executive and supervisory functions. The competence and structure of management bodies differ across Member States. In Member States where management bodies have a one-tier structure, a single board usually performs management and supervisory tasks. In Member States with a two-tier system, the supervisory function is performed by a separate supervisory board which has no executive functions and the executive function is performed by a separate management board which is responsible and accountable for the day-to-day management of the undertaking. Accordingly, separate tasks are assigned to the different entities within the management body.*

- (29) In response to the growing public demand for tax transparency, and to promote investment firms' corporate responsibility, it is appropriate to require that, ***unless they qualify as small and non-interconnected***, investment firms disclose, ***on an annual basis***, certain information, including information on profits made, taxes paid and any public subsidies received.
- (30) To address risks at investment firm only group level, the prudential consolidation method required by **■** Regulation (EU) 2019/...<sup>+</sup> should in the case of investment firm only groups be ***accompanied*** by a group capital test ***for simpler group structures***. The determination of the group supervisor, however, should ***in both cases*** be based on the same principles that apply in the case of supervision on a consolidated basis ***under Directive 2013/36/EU***. To ensure proper cooperation, core elements of coordination measures, and in particular information requirements in emergency situations or cooperation and coordination arrangements should be similar to the core elements of coordination applicable in the context of the single rulebook for credit institutions.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

- (31) The Commission should be able to submit recommendations to the Council for the negotiation of agreements between the Union and third countries for the practical exercise of supervision of compliance with the group capital test for investment firms, the parent undertakings of which are established in third countries, and for investment firms operating in third countries the parent undertakings of which are established in the Union. Moreover, Member States and EBA should also be able to set-up cooperation arrangements with third countries to perform their supervisory tasks.
- (32) In order to ensure legal certainty and avoid overlaps between the current prudential framework applicable to both credit institutions and investment firms and this Directive, Regulation (EU) No 575/2013 and Directive 2013/36/EU should be amended in order to remove investment firms from their scope. However, investment firms which are part of a banking group should remain subject to those provisions in Regulation (EU) No 575/2013 and Directive 2013/36/EU which are relevant to the banking group, such as the rules on prudential consolidation set out in Articles 11 to 24 of Regulation (EU) No 575/2013 and the provisions on the intermediate EU parent undertaking referred to in Article 21b of Directive 2013/36/EU.

- (33) It is necessary to specify the steps that undertakings need to take to verify whether they fall under the definition of a credit institution as set out in point (1)(b) of Article 4(1) of Regulation (EU) No 575/2013 and therefore need to obtain authorisation as a credit institution. Because certain investment firms already carry out the activities listed in points (3) and (6) of Section A of Annex I to Directive 2014/65/EU, it is also necessary to ensure clarity regarding the continuity of any authorisation granted for those activities. ***In particular, it is essential that competent authorities ensure that the transition from the current framework to the new one offers sufficient regulatory certainty for investment firms.***
- (34) To ensure effective supervision, it is important that undertakings that meet the conditions set out in point (1)(b) of Article 4(1) of Regulation (EU) No 575/2013 apply for an authorisation as a credit institution. Competent authorities should therefore have the possibility to apply sanctions to undertakings that do not apply for that authorisation.

(35) The amendment to the definition of ‘credit institution’ in Regulation (EU) No 575/2013 by Regulation (EU) 2019/...<sup>+</sup> may cover, from the entry into force of the latter, investment firms that are already operating on the basis of an authorisation issued in accordance with Directive 2014/65/EU. Those undertakings should be allowed to continue operating under their authorisation as investment firms until the authorisation of a credit institution is granted. Those investment firms should submit an application for authorisation as a credit institution at the latest when the average of their monthly total assets is equal to or exceeds any of the thresholds set out in point (1)(b) of Article 4(1) of Regulation (EU) No 575/2013 over a period of 12 consecutive months. Where investment firms meet any of the thresholds set out in point (1)(b) of Article 4(1) of Regulation (EU) No 575/2013 as from the date of entry into force of this Directive, the average of their monthly total assets should be calculated taking into account the 12 consecutive months preceding that date. Those investment firms should apply for authorisation as a credit institution within one year and one day after the entry into force of this Directive.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

- (36) The amendment to the definition of ‘credit institution’ in Regulation (EU) No 575/2013 by Regulation (EU) 2019/...<sup>+</sup> may also affect undertakings which have already applied for authorisation as investment firms under Directive 2014/65/EU and for which the application is still pending. Such applications should be transferred to the competent authorities under Directive 2013/36/EU and be treated in accordance with the authorisation provisions set out in that Directive if the envisaged total assets of the undertaking are equal to or exceed any of the thresholds set out in point (1)(b) of Article 4(1) of Regulation (EU) No 575/2013.
- (37) Undertakings referred to in point (1)(b) of Article 4(1) of Regulation (EU) No 575/2013 should also be subject to all the requirements for access to the activity of credit institutions laid down in Title III of Directive 2013/36/EU, including the provisions on the withdrawal of authorisation in accordance with Article 18 of that Directive. Article 18 of that Directive should, however, be amended to ensure that competent authorities are able to withdraw the authorisation granted to a credit institution where that credit institution uses its authorisation exclusively to engage in the activities referred to in point (1)(b) of Article 4(1) of Regulation (EU) No 575/2013 and has, for a period of five consecutive years, average total assets below the thresholds set out in that point.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

- (38) Pursuant to Article 39 of Directive 2014/65/EU, third-country firms providing financial services in the Union are subject to national regimes which may require the establishment of a branch in a Member State. To facilitate the regular monitoring and assessment of activities carried out by third-country firms through branches in the Union, competent authorities should be informed about the scale and scope of the services and activities carried out through branches in their territory.
- (39) *Specific cross-references in Directives 2009/65/EC<sup>18</sup>, 2011/61/EU<sup>19</sup> and 2014/59/EU<sup>20</sup> of the European Parliament and of the Council to the provisions of Regulation (EU) No 575/2013 and Directive 2013/36/EU, which no longer apply to investment firms from the date of application of this Directive and of Regulation (EU) 2019/...<sup>+</sup>, should be construed as references to the corresponding provisions in this Directive and in Regulation (EU) 2019/...<sup>+</sup>.*
- (40) EBA, in cooperation with ESMA, has issued a report based on thorough background analysis, data collection and consultation for a bespoke prudential regime for all non-systemic investment firms, which serves as the basis for the revised prudential framework for investment firms.

<sup>18</sup> Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (OJ L 302, 17.11.2009, p. 32).

<sup>19</sup> Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (OJ L 174, 1.7.2011, p. 1).

<sup>20</sup> Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (OJ L 173, 12.6.2014, p. 190).

<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).



- (41) To ensure the harmonised application of this Directive, EBA should develop draft regulatory technical standards to further specify the criteria to subject certain investment firms to Regulation (EU) No 575/2013, to specify the information which the competent authorities of home Member States and of host Member States should exchange in the context of supervision, to set out how investment firms should assess the size of their activities for the purposes of internal governance requirements and, in particular, to assess whether they constitute small and non-interconnected investment firms. Regulatory technical standards should also specify the categories of staff whose professional activities have a material impact on the risk profile of firms for the purposes of remuneration provisions, and specify the Additional Tier 1 and Tier 2 instruments which qualify as variable remuneration. Finally, regulatory technical standards should specify the elements for the assessment of specific liquidity risks, the application of additional own funds requirements by competent authorities, and the functioning of the colleges of supervisors. The Commission should supplement this Directive by adopting the regulatory technical standards developed by EBA by means of delegated acts pursuant to Article 290 TFEU and in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010. The Commission and EBA should ensure that those regulatory technical standards can be applied by all investment firms concerned in a manner that is proportionate to the nature, scale and complexity of those investment firms and their activities.
- (42) The Commission should also be empowered to adopt implementing technical standards developed by EBA regarding information sharing between competent authorities and publication requirements of competent authorities and implementing technical standards developed by ESMA by means of implementing acts pursuant to Article 291 TFEU and in accordance with Article 15 of Regulation (EU) No 1093/2010 and Article 15 of Regulation (EU) No 1095/2010.
- (43) In order to ensure the uniform application of this Directive and to take account of developments in financial markets, the power to adopt acts in accordance with Article 290 of the TFEU should be delegated to the Commission to supplement this Directive by clarifying the definitions in this Directive, the internal capital and risk assessments of investment firms, and the supervisory review and evaluation powers of competent authorities. It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level, and that those

consultations be conducted in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making<sup>21</sup>. In particular, to ensure equal participation in the preparation of delegated acts, the European Parliament and the Council receive all documents at the same time as Member States' experts, and their experts systematically have access to meetings of Commission expert groups dealing with the preparation of delegated acts.

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<sup>21</sup> OJ L 123, 12.5.2016, p. 1.

- (44) Since the objective of this Directive, namely to set up an effective and proportionate prudential framework to ensure that investment firms authorised to operate within the Union operate on a sound financial basis and are managed in an orderly way, including in the best interests of their clients, cannot be sufficiently achieved by the Member States but can rather, by reason of its scale and effects, be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality as set out in that Article, this Directive does not go beyond what is necessary in order to achieve that objective.

- (45) In accordance with the Joint Political Declaration of 28 September 2011 of Member States and the Commission on explanatory documents<sup>22</sup>, Member States have undertaken to accompany, in justified cases, the notification of their transposition measures with one or more documents explaining the relationship between the components of a directive and the corresponding parts of national transposition instruments. With regard to this Directive, the legislator considers the transmission of such documents to be justified,

HAVE ADOPTED THIS DIRECTIVE:

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<sup>22</sup> OJ C 369, 17.12.2011, p. 14.

## TITLE I

### SUBJECT MATTER, SCOPE AND DEFINITIONS

#### *Article 1*

##### *Subject matter*

This Directive lays down rules concerning:

- (a) the initial capital of investment firms;
- (b) supervisory powers and tools for the prudential supervision of investment firms by competent authorities;
- (c) the prudential supervision of investment firms by competent authorities in a manner that is consistent with the rules set out in Regulation (EU) 2019/...<sup>+</sup>;
- (d) publication requirements for competent authorities in the field of prudential ***regulation and*** supervision of investment firms.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

## Article 2

### Scope

1. This Directive applies to investment firms authorised and supervised under Directive 2014/65/EU.
2. ***By way of derogation from paragraph 1, Titles IV and V of this Directive do not apply to investment firms referred to in Article 1(2) and (5) of Regulation (EU) 2019/...<sup>+</sup>, which shall be supervised for compliance with prudential requirements under Titles VII and VIII of Directive 2013/36/EU in accordance with the second subparagraph of Article 1(2) of Regulation (EU) 2019/...<sup>+</sup>.***

## Article 3

### Definitions

1. For the purposes of this Directive, the following definitions apply:
  - (1) 'ancillary services undertaking' means ***an undertaking, the principal activity of which consists of owning or managing property, managing data-processing services, or a similar activity which is ancillary to the principal activity of one or more investment firms;***
  - (2) 'authorisation' means authorisation of an investment firm in accordance with ***Article 5*** of Directive 2014/65/EU;
  - (3) 'branch' means a branch as defined in point (30) of Article 4(1) of Directive 2014/65/EU;

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

- (4) ‘close links’ means close links as defined in point (35) of Article 4(1) of Directive 2014/65/EU;
- (5) ‘competent authority’ means a public authority or body of a Member State that is officially recognised and empowered by national law to supervise investment firms in accordance with this Directive, as part of the supervisory system in operation in that Member State;
- (6) ‘commodity *and emission allowance* dealer’ means a commodity *and emission allowance* dealer as defined in point (150) of Article 4(1) of Regulation (EU) No 575/2013;
- (7) ‘control’ means the relationship between a parent undertaking and a subsidiary, as described in Article 22 of Directive 2013/34/EU of the European Parliament and of the Council<sup>23</sup>, or in the accounting standards to which an investment firm is subject under Regulation (EC) No 1606/2002 of the European Parliament and of the Council<sup>24</sup>, or a similar relationship between any natural or legal person and an undertaking;
- (8) ‘compliance with the group capital test’ means compliance by a parent undertaking in an investment firm group with the requirements of Article 8 of Regulation (EU) 2019/...+;

<sup>23</sup> Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).

<sup>24</sup> Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (OJ L 243, 11.9.2002, p. 1).

+ OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

- (9) ‘credit institution’ means a credit institution as defined in point (1) of Article 4(1) of Regulation (EU) No 575/2013;
- (10) ‘derivatives’ means derivatives as defined in point (29) of Article 2(1) of Regulation (EU) No 600/2014 of the European Parliament and of the Council<sup>25</sup>;
- (11) ‘financial institution’ means a financial institution as defined in point (14) of Article 4(1) of Regulation (EU) 2019/...<sup>+</sup>;
- (12) ‘gender neutral remuneration policy’ means gender neutral remuneration policy as defined in point (65) of Article 3(1) of Directive 2013/36/EU, as amended by Directive (EU) 2019/878<sup>26</sup>;**
- (13) ‘group’ means a group as defined in point (11) of Article 2 of Directive 2013/34/EU;
- (14) ‘consolidated situation’ means a consolidated situation as defined in point (11) of Article 4(1) of Regulation (EU) 2019/...<sup>+</sup>;
- (15) ‘group supervisor’ means a competent authority responsible for the supervision of compliance with the group capital test of Union parent investment firms and investment firms controlled by Union parent investment holding companies or Union parent mixed financial holding companies;

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<sup>25</sup> Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (OJ L 173, 12.6.2014, p. 84).

<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

<sup>26</sup> Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (OJ L 150, 7.6.2019 p. 253).



- (16) ‘home Member State’ means a home Member State as defined in point (55)(a) of Article 4(1) of Directive 2014/65/EU;
- (17) ‘host Member State’ means a host Member State as defined in point (56) of Article 4(1) of Directive 2014/65/EU;
- (18) ‘initial capital’ means the capital which is required for the purposes of authorisation as an investment firm, *the amount and type of which are specified in Articles 9 and 11*;
- (19) ‘investment firm’ means an investment firm as defined in point (1) Article 4(1) of Directive 2014/65/EU;
- (20) ‘investment firm group’ means an investment firm group as defined in point (25) of Article 4(1) of Regulation (EU) 2019/...<sup>+</sup>;
- (21) ‘investment holding company’ means an investment holding company as defined in point (23) of Article 4(1) of Regulation (EU) 2019/...<sup>+</sup>;
- (22) ‘investment services and activities’ means investment services and activities as defined in point (2) of Article 4(1) of Directive 2014/65/EU;

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

- (23) ‘management body’ means a management body as defined in point (36) of Article 4(1) of Directive 2014/65/EU;
- (24) ‘management body in its supervisory function’ means the management body acting in its role of overseeing and monitoring management decision-making;
- (25) ‘mixed financial holding company’ means a mixed financial holding company as defined in point (15) of Article 2 of Directive 2002/87/EC of the European Parliament and of the Council<sup>27</sup>;
- (26) ***‘mixed-activity holding company’ means a parent undertaking other than a financial holding company, an investment holding company, a credit institution, an investment firm, or a mixed financial holding company within the meaning of Directive 2002/87/EC, the subsidiaries of which include at least one investment firm;***
- (27) ‘senior management’ means senior management as defined in point (37) of Article 4(1) Directive 2014/65/EU;
- (28) ‘parent undertaking’ means a parent undertaking as defined in point (32) of Article 4(1) of Directive 2014/65/EU;

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<sup>27</sup> Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council (OJ L 35, 11.2.2003, p. 1).

- (29) ‘subsidiary’ means a subsidiary as defined in point (33) of Article 4(1) of Directive 2014/65/EU;
- (30) ‘systemic risk’ means systemic risk as defined in point (10) of Article 3(1) of Directive 2013/36/EU;
- (31) ‘Union parent investment firm’ means a Union parent investment firm as defined in point (56) of Article 4(1) of Regulation (EU) 2019/...<sup>+</sup>;
- (32) ‘Union parent investment holding company’ means a Union parent investment holding company as defined in point (57) of Article 4(1) of Regulation (EU) 2019/...<sup>+</sup>;
- (33) ‘Union parent mixed financial holding company’ means a Union parent mixed financial holding company as defined in point (58) of Article 4(1) of Regulation (EU) 2019/...<sup>+</sup>.

2. The Commission is empowered to adopt delegated acts in accordance with Article 58 to supplement this Directive by clarifying the definitions set out in paragraph 1 in order to:
- (a) ensure the uniform application of this Directive;
  - (b) take account, in the application of this Directive, of developments on financial markets.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

## TITLE II

### COMPETENT AUTHORITIES

#### *Article 4*

#### *Designation and powers of the competent authorities*

1. Member States shall designate one or more competent authorities to carry out the functions and duties provided for in this Directive **and in Regulation (EU) 2019/...**<sup>+</sup>. The Member States shall inform the Commission, EBA **and ESMA** of that designation, and, where there is more than one competent authority, of the functions and duties of each competent authority.
2. Member States shall ensure that the competent authorities supervise the activities of investment firms, and, where applicable, of investment holding companies and mixed financial holding companies, to assess compliance with the requirements of this Directive and of Regulation (EU) 2019/...<sup>+</sup>.
3. Member States shall ensure that the competent authorities have **all** necessary powers, including the power to conduct on-the-spot checks in accordance with Article 14, to obtain the information needed to assess the compliance of investment firms and, where applicable, of investment holding companies and mixed financial holding companies, with the requirements of this Directive and of Regulation (EU) 2019/...<sup>+</sup>, and to investigate possible breaches of those requirements.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

4. Member States shall ensure that the competent authorities have the expertise, resources, operational capacity, powers and independence necessary to carry out the functions relating to the prudential supervision, investigations and *sanctions* set out in this Directive.
5. Member States shall require investment firms to provide their competent authorities with all the information necessary for the assessment of the compliance of investment firms with the national provisions transposing this Directive and compliance with Regulation (EU) 2019/...<sup>+</sup>. Internal control mechanisms and administrative and accounting procedures of the investment firms shall enable the competent authorities to check their compliance with those provisions at all times.
6. Member States shall ensure that investment firms record all their transactions and document the systems and processes which are subject to this Directive and to Regulation (EU) 2019/...<sup>+</sup> in such a manner that the competent authorities are able to assess compliance with the national provisions transposing this Directive and compliance with Regulation (EU) 2019/...<sup>+</sup> at all times.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

Article 5

***Discretion of competent authorities to subject certain investment firms  
to the requirements of Regulation (EU) No 575/2013***

1. ***Competent authorities may decide to apply the requirements of Regulation (EU) No 575/2013 pursuant to point (c) of the first subparagraph of Article 1(2) of Regulation (EU) 2019/...<sup>+</sup> to an investment firm that carries out any of the activities listed in points (3) and (6) of Section A of Annex I to Directive 2014/65/EU, where the total value of the consolidated assets of the investment firm is equal to or exceeds EUR 5 billion, calculated as an average of the previous 12 months, and one or more of the following criteria apply:***
- (a) the investment firm carries out those activities on such a scale that the failure or the distress of the investment firm could lead to systemic risk;***
  - (b) the investment firm is a clearing member as defined in point (3) of Article 4(1) of Regulation (EU) 2019/...<sup>+</sup>;***

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

*(c) the competent authority considers it to be justified in light of the size, nature, scale and complexity of the activities of the investment firm concerned, taking into account the principle of proportionality and having regard to one or more of the following factors:*

*(i) the importance of the investment firm for the economy of the Union or of the relevant Member State;*

*(ii) the significance of the investment firm's cross-border activities;*

*(iii) the interconnectedness of the investment firm with the financial system.*

*2. Paragraph 1 shall not apply to commodity and emission allowance dealers, collective investment undertakings or insurance undertakings.*

*3. Where a competent authority decides to apply the requirements of Regulation (EU) No 575/2013 to an investment firm in accordance with paragraph 1, that investment firm shall be supervised for compliance with prudential requirements under Titles VII and VIII of Directive 2013/36/EU.*

4. *Where a competent authority decides to revoke a decision taken in accordance with paragraph 1, it shall inform the investment firm without delay.*

*Any decision taken by a competent authority under paragraph 1 shall cease to apply where an investment firm no longer meets the threshold referred to in that paragraph, calculated over a period of 12 consecutive months.*

5. *Competent authorities shall inform EBA without delay of any decision taken pursuant to paragraphs 1, 3 and 4.*

6. *EBA, in consultation with ESMA, shall develop draft regulatory technical standards to further specify the criteria set out in points (a) and (b) of paragraph 1, and shall ensure their consistent application.*

*EBA shall submit those draft regulatory technical standards to the Commission by ... [12 months after the date of entry into force of this Directive].*

*Power is delegated to the Commission to supplement this Directive by adopting the regulatory technical standards referred to in the second subparagraph in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010.*



## *Article 6*

### Cooperation within a Member State

1. Competent authorities shall cooperate closely with the public authorities or bodies responsible in their Member State for the supervision of credit institutions and financial institutions. Member States shall require that those competent authorities and those public authorities or bodies exchange, *without delay*, any information which is essential or relevant to the exercise of their functions and duties.
2. Competent authorities that are different from those designated in accordance with Article 67 of Directive 2014/65/EU shall establish a mechanism for cooperation with those authorities and for the exchange of all information that is relevant for the exercise of their respective functions and duties.

## *Article 7*

### *Cooperation within the European System of Financial Supervision*

1. In the exercise of their duties, competent authorities shall take into account the convergence of supervisory tools and supervisory practices in the application of the legal provisions adopted pursuant to this Directive and to Regulation (EU) 2019/...+.

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+ OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

2. Member States shall ensure that:

- (a) competent authorities, as parties to the *ESFS*, cooperate with trust and full mutual respect, in particular when ensuring the exchange of appropriate, reliable *and exhaustive* information between them and other parties to the ESFS;
- (b) competent authorities participate in the activities of EBA, and, as appropriate, in the colleges of supervisors referred to in Article 48 of this Directive and in Article 116 of Directive 2013/36/EU;
- (c) competent authorities make every effort to *ensure compliance* with the guidelines and recommendations issued by EBA pursuant to Article 16 of Regulation (EU) No 1093/2010 and to respond to the warnings and recommendations issued by the European Systemic Risk Board (ESRB) pursuant to Article 16 of Regulation (EU) No 1092/2010 of the European Parliament and of the Council<sup>28</sup>;
- (d) competent authorities cooperate closely with the ESRB;
- (e) tasks and powers conferred on the competent authorities do not inhibit the performance of the duties of those competent authorities as members of EBA or of the ESRB, or under this Directive and under Regulation (EU) 2019/...<sup>+</sup>.

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<sup>28</sup> Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board (OJ L 331, 15.12.2010, p. 1).

<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

## Article 8

### Union dimension of supervision

Competent authorities in each Member State shall, in the exercise of their general duties, duly consider the potential impact of their decisions on the stability of the financial system in **■** other Member States concerned *as well as in the Union as a whole* and, in particular, in emergency situations, based on the information available at the relevant time.

## TITLE III

### INITIAL CAPITAL

## Article 9

### *Initial capital*

1. The initial capital of an investment firm required pursuant to Article 15 of Directive 2014/65/EU for the authorisation to provide any of the investment services or perform any of the investment activities listed in points (3) **and** (6) **■** of Section A of Annex I to Directive 2014/65/EU shall be EUR 750 000.
2. The initial capital of an investment firm required pursuant to Article 15 of Directive 2014/65/EU for the authorisation to provide any of the investment services or perform any of the investment activities listed in points (1), (2), (4), (5) and (7) of Section A of Annex I to Directive 2014/65/EU and which is not permitted to hold client money or securities belonging to its clients shall be EUR 75 000.
3. The initial capital of an investment firm required pursuant to Article 15 of Directive 2014/65/EU for investment firms other than those referred to in paragraphs 1, 2 and 4 of this Article shall be EUR 150 000.

4. *The initial capital of an investment firm authorised to provide the investment services or perform the investment activity listed in point (9) of Section A of Annex I to Directive 2014/65/EU, where that investment firm engages in dealing on own account or is permitted to do so, shall be EUR 750 000.*

#### *Article 10*

##### *References to initial capital in Directive 2013/36/EU*

*References to the levels of initial capital set by Article 9 of this Directive shall, from ... [18 months after the date of entry into force of this Directive], be construed as replacing references in other Union legal acts to the levels of initial capital set by Directive 2013/36/EU, as follows:*

- (a) references to initial capital of investment firms in Article 28 of Directive 2013/36/EU shall be construed as references to Article 9(1) of this Directive;*
- (b) references to initial capital of investment firms in Articles 29 and 31 of Directive 2013/36/EU shall be construed as references to Article 9(2), (3) or (4) of this Directive, depending on the types of investment services and activities of the investment firm;*
- (c) references to initial capital in Article 30 of Directive 2013/36/EU shall be construed as references to Article 9(1) of this Directive.*

#### *Article 11*

##### *Composition of initial capital*

The initial capital of an investment firm shall *be constituted in accordance with* Article 9 of Regulation (EU) 2019/...<sup>+</sup>.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

TITLE IV

PRUDENTIAL SUPERVISION

CHAPTER 1

Principles of prudential supervision

Section 1

Competences and duties of home and host *Member States*

Article 12

Competence of the competent authorities of the home and host Member State

The prudential supervision of investment firms shall be the responsibility of the competent authorities of the home Member State, without prejudice to those provisions of this Directive which confer responsibility on the competent authorities of the host Member State.

## Article 13

### Cooperation between competent authorities of different Member States

1. Competent authorities of different Member States shall cooperate closely for the purposes of their duties pursuant to this Directive and to Regulation (EU) 2019/...<sup>+</sup>, in particular by exchanging information about investment firms without delay, including the following:
  - (a) information about the management and ownership structure of the investment firm;
  - (b) information about compliance with own funds requirements by the investment firm;
  - (c) information about *compliance with the* concentration risk *requirements* and liquidity *requirements* of the investment firm;
  - (d) information about the administrative and accounting procedures and internal control mechanisms of the investment firm;
  - (e) any other relevant factors that may influence the risk posed by the investment firm.
2. The competent authorities of the home Member State shall immediately provide the competent authorities of the host Member State with any information and findings about any potential problems and risks posed by an investment firm to the protection of clients or the stability of the financial system in the host Member State which they have identified when supervising the activities of an investment firm.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

3. The competent authorities of the home Member State shall act upon information provided by the competent authorities of the host Member State by taking all measures necessary to avert or remedy potential problems and risks as referred to in paragraph 2. Upon request, the competent authorities of the home Member State shall explain *in detail* to the competent authorities of the host Member State how they have taken into account the information and findings provided by the competent authorities of the host Member State.
4. Where, following the communication of the information and findings referred to in paragraph 2, the competent authorities of the host Member State consider that the competent authorities of the home Member State have not taken the necessary measures referred to in paragraph 3, the competent authorities of the host Member State may, after having informed the competent authorities of the home Member State, *EBA* and *ESMA*, take appropriate measures to protect clients to whom services are provided *or* to protect the stability of the financial system.

*The competent authorities may refer to EBA cases in which a request for collaboration, in particular a request to exchange information, has been rejected or has not been acted upon within a reasonable time. With regard to such cases, EBA may, without prejudice to Article 258 TFEU, act in accordance with the powers conferred on it under Article 19 of Regulation (EU) No 1093/2010. EBA may also assist the competent authorities in reaching an agreement on the exchange of information under this Article on its own initiative in accordance with the second subparagraph of Article 19(1) of that Regulation.*

5. Competent authorities of the home Member State that disagree with the measures of the competent authorities of the host Member State may refer the matter to EBA, which shall act in accordance with the procedure laid down in Article 19 of Regulation (EU) No 1093/2010. Where EBA acts in accordance with that Article, it shall adopt its decision within one month.
6. ***For the purpose of assessing the condition in point (c) of the first subparagraph of Article 23(1) of Regulation (EU) 2019/...<sup>+</sup>, the competent authority of an investment firm's home Member State may request the competent authority of a clearing member's home Member State to provide information relating to the margin model and parameters used for the calculation of the margin requirement of the relevant investment firm.***
7. EBA, in consultation with ESMA, shall develop draft regulatory technical standards to specify requirements for the type and nature of the information referred to in paragraphs 1 and 2 of this Article.

Power is delegated to the Commission to supplement this Directive by adopting the regulatory technical standards referred to in the first subparagraph in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).



8. EBA, in consultation with ESMA, shall develop draft implementing technical standards to establish standard forms, templates and procedures for the information sharing requirements for the purpose of facilitating the supervision of investment firms.

Power is conferred on the Commission to adopt the implementing technical standards referred to in the first subparagraph in accordance with Article 15 of Regulation (EU) No 1093/2010.

9. EBA shall submit the draft technical standards referred to in paragraphs 7 and 8 to the Commission by ... [**18** months after the date of entry into force of this Directive].

#### Article 14

##### On-the-spot checking and inspection of branches established in another Member State

1. Host Member States shall provide that, where an investment firm authorised in another Member State carries out its activities through a branch, the competent authorities of the home Member State may, after having informed the competent authorities of the host Member State, carry out, ***themselves or through intermediaries that they appoint for that purpose***, on-the-spot checks of the information referred to in Article 13(1) and inspect such branches.

2. The competent authorities of the host Member State shall, for supervisory purposes and where they consider it to be relevant for reasons of stability of the financial system in the host Member State, have the power to carry out, on a case-by-case basis, on-the-spot checks and inspections of the activities carried out by branches of investment firms on their territory and require information from a branch about its activities.

Before carrying out such checks and inspections, the competent authorities of the host Member State shall, *without delay*, consult the competent authorities of the home Member State.

*As soon as possible following* the completion of those checks and inspections, the competent authorities of the host Member State shall communicate to the competent authorities of the home Member State the information *obtained and findings* that *are* relevant for the risk assessment of the investment firm concerned.

## Section 2

### Professional secrecy and duty to report

#### Article 15

##### Professional secrecy and exchange of confidential information

1. Member States shall ensure that competent authorities and all persons ***who work or who have worked for*** those competent authorities, including the persons referred to in Article 76(1) of Directive 2014/65/EU, are bound by the obligation of professional secrecy for the purposes of this Directive and of Regulation (EU) 2019/...<sup>+</sup>.

Confidential information which such competent authorities and persons receive in the course of their duties may be disclosed only in summary or aggregate form, provided that individual investment firms or persons cannot be identified, without prejudice to cases covered by criminal law.

Where the investment firm has been declared bankrupt or is being compulsorily wound up, confidential information which does not concern third parties may be disclosed in civil or commercial proceedings, where such disclosure is necessary for carrying out those proceedings.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

2. Competent authorities shall use the confidential information collected, exchanged or transmitted pursuant to this Directive and to Regulation (EU) 2019/...<sup>+</sup> only for the purpose of carrying out their duties, and in particular for the following purposes:
  - (a) to monitor the prudential rules set out in this Directive and in Regulation (EU) 2019/...<sup>+</sup>;
  - (b) to impose sanctions;
  - (c) in administrative appeals against decisions of the competent authorities;
  - (d) in court proceedings initiated under Article 23.
3. Natural and legal persons and other bodies, other than competent authorities, that receive confidential information pursuant to this Directive and to Regulation (EU) 2019/...<sup>+</sup> shall use that information only for the purposes for which the competent authority expressly provides or in accordance with national law.
4. Competent authorities may exchange confidential information for the purposes of paragraph 2, may expressly state how that information is to be treated and may expressly restrict any further transmission of that information.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

5. The obligation referred to in paragraph 1 shall not prevent competent authorities from transmitting confidential information to the Commission when that information is necessary for the exercise of the powers of the Commission.
6. Competent authorities may provide EBA, ESMA, the ESRB, central banks of the Member States, the European System of Central Banks (ESCB) and the European Central Bank in their capacity as monetary authorities, and, where appropriate, public authorities responsible for overseeing payment and settlement systems, with confidential information where that information is necessary for the performance of their tasks.

## Article 16

### Cooperation arrangements with third countries for the exchange of information

***For the purpose of performing their supervisory tasks pursuant to this Directive or to Regulation (EU) 2019/...<sup>+</sup>, and for the purpose of exchanging information, competent authorities, EBA and ESMA in accordance with Article 33 of Regulation (EU) No 1093/2010 or Article 33 of Regulation (EU) No 1095/2010, as applicable, may conclude cooperation arrangements with third-country supervisory authorities as well as with third-country authorities or bodies responsible for the following tasks, provided that the information disclosed is subject to guarantees of professional secrecy that are at least equivalent to those laid down in Article 15 of this Directive:***

- (a) the supervision of financial institutions and financial markets, ***including the supervision of financial entities licensed to operate as central counterparties, where central counterparties have been recognised under Article 25 of Regulation (EU) No 648/2012 of the European Parliament and of the Council<sup>29</sup>***;

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

<sup>29</sup> 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, p. 1).

- (b) the liquidation and bankruptcy of investment firms and similar procedures;
- (c) oversight of the bodies involved in the liquidation and bankruptcy of investment firms and similar procedures;
- (d) the carrying out of statutory audits of financial institutions or institutions which administer compensation schemes;
- (e) oversight of persons charged with carrying out statutory audits of the accounts of financial institutions;
- (f) oversight of persons active on emission allowance markets for the purpose of ensuring a consolidated overview of financial and spot markets;
- (g) oversight of persons active on agricultural commodity derivatives markets for the purpose of ensuring a consolidated overview of financial and spot markets.

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## Article 17

### Duties of persons responsible for the control of annual and consolidated accounts

Member States shall provide that any person who is authorised in accordance with Directive 2006/43/EC of the European Parliament and of the Council<sup>30</sup> and who performs in an investment firm the tasks described in Article 73 of Directive 2009/65/EC or in Article 34 of Directive 2013/34/EU, or any other statutory task, has a duty to report promptly to the competent authorities any fact or decision concerning that investment firm, or concerning an undertaking that has close links with that investment firm which:

- (a) constitutes a material breach of the laws, regulations or administrative provisions laid down pursuant to this Directive;
- (b) may affect the continuous functioning of the investment firm; or
- (c) may lead to a refusal to certify the accounts or can lead to the expression of reservations.

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<sup>30</sup> Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (OJ L 157, 9.6.2006, p. 87).

## Section 3

### Sanctions, investigatory powers and right of appeal

#### Article 18

##### Administrative *sanctions* and other administrative measures

1. ***Without prejudice to the supervisory powers referred to in Section 4 of Chapter 2 of Title IV of this Directive, including investigatory powers and powers of competent authorities to impose remedies, and the right of Member States to provide for and impose criminal sanctions, Member States shall lay down rules on administrative sanctions and other administrative measures and ensure that their competent authorities have the power to impose such sanctions and*** measures in respect of breaches of national provisions transposing this Directive and of Regulation (EU) 2019/...<sup>+</sup>, including where an investment firm:
  - (a) fails to have in place internal governance arrangements as set out in Article 26;
  - (b) fails to report information or provides incomplete or inaccurate information on compliance with the obligation to meet own funds requirements set out in Article 11 of Regulation (EU) 2019/...<sup>+</sup> to the competent authorities, in breach of point (b) of Article 54(1) of that Regulation;
  - (c) fails to report to the competent authorities, in breach of point (e) of Article 54(1) of Regulation (EU) 2019/...<sup>+</sup>, information about concentration risk or provides incomplete or inaccurate information;

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).



- (d) incurs a concentration risk in excess of the limits set out in Article 37 of Regulation (EU) 2019/...<sup>+</sup>, without prejudice to Articles 38 and 39 of that Regulation;
- (e) repeatedly or persistently fails to hold liquid assets in breach of Article 43 of Regulation (EU) 2019/...<sup>+</sup>, without prejudice to Article 44 of that Regulation;
- (f) fails to disclose information, or provides incomplete or inaccurate information, in breach of the provisions set out in Part Six of Regulation (EU) 2019/...<sup>+</sup>;
- (g) makes payments to holders of instruments included in the own funds of the investment firm where Article 28, 52 or 63 of Regulation (EU) No 575/2013 prohibit such payments to holders of instruments included in own funds;
- (h) is found liable for a serious breach of national provisions adopted pursuant to Directive (EU) 2015/849 of the European Parliament and of the Council<sup>31</sup>;

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

<sup>31</sup> Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC (OJ L 141, 5.6.2015, p. 73).

- (i) allows one or more persons that do not comply with Article 91 of Directive 2013/36/EU to become or remain a member of the management body.

Member States that do not lay down rules on administrative *sanctions* for breaches which are subject to national criminal law shall communicate to the Commission the relevant criminal law provisions.

The administrative *sanctions* and other administrative measures shall be effective, proportionate and dissuasive.

- 2. The administrative *sanctions* and other administrative measures referred to in the first subparagraph of paragraph 1 shall include the following:
  - (a) a public statement which identifies the natural or legal person, investment firm, investment holding company or mixed financial holding company responsible and the nature of the breach;
  - (b) an order requiring the natural or legal person responsible to cease the conduct and to desist from repeating that conduct;
  - (c) a temporary ban for members of the investment firm's management body or any other natural persons *who are held responsible on* exercising functions in investment firms;

- (d) in case of a legal person, administrative pecuniary *sanctions* of up to 10 % of the total annual net turnover, including the gross income consisting of interest receivable and similar income, income from shares and other variable or fixed-yield securities, and commissions or fees of the undertaking in the preceding business year;
- (e) in the case of a legal person, administrative pecuniary *sanctions* of up to twice the amount of the profits gained or losses avoided due to the breach where those profits or losses can be determined;
- (f) in the case of a natural person, administrative pecuniary *sanctions* of up to EUR 5 000 000, or in the Member States whose currency is not the euro, the corresponding value in the national currency on ... [date of entry into force of this Directive].

Where an undertaking referred to in point (d) of the first subparagraph is a subsidiary, the relevant gross income shall be the gross income resulting from the consolidated account of the ultimate parent undertaking in the preceding business year.

Member States shall ensure that where an investment firm is in breach of national provisions transposing this Directive or in breach of the provisions of Regulation (EU) 2019/...<sup>+</sup>, *administrative sanctions* may be applied *by the competent authority* to the members of the management body and to other natural persons who under national law are responsible for the breach.

3. Member States shall ensure that, when determining the type of administrative *sanctions* or other administrative measures referred to in paragraph 1 and the level of administrative pecuniary *sanctions*, competent authorities shall take into account all relevant circumstances, including, where appropriate:

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

- (a) the gravity and the duration of the breach;
- (b) the degree of responsibility of the natural or legal persons responsible for the breach;
- (c) the financial strength of the natural or legal persons responsible for the breach, including the total turnover of legal persons or the annual income of natural persons;
- (d) the importance of profits gained or losses avoided by the legal persons responsible for the breach;
- (e) any losses incurred by third parties as a result of the breach;
- (f) the level of cooperation with the relevant competent authorities;
- (g) previous breaches by the natural or legal persons responsible for the breach;
- (h) any potential systemic consequences of the breach.

## Article 19

### Investigatory powers

Member States shall ensure that competent authorities have all information-gathering and investigatory powers that are necessary for the exercise of their functions, including:

- (a) the power to require information from the following natural or legal persons:
  - (i) investment firms established in the Member State concerned;
  - (ii) investment holding companies established in the Member State concerned;
  - (iii) mixed financial holding companies established in the Member State concerned;

- (iv) mixed-activity holding companies established in the Member State concerned;
  - (v) persons belonging to the entities referred to in points (i) to (iv);
  - (vi) third parties to whom the entities referred to in points (i) to (iv) have outsourced operational functions or activities;
- (b) the power to conduct all necessary investigations of any person referred to in point (a) that is established or located in the Member State concerned, including the right:
- (i) to require the submission of documents by the persons referred to in point (a);
  - (ii) to examine the books and records of the persons referred to in point (a) and to make copies or extracts from those books and records;
  - (iii) to obtain written or oral explanations from the persons referred to in point (a) or from their representatives or staff;
  - (iv) to interview any other *relevant* person ■ for the purpose of collecting information on the subject matter of an investigation;
- (c) the power to conduct all necessary inspections at the business premises of the legal persons referred to in point (a) and any other undertakings included in the supervision of compliance with the group capital test, where the competent authority is the group supervisor, subject to the prior notification of other competent authorities concerned.

## Article 20

### Publication of administrative *sanctions* and other administrative measures

1. Member States shall ensure that competent authorities publish on their official website without undue delay any administrative *sanctions* and other administrative measures imposed in accordance with Article 18 and which have not been appealed or can no longer be appealed. That publication shall include information on the type and nature of the breach and the identity of the natural or legal person on whom the *sanction* is imposed or against whom the measure is taken. The information shall only be published after that person has been informed of those *sanctions* or measures and to the extent that the publication is necessary and proportionate.
2. Where Member States permit the publication of administrative *sanctions* or other administrative measures imposed in accordance with Article 18 against which there has been an appeal, competent authorities shall also publish on their official website information on the appeal status and on the outcome of the appeal.
3. Competent authorities shall publish the administrative *sanctions* or other administrative measures imposed in accordance with Article 18 on an anonymous basis in any of the following circumstances:
  - (a) the *sanction* or measure has been imposed on a natural person and publication of that person's personal data is found to be disproportionate;

- (b) the publication would jeopardise an ongoing criminal investigation or the stability of financial markets;
  - (c) the publication would cause disproportionate damage to the investment firms or natural persons involved.
4. Competent authorities shall ensure that information published pursuant to this Article remains on their official website for at least five years. Personal data may only be retained on the official website of the competent authority where permitted by the applicable data protection rules.

#### Article 21

#### Reporting *sanctions* to EBA

Competent authorities shall inform EBA of administrative *sanctions* and other administrative measures imposed pursuant to Article 18, of any appeal against those *sanctions* and other administrative measures and of the outcome thereof. EBA shall maintain a central database of administrative *sanctions* and other administrative measures communicated to it solely for the purpose of exchanging information between competent authorities. That database shall be accessible *only* to competent authorities *and ESMA* and it shall be updated regularly, *and at least annually*.

EBA shall maintain a website with links to each competent authority's publication of administrative *sanctions* and other administrative measures imposed in accordance with Article 18 and shall state the period for which each Member State publishes administrative *sanctions* and other administrative measures.

Article 22  
Reporting of breaches

1. Member States shall ensure that competent authorities establish effective and reliable mechanisms to ***enable prompt reporting of*** potential or actual breaches of national provisions transposing this Directive and of Regulation (EU) 2019/...<sup>+</sup> ***to competent authorities.***

***Those mechanisms shall include*** the following:

- (a) specific procedures for the ***reception, treatment and following up of such reports, including the establishment of secure communication channels;***
- (b) appropriate protection against retaliation, discrimination or other types of unfair treatment by the investment firm for employees of investment firms who report breaches committed within the investment firm;
- (c) protection of personal data concerning both the person who reports the breach and the natural person who is allegedly responsible for that breach, in accordance with Regulation (EU) 2016/679;
- (d) clear rules that ensure that confidentiality is guaranteed in all cases in relation to the person who reports the breaches committed within the investment firm, unless disclosure is required by national law in the context of further investigations or subsequent ***administrative or*** judicial proceedings.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).



2. Member States shall require investment firms to have in place appropriate procedures for their employees to report breaches internally through a specific independent channel. Those procedures may be provided for by the social partners provided that those procedures offer the same protection as the protection referred to in points (b), (c) and (d) of paragraph 1.

### Article 23

#### Right of appeal

Member States shall ensure that decisions and measures taken pursuant to Regulation (EU) 2019/...<sup>+</sup> or pursuant to laws, regulations and administrative provisions adopted in accordance with this Directive are subject to a right of appeal.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

## CHAPTER 2

### Review process

#### Section 1

### ***INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS AND INTERNAL RISK-ASSESSMENT PROCESS***

#### Article 24

##### Internal capital *and liquid assets*

1. Investment firms *which do not meet the conditions for qualifying as small and non-interconnected investment firms set out in Article 12(1) of Regulation (EU) 2019/...*<sup>+</sup> shall have in place sound, effective and comprehensive *arrangements*, strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital *and liquid assets* that they consider adequate to cover the nature and level of risks **■** which they *may pose to others and to which the investment firms themselves* are or might be exposed.
2. The *arrangements*, strategies and processes referred to in paragraph 1 shall be *appropriate* and proportionate to the nature, scale and complexity of the activities of the investment firm concerned. *They shall be subject to regular internal review.*

*Competent authorities may request investment firms which meet the conditions for qualifying as small and non-interconnected investment firms set out in Article 12(1) of Regulation (EU) 2019/...<sup>+</sup> to apply the requirements provided for in this Article to the extent that the competent authorities deem it to be appropriate.*

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

## Section 2

Internal governance, transparency, treatment of risks and remuneration

### Article 25

#### *Scope of application of this Section*

1. This Section shall not apply where, on the basis of *Article 12(1) of Regulation (EU) 2019/...*<sup>+</sup>, an investment firm determines that it meets all of the conditions for qualifying as a small and non-interconnected investment firm set out **■** *therein*.
2. *Where an investment firm which has not met all of the conditions set out in **■** Article 12(1) of Regulation **■** 2019/...<sup>+</sup> subsequently meets those conditions, this Section shall cease to apply after a period of six months from the date on which those conditions are met. This section shall cease to apply to an investment firm after that period only where the investment firm continued to meet the conditions set out in Article 12(1) of Regulation 2019/...<sup>+</sup> without interruption during that period and where it notified the competent authority accordingly.*

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

3. *Where an investment firm determines that it no longer meets all of the conditions set out in Article 12(1) of Regulation (EU) 2019/.....<sup>+</sup>, it shall notify the competent authority and comply with this Section **■** within 12 months of the date on which that assessment took place.*
4. *Member States shall require investment firms to apply the provisions laid down in Article 32 to remuneration awarded for services provided or performance in the financial year following the financial year in which **the** assessment referred to in paragraph 3 took place.*

**■**

*Where this Section applies and Article 8 of Regulation (EU) 2019/...<sup>+</sup> is applied, Member States shall ensure that **this Section is applied to** investment firms **on an individual basis.***

*Where this Section applies and prudential consolidation as referred to in Article 7 of Regulation (EU) 2019/...<sup>+</sup> is applied, Member States shall ensure that **this Section is applied to investment firms on an individual and consolidated basis.***

*By way of derogation from the third subparagraph, **this Section shall not apply to subsidiary undertakings included in a consolidated situation that are** established in third countries, **where** the parent undertaking in the Union can demonstrate to the competent authorities that the application of this Section is unlawful under the laws of the third country where those subsidiary undertakings are established.*

**■**

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

Article 26  
Internal governance

1. Member States shall ensure that investment firms have robust governance arrangements, including all of the following:
  - (a) a clear organisational structure with well-defined, transparent and consistent lines of responsibility;
  - (b) effective processes to identify, manage, monitor and report the risks that investment firms are or might be exposed to, *or the risks that they pose or might pose to others*;
  - (c) adequate internal control mechanisms, including sound administration and accounting procedures;
  - (d) remuneration policies and practices that are consistent with and promote sound and effective risk management.

*The remuneration policies and practices referred to in point (d) of the first subparagraph shall be gender neutral.*

2. When establishing the arrangements referred to in paragraph 1, the criteria set out in Articles 28 to 33 ■ shall be taken into account.

3. The arrangements referred to in paragraph 1 shall be **appropriate** and proportionate to the nature, scale and complexity of the risks inherent in the business model and the activities of the investment firm.
4. EBA, in consultation with ESMA, shall issue guidelines on the application of the governance arrangements referred to in paragraph 1.

***EBA, in consultation with ESMA, shall issue guidelines in accordance with Article 16 of Regulation (EU) No 1093/2010 on gender neutral remuneration policies for investment firms.***

***Within two years of the date of publication of those guidelines, EBA shall issue a report on the application of gender neutral remuneration policies by investment firms based on the information collected by the competent authorities.***

## Article 27

### Country-by-country reporting

1. Member States shall require investment firms that *have* a branch or subsidiary that is a financial institution as defined in point (26) of Article 4(1) of Regulation (EU) No **575/2013** *in a Member State or in a third country other than that in which the authorisation of the investment firm was granted to disclose* the following information *by Member State and third country* on an annual basis:
  - (a) the name, nature of activities and location of any subsidiaries and branches;
  - (b) turnover;
  - (c) the number of employees on a full time equivalent basis;
  - (d) profit or loss before tax;
  - (e) tax on profit or loss;
  - (f) the public subsidies received.
  
2. The information referred to in paragraph 1 of this Article shall be audited in accordance with Directive **2006/43/EC** and, where possible, shall be annexed to the annual financial statements or, where applicable, to the consolidated financial statements of that investment firm.

## Article 28

### Role of the management body in risk management

1. Member States shall ensure that the management body of the investment firm approves and periodically reviews the strategies and policies on the risk appetite of the investment firm, and on managing, monitoring and mitigating the risks the investment firm is or may be exposed to, taking into account the macroeconomic environment and the business cycle of the investment firm.
2. Member States shall ensure that the management body devotes sufficient time to ensure proper consideration of the *matters* referred to in paragraph 1 and that it allocates adequate resources to the management of all material risks to which the investment firm is exposed.
3. Member States shall ensure that investment firms establish reporting lines to the management body for all material risks and for all risk management policies and any changes thereto.



4. **█** Member States shall require *all investment firms that do not meet the criteria set out in point (a) of Article 32(4)* to establish a risk committee composed of members of the management body who do not perform any executive function in the investment firm concerned.

Members of the risk committee referred to in the first subparagraph shall have appropriate knowledge, skills and expertise to fully understand, manage and monitor the risk strategy and the risk appetite of the investment firm. They shall ensure that the risk committee advises the management body on the investment firm's overall current and future risk appetite and strategy and assists the management body in overseeing the implementation of that strategy by senior management. The management body shall retain overall responsibility for the investment firm's risk strategies and policies.

**█**

5. Member States shall ensure that the management body in its supervisory function and the risk committee of that management body, where a risk committee has been established, have access to information on the risks to which the investment firm is or may be exposed.

Article 29

***Treatment of risks***

1. Competent authorities shall ensure that investment firms have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of the following:
  - (a) material sources and effects of risk to ***clients and any material impact on own funds***;
  - (b) material sources and effects of risk to market ***and any material impact on own funds***;
  - (c) ***material sources*** and effects ***of*** risk to the investment firm, in particular ***those which can deplete the level of own funds available***;
  - (d) liquidity risk over an appropriate set of time horizons, including intra-day, so as to ensure that the investment firm maintains adequate levels of ***liquid resources, including in respect of addressing material sources of risks under points (a), (b) and (c)***.

The strategies, policies, processes and systems shall be proportionate to the complexity, risk profile, and scope of operation of the investment firm and risk tolerance set by the management body, and shall reflect the investment firm's importance in each Member State in which it carries out business.

***For the purposes of point (a) of the first subparagraph and of the second subparagraph, competent authorities shall consider national law governing segregation applicable to client money.***

***For the purposes of point (a) of the first subparagraph, investment firms shall consider holding professional indemnity insurance as an effective tool in their management of risks.***

***For the purposes of point (c) of the first subparagraph, material sources of risk to the investment firm itself shall include, if relevant, material changes in the book value of assets, including any claims on tied agents, the failure of clients or counterparties, positions in financial instruments, foreign currencies and commodities, and obligations to defined benefit pension schemes.***

***Investment firms shall give due consideration to any material impact on own funds where such risks are not appropriately captured by the own funds requirements calculated under Article 11 of Regulation (EU) 2019/...<sup>+</sup>.***

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

2. *Where investment firms need to wind down or cease their activities, competent authorities shall require that investment firms, by taking into account the viability and sustainability of their business models and strategies, give due consideration to requirements and necessary resources which are realistic, in terms of timescale and maintenance of own funds and liquid resources, throughout the process of exiting the market.*
3. By way of derogation from Article 25, points (a), (c) █ and (d) of paragraph 1 of this Article shall apply to investment firms that meet the conditions for qualifying as small and non-interconnected investment firms set out in Article 12(1) of Regulation (EU) 2019/...<sup>+</sup>.
4. The Commission *is* empowered to adopt delegated acts in accordance with Article 58 to **supplement this Directive** to ensure that the strategies, policies, processes and systems of investment firms are robust. The Commission shall thereby take into account developments in financial markets, and in particular the emergence of new financial products, developments in accounting standards and developments that facilitate the convergence of supervisory practices.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

Article 30  
Remuneration policies

1. **Member States** shall ensure that investment firms, when establishing and applying their remuneration policies for **categories of staff, including** senior management, risk takers, staff engaged in control functions and any employees receiving overall remuneration equal to at least the lowest remuneration received by senior management or risk takers, whose professional activities have a material impact on the risk profile of the investment firm **or of the assets that it manages**, comply with the following principles:
- (a) the remuneration policy is **clearly documented and proportionate to the size, internal organisation and nature, as well as to the scope and complexity of the activities of the investment firm**;
  - (b) **the remuneration policy is a gender-neutral remuneration policy**;
  - (c) the remuneration policy is consistent with and promotes sound and effective risk management;
  - (d) **the remuneration policy is in line with the business strategy and objectives of the investment firm, and also takes into account long term effects of the investment decisions taken**;
  - (e) the remuneration policy contains measures to avoid conflicts of interest, encourages responsible business conduct and promotes risk awareness and prudent risk taking;
  - (f) the investment firm's management body in its supervisory function adopts and periodically reviews the remuneration policy and has overall responsibility for **overseeing** its implementation;

- (g) the implementation of the remuneration policy is subject to a central and independent internal review by control functions *at least annually*;
- (h) staff engaged in control functions are independent from the business units they oversee, have appropriate authority, and are remunerated in accordance with the achievement of the objectives linked to their functions, regardless of the performance of the business areas they control;
- (i) the remuneration of senior officers in the risk management and compliance functions is directly overseen by the remuneration committee referred to in Article 33 or, where such a committee has not been established, by the management body in its supervisory function;
- (j) the remuneration policy, taking into account national rules on wage setting, makes a clear distinction between the criteria applied to determine the following:
  - (i) basic fixed remuneration, which primarily reflects relevant professional experience and organisational responsibility as set out in an employee's job description as part of his or her terms of employment;
  - (ii) variable remuneration, which reflects a sustainable and risk adjusted performance of the employee, as well as performance in excess of the employee's job description;
- (k) the fixed component represents a sufficiently high proportion of the total remuneration so as to enable the operation of a fully flexible policy on variable remuneration components, including the possibility of paying no variable remuneration component.

2. For the purposes of point (k) of paragraph 1, Member States shall ensure that investment firms set the appropriate ratios between the variable and the fixed component of the total remuneration in their remuneration policies, taking into account the business activities of the investment firm and associated risks, as well as the impact that different categories of staff referred to in paragraph 1 have on the risk profile of the investment firm.
3. Member States shall ensure that investment firms **establish and** apply the principles referred to in paragraph 1 in a manner that is appropriate to their size and internal organisation and to the nature, scope and complexity of their activities.
4. EBA, in consultation with ESMA, shall develop draft regulatory technical standards to specify appropriate criteria to identify the categories of staff whose professional activities have a material impact on the risk profile of the investment firm as referred to in paragraph 1 of this Article. ***EBA and ESMA shall take due account of Commission Recommendation 2009/384/EC<sup>32</sup> as well as existing remuneration guidelines pursuant to Directives 2009/65/EC, 2011/61/EU and 2014/65/EU, and shall aim to minimise divergence from existing provisions.***

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<sup>32</sup> Commission Recommendation of 30 April 2009 on remuneration policies in the financial services sector (OJ L 120, 15.5.2009, p. 22).

EBA shall submit those draft regulatory technical standards to the Commission by ...[18 months after the date of entry into force of this Directive].

Power is delegated to the Commission to supplement this Directive by adopting the regulatory technical standards referred to in the first subparagraph in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010.

#### Article 31

Investment firms that benefit from extraordinary public financial support

Member States shall ensure that where an investment firm benefits from extraordinary public financial support as defined in point (28) of Article 2(1) of Directive 2014/59/EU :

- (a) *that investment firm does not pay any variable remuneration to members of the management body;*
- (b) where variable remuneration *paid to staff other than members of the management body* would be inconsistent with the maintenance of a sound capital base of an investment firm and its timely exit from extraordinary public financial support, variable remuneration shall be limited to a portion of net revenue .



## Article 32

### Variable remuneration

1. Member States shall ensure that any variable remuneration awarded and paid by an investment firm *to categories of staff referred to in Article 30(1)* complies with all of the following requirements *under the same conditions as those set out in Article 30(3)*:
  - (a) where variable remuneration is performance related, the total amount of variable remuneration is based on a combination of the assessment of the performance of the individual, of the business unit concerned and of the overall results of the investment firm;
  - (b) when assessing the performance of the individual, both financial and non-financial criteria are taken into account;
  - (c) the assessment of the performance referred to in point (a) is based on a multi-year period, taking into account the business cycle of the investment firm and its business risks;
  - (d) the variable remuneration does not affect the investment firm's ability to ensure a sound capital base;

- (e) there is no guaranteed variable remuneration other than for new staff **■** only for the first year of employment of new staff *and where the investment firm has a strong capital base*;
- (f) payments relating to the early termination of an employment contract reflect performance achieved over time by the individual and shall not reward failure or misconduct;
- (g) remuneration packages relating to compensation or buy out from contracts in previous employment are aligned with the long-term interests of the investment firm;
- (h) the measurement of performance used as a basis to calculate pools of variable remuneration takes into account all types of current and future risks and the cost of the capital and liquidity required in accordance with Regulation (EU) 2019/...<sup>+</sup>;
- (i) the allocation of the variable remuneration components within the investment firm takes into account all types of current and future risks;

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

- (j) at least 50 % of the variable remuneration consists of any of the following instruments:
- (i) shares or equivalent ownership interests, subject to the legal structure of the investment firm concerned;
  - (ii) share-linked instruments or equivalent non-cash instruments, subject to the legal structure of the investment firm concerned;
  - (iii) Additional Tier 1 instruments or Tier 2 instruments or other instruments which can be fully converted to Common Equity Tier 1 instruments or written down and that adequately reflect the credit quality of the investment firm as a going concern;
  - (iv) *non-cash instruments which reflect the instruments of the portfolios managed;*
- (k) *by way of derogation from point (j), where an investment firm does not issue any of the instruments referred to in that point, competent authorities may approve the use of alternative arrangements fulfilling the same objectives;*

- (l) at least 40 % of the variable remuneration is deferred over a three- to five-year period as appropriate, depending on the business cycle of the investment firm, the nature of its business, its risks and the activities of the individual in question, except in the case of variable remuneration of a particularly high amount where the proportion of the variable remuneration deferred is at least 60 %;
- (m) up to 100 % of the variable remuneration is contracted where the financial performance of the investment firm is subdued or negative, including through *malus* or clawback arrangements subject to criteria set by investment firms which in particular cover situations where the individual in question:
  - (i) participated in or was responsible for conduct which resulted in significant losses for the investment firm;
  - (ii) is no longer considered fit and proper;
- (n) discretionary pension benefits are in line with the business strategy, objectives, values and long-term interests of the investment firm.

2. For the purposes of paragraph 1, *Member States* shall ensure the following:
- (a) individuals referred to in Article 30(1) do not use personal hedging strategies or remuneration and liability-related insurances to undermine the principles referred to in paragraph 1;
  - (b) variable remuneration is not paid through financial vehicles or methods that facilitate non-compliance with this Directive or with Regulation (EU) 2019/...<sup>+</sup>.
3. For the purposes of point (j) of paragraph 1, the instruments referred to therein shall be subject to an appropriate retention policy designed to align the incentives of the individual with the longer-term interests of the investment firm, its creditors and clients. Member States or their competent authorities may place restrictions on the types and designs of those instruments or prohibit the use of certain instruments for variable remuneration.

For the purposes of point (l) of paragraph 1, the deferral of the variable remuneration shall vest no faster than on a pro-rata basis.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

For the purposes of point (n) of paragraph 1, where an employee leaves the investment firm before retirement age, discretionary pension benefits shall be held by the investment firm for a period of five years in the form of instruments referred to in point (j). Where an employee reaches retirement age and retires, discretionary pension benefits shall be paid to the employee in the form of instruments referred to in point (j), subject to a five-year retention period.

4. Points (j) and (l) of paragraph 1 and the third subparagraph of paragraph 3 shall not apply to:
- (a) an investment firm, where the value of its *on and off-balance sheet assets* is on average equal to or less than EUR 100 million over the four-year period immediately preceding the given financial year;
  - (b) an individual whose annual variable remuneration does not exceed EUR 50 000 and does not represent more than one fourth of that individual's total annual remuneration.

5. By way of derogation from point (a) *of paragraph 4, a Member State may increase the threshold referred to in that point, provided that the investment firm meets the following criteria:*
- (a) the investment firm is not, in the Member State in which it is established, one of the three largest investment firms in terms of total value of assets;*
  - (b) the investment firm is not subject to obligations or is subject to simplified obligations in relation to recovery and resolution planning in accordance with Article 4 of Directive 2014/59/EU;*
  - (c) the size of the investment firm's on and off-balance sheet trading-book business is equal to or less than EUR 150 million;*
  - (d) the size of the investment firm's on and off-balance sheet derivative business is equal to or less than EUR 100 million;*

(e) *the threshold does not exceed EUR 300 million; and*

(f) *it is appropriate to increase the threshold, taking into account the nature and scope of the investment firm's activities, its internal organisation, and, where applicable, the characteristics of the group to which it belongs.*

6. *By way of derogation from point (a) of paragraph 4, a Member State may lower the threshold referred to in that point, provided that it is appropriate to do so, taking into account the nature and scope of the investment firm's activities, its internal organisation, and, where applicable, the characteristics of the group to which it belongs.*

7. By way of derogation from point (b) *of paragraph 4, a Member State* may decide that *staff members who are entitled to* annual variable remuneration **|** below the *threshold and share* referred to in *that* point *shall not be* subject to the *exemption set out therein* because of national market specificities in terms of remuneration practices or because of the nature of the responsibilities and job profile of those *staff members*.

**|**



8. EBA, in consultation with ESMA, shall develop draft regulatory technical standards to specify the classes of instruments that satisfy the conditions set out in point (j)(iii) of paragraph 1 **and to specify possible alternative arrangements set out in point (k) of paragraph 1.**

EBA shall submit those draft regulatory technical standards to the Commission by ... [18 months after the date of entry into force of this Directive].

Power is delegated to the Commission to supplement this Directive by adopting the regulatory technical standards referred to in the first subparagraph in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010.

9. EBA, in consultation with ESMA, shall adopt guidelines facilitating the implementation of **paragraphs 4, 5 and 6** and ensuring **their** consistent application.

#### Article 33

##### Remuneration committee

1. Member States shall ensure ■ that investment firms which **do not meet the criteria set out in point (a) of Article 32(4)** establish a remuneration committee. That remuneration committee shall **be gender balanced and shall** exercise competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital and liquidity. **The remuneration committee may be established at group level.**

2. Member States shall ensure ■ that the remuneration committee is responsible for the preparation of decisions regarding remuneration, including decisions which have implications for the risk and risk management of the investment firm concerned and which are to be taken by the management body. The Chair and the members of the remuneration committee shall be members of the management body who do not perform any executive function in the investment firm concerned. Where employee representation in the management body is provided for by national law, the remuneration committee shall include one or more employee representatives.
3. When preparing the decisions referred to in paragraph 2, the remuneration committee shall take into account the public interest and the long-term interests of shareholders, investors and other stakeholders in the investment firm.

#### Article 34

##### Oversight of remuneration policies

1. Member States shall ensure that competent authorities collect the information disclosed in accordance with points (c) **and** (d) **of the first subparagraph** of Article 51 of Regulation (EU) 2019/...<sup>+</sup> **as well as the information provided by investment firms on the gender pay gap** and use that information to benchmark remuneration trends and practices.

Competent authorities shall provide that information to EBA.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

2. EBA shall use information received from the competent authorities in accordance with paragraphs 1 *and* 4 to benchmark remuneration trends and practices at Union level.
3. EBA, in consultation with ESMA, shall issue guidelines on the application of sound remuneration policies. Those guidelines shall take into account at least the requirements referred to in Articles 30 to 33 and principles on sound remuneration policies set out in Recommendation 2009/384/EC.
4. Member States shall ensure that investment firms provide competent authorities with information on the number of natural persons per investment firm that are remunerated EUR 1 million or more per financial year, in pay brackets of EUR 1 million, including information on their job responsibilities, the business area involved and the main elements of salary, bonus, long-term award and pension contribution.

***Member States shall ensure that investment firms provide competent authorities, upon demand, the total remuneration figures for each member of the management body or senior management.***

Competent authorities shall forward *the* information *referred to in the first and second subparagraphs* to EBA, which shall publish it on an aggregate home Member State basis in a common reporting format. EBA, in consultation with ESMA, may issue guidelines to facilitate the implementation of this paragraph and to ensure the consistency of the information collected.

## *Article 35*

### *EBA report on environmental, social, and governance risks*

*EBA shall prepare a report on the introduction of technical criteria related to exposures to activities associated substantially with environmental, social, and governance (ESG) objectives for the supervisory review and evaluation process, with a view to assessing the possible sources and effects of risks on investment firms, taking into account applicable Union legal acts in the field of ESG taxonomy.*

*The EBA report referred to in the first paragraph shall comprise at least the following:*

- (a) a definition of ESG risks, including physical risks and transition risks related to the transition to a more sustainable economy, and, with regard to transition risks, including risks related to the depreciation of assets due to regulatory change, qualitative and quantitative criteria and metrics relevant for assessing such risks, as well as a methodology for assessing the possibility of such risks arising in the short, medium, or long term and the possibility of such risks having a material financial impact on an investment firm;*
- (b) an assessment of the possibility of significant concentrations of specific assets increasing ESG risks, including physical risks and transition risks for an investment firm;*

- (c) *a description of the processes by means of which an investment firm can identify, assess, and manage ESG risks, including physical risks and transition risks;*
- (d) *the criteria, parameters and metrics by means of which supervisors and investment firms can assess the impact of short-, medium- and long-term ESG risks for the purposes of the supervisory review and evaluation process.*

*EBA shall submit the report on its findings to the European Parliament, to the Council, and to the Commission, by ... [two years after the date of entry into force of this Directive].*

*On the basis of that report, EBA may, if appropriate, adopt guidelines to introduce criteria related to ESG risks for the supervisory review and evaluation process that take into account the findings of the EBA report referred to in this Article.*

## Section 3

### Supervisory review and evaluation process

#### Article 36

##### Supervisory review and evaluation

1. Competent authorities shall review, ***to the extent relevant and necessary, taking into account the investment firm's size, risk profile and business model***, the arrangements, strategies, processes and mechanisms implemented by investment firms to comply with this Directive and with Regulation (EU) 2019/...<sup>+</sup> and evaluate **■** the following ***as appropriate and relevant, so as*** to ensure a sound management and coverage of their risks:
  - (a) the risks referred to in Article 29;
  - (b) the geographical location of an investment firm's exposures;
  - (c) the business model of the investment firm;
  - (d) the assessment of systemic risk, taking into account the identification and measurement of systemic risk under Article 23 of Regulation (EU) No 1093/2010 or recommendations of the ESRB;

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

- (e) *the risks posed to the security of investment firms' network and information systems to ensure confidentiality, integrity and availability of their processes, data and assets;*
- (f) the exposure of investment firms to the interest rate risk arising from non-trading book activities;
- (g) governance arrangements of investment firms and the ability of members of the management body to perform their duties.

*For the purposes of this paragraph, competent authorities shall duly take into account whether investment firms hold a professional indemnity insurance.*

2. Member States shall ensure that competent authorities establish the frequency and intensity of the review and evaluation referred to in paragraph 1, having regard to the size, **■** nature, scale and complexity of the activities of the investment firms concerned and, *where relevant, their systemic importance, and* taking into account the principle of proportionality.

Competent authorities shall *decide on a case-by-case basis whether and in which form* the review and evaluation *is to be carried out with regard to investment firms that meet the conditions for qualifying as small and non-interconnected investment firms set out in Article 12(1) of Regulation (EU) 2019/...*<sup>+</sup>, *only where they deem it to be necessary due to the size, nature, scale and complexity of the activities of those investment firms.*

*For the purposes of the first subparagraph, national law governing segregation applicable to client money held shall be considered.*

3. When conducting the review and evaluation referred to in point (g) of paragraph 1, competent authorities shall have access to agendas, minutes and supporting documents for meetings of the management body and its committees, and the results of the internal or external evaluation of the performance of the management body.
4. The Commission *is* empowered to adopt delegated acts in accordance with Article 58 to *supplement this Directive* to ensure that the arrangements, strategies, processes and mechanisms of investment firms ensure a sound management and coverage of their risks. The Commission shall thereby take into account developments in financial markets, and in particular the emergence of new financial products, developments in accounting standards and developments that facilitate the convergence of supervisory practices.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).



## Article 37

### Ongoing review of the permission to use internal models

1. Member States shall ensure that competent authorities review on a regular basis, and at least every three years, investment firms' compliance with the requirements for the permission to use internal models as referred to in Article 22 of Regulation (EU) 2019/...<sup>+</sup>. Competent authorities shall in particular have regard to changes in an investment firm's business and to the implementation of those internal models to new products, and review and assess whether the investment firm uses well-developed and up-to-date techniques and practices for those internal models. Competent authorities shall ensure that material deficiencies identified in the coverage of risk by an investment firm's internal models are rectified, or take steps to mitigate their consequences, including by imposing capital additions or higher multiplication factors.
2. Where, for internal risk-to-market models, numerous overshootings as referred to in Article 366 of Regulation (EU) No 575/2013 indicate that the internal models are not or are no longer accurate, competent authorities shall revoke the permission to use the internal models or impose appropriate measures to ensure that the internal models are improved promptly *within a set timeframe*.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

3. Where an investment firm that has been granted permission to use internal models no longer meets the requirements for applying those internal models, competent authorities shall require the investment firm either to demonstrate that the effect of non-compliance is immaterial or to present a plan and a deadline to comply with those requirements. Competent authorities shall require improvements to the presented plan where that plan is unlikely to result in full compliance or where the deadline is inappropriate.

Where it is unlikely that the investment firm will comply by the prescribed deadline or has not satisfactorily demonstrated that the effect of non-compliance is immaterial, Member States shall ensure that competent authorities revoke the permission to use internal models or limit it to compliant areas or to those areas where compliance can be achieved by an appropriate deadline.

4. EBA shall analyse internal models across investment firms and shall analyse how investment firms using internal models treat similar risks or exposures. ***It shall inform ESMA thereof.***

In order to promote consistent, efficient and effective supervisory practices, EBA shall, on the basis of that analysis and in accordance with Article 16 of Regulation (EU) No 1093/2010, develop guidelines with benchmarks on how investment firms are to use internal models and how those internal models are to be applied to similar risks or exposures.

Member States shall encourage competent authorities to take into account that analysis and those guidelines for the review referred to in paragraph 1.

#### Section 4

#### Supervisory measures and powers

#### Article 38

#### Supervisory measures

Competent authorities shall require investment firms to take, at an early stage, the measures necessary to address the following problems:

- (a) an investment firm does not meet the requirements of this Directive or of Regulation (EU) 2019/...<sup>+</sup>;
- (b) competent authorities have evidence that an investment firm is likely to breach the national provisions transposing this Directive or the provisions of Regulation (EU) 2019/...<sup>+</sup> within the next 12 months.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

Article 39  
Supervisory powers

1. Member States shall ensure that competent authorities have the necessary supervisory powers to intervene in the exercise of their functions into the activity of investment firms ***in an effective and proportionate way***.
2. For the purposes of Article 36, Article 37(3) and Article 38 and of the application of Regulation (EU) 2019/...<sup>+</sup>, competent authorities shall have the following powers:
  - (a) to require investment firms to have own funds in excess of the requirements set out in Article 11 of Regulation (EU) 2019/...<sup>+</sup>, under the conditions laid down in Article 40 of this Directive, or to adjust the own funds ***and liquid assets*** required in case of material changes in the business of those investment firms;
  - (b) to require the reinforcement of the arrangements, processes, mechanisms and strategies implemented in accordance with Articles 24 and 26;
  - (c) to require investment firms to present, ***within one year***, a plan to restore compliance with supervisory requirements pursuant to this Directive and to Regulation (EU) 2019/...<sup>+</sup>, to set a deadline for the implementation of that plan and require improvements to that plan regarding scope and deadline;

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

- (d) to require investment firms to apply a specific provisioning policy or treatment of assets in terms of own funds requirements;
- (e) to restrict or limit the business, operations or network of investment firms or to request the divestment of activities that pose excessive risks to the financial soundness of an investment firm;
- (f) to require the reduction of the risk inherent in the activities, products and systems of investment firms, including outsourced activities;
- (g) to require investment firms to limit variable remuneration as a percentage of net revenues where that remuneration is inconsistent with the maintenance of a sound capital base;
- (h) to require investment firms to use net profits to strengthen own funds;
- (i) to restrict or prohibit distributions or interest payments by an investment firm to shareholders, members or holders of Additional Tier 1 instruments where that restriction or prohibition does not constitute an event of default of the investment firm;
- (j) to impose additional or more frequent reporting requirements to those set out in this Directive and Regulation (EU) 2019/...<sup>+</sup>, including reporting on capital and liquidity positions;
- (k) to impose specific liquidity requirements *in accordance with Article 42*;

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

(l) to require additional disclosures;

**(m) to require investment firms to reduce the risks posed to the security of investment firms' network and information systems to ensure confidentiality, integrity and availability of their processes, data and assets;**

3. For the purposes of point (j) of paragraph 2, competent authorities may only impose additional or more frequent reporting requirements on investment firms where the information to be reported is not duplicative and one of the following conditions is met:

(a) one of the cases referred to in points (a) and (b) of Article 38 applies;

(b) the competent authority considers it to be necessary to gather the evidence referred to in point (b) of Article 38;

**(c) the additional information is required for the purpose of the supervisory review and evaluation process referred to in Article 36.**

Information shall be deemed to be duplicative where the competent authority already has the same or substantially the same information, where that information is capable of being produced by the competent authority or of being obtained by the same competent authority through other means than a requirement on the investment firm to report it. A competent authority shall not require additional information where the information is available to the competent authority in a different format or level of granularity than the additional information to be reported and that different format or granularity does not prevent it from producing substantially similar information.

#### Article 40

##### Additional own funds requirement

1. Competent authorities shall impose the additional own funds requirement referred to in point (a) of Article 39(2) only where, on the basis of the reviews carried out in accordance with Articles 36 *and* 37, *they ascertain any* of the following situations *for an investment firm*:
  - (a) the investment firm is exposed to risks or elements of risks, *or poses risks to others* that are *material and are* not covered or not sufficiently covered by the own funds requirement, *and especially K-factor requirements*, set out in Part Three *or Four* of Regulation (EU) 2019/...<sup>+</sup>;
  - (b) the investment firm does not meet the requirements set out in Articles 24 and 26 and other *supervisory* measures are unlikely to sufficiently improve the arrangements, processes, mechanisms and strategies within an appropriate timeframe;

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

- (c) *the adjustments in relation to the prudent* valuation of the trading book *are* insufficient to enable the investment firm to sell or hedge out its positions within a short period without incurring material losses under normal market conditions;
- (d) the review carried out in accordance with Article 37 shows that non-compliance with the requirements for the application of the permitted internal models will likely lead to inadequate levels of capital;
- (e) the investment firm repeatedly fails to establish or maintain an adequate level of additional own funds as set out in Article **41**.

2. For the purposes of point (a) of paragraph 1 of this Article, risks or elements of risks shall be considered not to be covered or to be insufficiently covered by the own funds *requirements* set out in *Parts Three and Four* of Regulation (EU) 2019/...<sup>+</sup> only where the amounts, types and distribution of capital considered adequate by the competent authority following the supervisory review of the assessment carried out by investment firms in accordance with Article 24(1) of this Directive are higher than the investment firm's own funds requirement set out in Part Three *or Four* of Regulation (EU) 2019/...<sup>+</sup>.

For the purposes of the first subparagraph, the capital considered to be adequate **■** may include risks or elements of risks that are explicitly excluded from the own funds requirement set out in *Part Three or Four* of Regulation (EU) 2019/...<sup>+</sup>.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).



3. Competent authorities shall determine the level of the additional own funds required pursuant to point (a) of Article 39(2) as the difference between the capital considered adequate pursuant to paragraph 2 of this Article and the own funds requirement set out in Part Three *or Four* of Regulation (EU) 2019/...<sup>+</sup>.
4. Competent authorities shall require investment firms to meet the additional own funds requirement referred to in point (a) of Article 39(2) with own funds subject to the following conditions:
  - (a) at least three quarters of the additional own funds requirement is met with Tier 1 capital;
  - (b) at least three quarters of the Tier 1 capital is composed of Common Equity Tier 1 capital;
  - (c) those own funds are not used to meet any of the own funds requirements set out in points (a), (b) and (c) of Article 11(1) of Regulation (EU) 2019/...<sup>+</sup>.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

5. Competent authorities shall substantiate in writing their decision to impose an additional own funds requirement as referred to in point (a) of Article 39(2) by giving a clear account of the full assessment of the elements referred to in paragraphs 1 to 4 of this Article. That includes, in the case set out in point (d) of paragraph 1 of this Article, a specific statement of why the level of capital established in accordance with Article 41(1) is no longer considered sufficient.
6. EBA, in consultation with ESMA, shall develop draft regulatory technical standards to specify how the risks and elements of risks referred to in paragraph 2 are to be measured, ***including risks or elements of risks that are explicitly excluded from the own funds requirements set out in Part Three or Four of Regulation (EU) 2019/...***<sup>+</sup>.

***EBA shall ensure that the draft regulatory technical standards include indicative qualitative metrics for the amounts of additional own funds referred to in point (a) of Article 39(2), taking into account the range of different business models and legal forms that investment firms may take, and are proportionate in light of:***

- (a) the implementation burden on investment firms and competent authorities;

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

- (b) the possibility that the higher level of own funds requirements that apply where investment firms do not use internal models justifies the imposition of lower own funds requirements when assessing risks and elements of risks in accordance with paragraph 2.

EBA shall submit those draft regulatory technical standards to the Commission by ... [18 months after the date of entry into force of this Directive].

Power is delegated to the Commission to supplement this Directive by adopting the regulatory technical standards referred to in the first subparagraph in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010.

7. ***Competent authorities may impose an additional own funds requirement in accordance with paragraphs 1 to 6 on investment firms that meet the conditions for qualifying as small and non-interconnected investment firms set out in Article 12(1) of Regulation (EU) 2019/...<sup>+</sup> on the basis of a case-by-case assessment and where the competent authority deems it to be justified.***

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

## Article 41

### Guidance on additional own funds

1. ***Taking into account the principle of proportionality and commensurate with the size, systemic importance, nature, scale and complexity of activities of investment firms that do not meet the conditions for qualifying as small and non-interconnected investment firms set out in Article 12(1) of Regulation (EU) 2019/...<sup>+</sup>, competent authorities may require such investment firms to have levels of own funds which, based on Article 24, are sufficiently above the requirements set out in Part Three of Regulation (EU) 2019/...<sup>+</sup> and in this Directive, including the additional own funds requirements referred to in point (a) of Article 39(2), to ensure that cyclical economic fluctuations do not lead to a breach of those requirements or threaten the ability of the investment firm to wind down and cease activities in an orderly manner;***
2. Competent authorities shall, ***where appropriate,*** █ review the level of own funds that has been set by each investment firm ***that does not meet the conditions for qualifying as a small and non-interconnected investment firm set out in Article 12(1) of Regulation (EU) 2019/...<sup>+</sup>***, in accordance with paragraph 1 of this Article and, where relevant, shall communicate the conclusions of that review to the investment firm concerned, including any expectation for adjustments to the level of own funds established in accordance with paragraph 1 of this Article. ***Such a communication shall include the date by which the competent authority requires the adjustment to be completed.***

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

*Specific liquidity requirements*

1. *Competent authorities shall impose the specific liquidity requirements referred to in point (k) of Article 39(2) of this Directive only where, on the basis of the reviews carried out in accordance with Articles 36 and 37 of this Directive, they conclude that an investment firm that does not meet the conditions for qualifying as a small and non-interconnected investment firm set out in Article 12(1) of Regulation (EU) 2019/...<sup>+</sup> or that meets the conditions set out in Article 12(1) of Regulation (EU) 2019/...<sup>+</sup> but has not been exempted from liquidity requirement in accordance with Article 43(1) of Regulation (EU) 2019/...<sup>+</sup> is in one of the following situations:*
- (a) the investment firm is exposed to liquidity risk or elements of liquidity risk that are material and are not covered or not sufficiently covered by the liquidity requirement set out in Part Five of Regulation (EU) 2019/...<sup>+</sup>;*
  - (b) the investment firm does not meet the requirements set out in Articles 24 and 26 of this Directive and other administrative measures are unlikely to sufficiently improve the arrangements, processes, mechanisms and strategies within an appropriate timeframe.*

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

2. *For the purposes of point (a) of paragraph 1 of this Article, liquidity risk or elements of liquidity risk shall be considered not to be covered or to be insufficiently covered by the liquidity requirement set out in Part Five of Regulation (EU) 2019/...<sup>+</sup> only where the amounts and types of liquidity considered adequate by the competent authority following the supervisory review of the assessment carried out by investment firms in accordance with Article 24(1) of this Directive are higher than the investment firm's liquidity requirement set out in Part Five of Regulation (EU) 2019/...<sup>+</sup>.*
3. *Competent authorities shall determine the level of the specific liquidity required pursuant to point (k) of Article 39(2) of this Directive as the difference between the liquidity considered adequate pursuant to paragraph 2 of this Article and the liquidity requirement set out in Part Five of Regulation (EU) 2019/.....<sup>+</sup>.*
4. *Competent authorities shall require investment firms to meet the specific liquidity requirements referred to in point (k) of Article 39(2) of this Directive with liquid assets as set out in Article 43 of Regulation (EU) 2019/...<sup>+</sup>.*

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

5. *Competent authorities shall substantiate in writing their decision to impose a specific liquidity requirement as referred to in point (k) of Article 39(2) by giving a clear account of the full assessment of the elements referred to in paragraphs 1 to 3 of this Article.*
6. *EBA, in consultation with ESMA, shall develop draft regulatory technical standards to specify in a manner that is appropriate to the size, the structure and the internal organisation of investment firms and the nature, scope and complexity of their activities how the liquidity risk and elements of liquidity risk referred to in paragraph 2 are to be measured.*

*EBA shall submit those draft regulatory technical standards to the Commission by ... [18 months after the date of entry into force of this Directive].*

*Power is delegated to the Commission to supplement this Directive by adopting the regulatory technical standards referred to in the first subparagraph in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010.*

### *Article 43*

#### *Cooperation with resolution authorities*

■ *Competent authorities shall notify the relevant resolution authorities of any additional own funds requirement imposed pursuant to point (a) of Article 39(2) of this Directive for an investment firm that falls under the scope of Directive 2014/59/EU and about any expectation for adjustments as referred to in Article 41(2) of this Directive in respect to such investment firm.*

## Article 44

### Publication requirements

Member States shall ensure that the competent authorities have the power to:

- (a) require investment firms *that do not meet the conditions for qualifying as small and non-interconnected investment firms set out in Article 12(1) of Regulation (EU) 2019/...<sup>+</sup> and investment firms referred to in Article 46(2) of Regulation (EU) 2019/...<sup>+</sup>* to publish the information referred to in Article 46 of that Regulation more than once a year and to set deadlines for that publication;
- (b) require investment firms *that do not meet the conditions for qualifying as small and non-interconnected investment firms set out in Article 12(1) of Regulation (EU) 2019/...<sup>+</sup> and investment firms referred to in Article 46(2) of Regulation (EU) 2019/...<sup>+</sup>* to use specific media and locations, *in particular the investment firms' websites*, for publications other than the financial statements;
- (c) require parent undertakings to publish annually, either in full or by way of references to equivalent information, a description of their legal structure and governance and organisational structure of the investment firm group in accordance with Article 26(1) of this Directive and with Article 10 of Directive 2014/65/EU.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).



Article 45  
Obligation to inform EBA

1. Competent authorities shall inform EBA of:
  - (a) their *review* and evaluation process referred to in Article 36;
  - (b) the *methodology* used for decisions referred to in Articles 39, 40 and 41;
  - (c) *the level of administrative sanctions laid down by Member States, referred to in Article 18.*

*EBA shall transmit the information referred to in this paragraph to ESMA.*

2. EBA, *in consultation with ESMA*, shall assess the information provided by competent authorities to develop consistency in the supervisory review and evaluation process. *To complete its assessment, EBA, after consulting ESMA*, may request additional information from competent authorities ■ on a proportional basis and in accordance with Article 35 of Regulation (EU) No 1093/2010.

***EBA shall publish on its website the aggregated information referred to in point (c) of the first subparagraph of paragraph 1.***

EBA shall report to the European Parliament and to the Council on the degree of convergence of the application of this Chapter among Member States. EBA shall conduct peer reviews in accordance with Article 30 of Regulation (EU) No 1093/2010 where necessary. ***It shall inform ESMA of such peer reviews.***

EBA ***and ESMA*** shall issue guidelines for the competent authorities in accordance with Article 16 of Regulation (EU) No 1093/2010 ***and Article 16 of Regulation (EU) No 1095/2010, as applicable***, to further specify, in a manner that is appropriate to the size, the structure and the internal organisation of investment firms and the nature, scope and complexity of their activities, the common procedures and methodologies for the supervisory review and evaluation process referred to in paragraph 1 and the assessment of the treatment of the risks referred to in Article 29 of this Directive.

## CHAPTER 3

### Supervision of *investment firm groups*



#### ***SUPERVISION OF INVESTMENT FIRM GROUPS ON A CONSOLIDATED BASIS AND SUPERVISION OF COMPLIANCE WITH THE GROUP CAPITAL TEST***

##### Article 46

##### Determination of the group supervisor

1. Member States shall ensure that, where an investment firm group is headed by a Union parent investment firm, supervision ***on a consolidated basis or supervision*** of compliance with the group capital test is exercised by the competent authority ***of*** that ■ Union parent investment firm.
2. Member States shall ensure that, where the parent undertaking of an investment firm is a Union parent investment holding company or a Union parent mixed financial holding company, supervision ***on a consolidated basis or*** supervision of compliance with the group capital test is exercised by the competent authority of ***that*** investment firm ■ .

3. *Member States shall ensure that, where two or more investment firms authorised in two or more Member States have the same Union parent investment holding company or the same Union parent mixed financial holding company, supervision on a consolidated basis or supervision of compliance with the group capital test is exercised by the competent authority of the investment firm authorised in the Member State in which the investment holding company or mixed financial holding company is established.*
4. Member States shall ensure that, where the parent undertakings of two or more investment firms authorised in two or more Member States comprise more than one investment holding company or mixed financial holding company with head offices in different Member States and where there is an investment firm in each of those Member States, supervision *on a consolidated basis or supervision* of compliance with the group capital test shall be exercised by the competent authority of the investment firm with the largest balance sheet total.
5. Member States shall ensure that, where two or more investment firms authorised in the Union have as their parent the same Union investment holding company or Union mixed financial holding company and none of those investment firms has been authorised in the Member State in which the investment holding company or mixed financial holding company was set up, supervision *on a consolidated basis or supervision* of compliance with the group capital test is exercised by the competent authority *of* the investment firm with the largest balance sheet total.

6. Competent authorities may, by common agreement, waive the criteria referred to in paragraphs 3, 4 and 5 where their application would not be appropriate for the effective *supervision on a consolidated basis or* supervision of compliance with the group capital test, taking into account the investment firms concerned and the importance of their activities in the relevant Member States, and designate a different competent authority to *exercise supervision on a consolidated basis or supervision of* compliance with the group capital test. In those cases, competent authorities shall, before adopting any such decision, give the Union parent investment holding company or Union parent mixed financial holding company or investment firm with the largest balance sheet total, as appropriate, an opportunity to state its opinion on that intended decision. Competent authorities shall notify the Commission and EBA of any such decision.

#### Article 47

##### Information requirements in emergency situations

Where an emergency situation arises, including a situation as described in Article 18 of Regulation (EU) No 1093/2010 or a situation of adverse developments in markets, which potentially jeopardises the market liquidity and the stability of the financial system in any of the Member States where entities of an investment firm group have been authorised, the group supervisor determined pursuant to Article 46 of this Directive shall, subject to Section 2 of Chapter 1 of this Title, alert, as soon as practicable, EBA, ESRB and any relevant competent authorities and shall communicate all information essential for the performance of their tasks.

## Article 48

### Colleges of supervisors

1. Member States shall ensure that the group supervisor determined pursuant to Article 46 of this Directive ***may, if appropriate***, establish colleges of supervisors to facilitate the exercise of the tasks referred to in this Article and to ensure coordination and cooperation with relevant third-country supervisory authorities ***in particular where this is needed for the purpose of applying point (c) of the first subparagraph of Article 23(1) and Article 23(2) of Regulation (EU) 2019/...<sup>+</sup> to exchange and update relevant information on the margin model with the supervisory authorities of the qualifying central counterparties (QCCPs)***.
2. Colleges of supervisors shall provide a framework for the group supervisor, EBA and the other competent authorities to carry out the following tasks:
  - (a) the tasks referred to in Article 47;
  - (b) ***the coordination of information requests where this is necessary for facilitating supervision on a consolidated basis, in accordance with Article 7 of Regulation (EU) 2019/...<sup>+</sup>***;
  - (c) ***the coordination of information requests, in cases where several competent authorities of investment firms that are part of the same group need to request either from the competent authority of a clearing member's home Member State or from the competent authority of the QCCP information relating to the margin model and parameters used for the calculation of the margin requirement of the relevant investment firms***;

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

- (d) the exchange of information between all competent authorities and with EBA in accordance with Article 21 of Regulation (EU) No 1093/2010 and with ESMA in accordance with Article 21 of Regulation (EU) No 1095/2010;
  - (e) reaching an agreement on the voluntary delegation between competent authorities of tasks and responsibilities, where appropriate;
  - (f) increasing the efficiency of supervision by seeking to avoid the unnecessary duplication of supervisory requirements.
3. *Where appropriate, colleges* of supervisors *may* also be established where ■ subsidiaries of an investment firm group headed by an Union investment firm, Union parent investment holding company or Union parent mixed financial holding company are located in a third country.
4. EBA shall, in accordance with Article 21 of Regulation (EU) No 1093/2010, participate in the meetings of the colleges of supervisors.

5. The following authorities shall be members in the college of supervisors:
- (a) the competent authorities responsible for the supervision of subsidiaries of an investment firm group headed by an Union investment firm, Union parent investment holding company or Union parent mixed financial holding company;
  - (b) where appropriate, third-country supervisory authorities, subject to confidentiality requirements that are equivalent in the opinion of all competent authorities to the requirements laid down in Section 2 of Chapter I of this Title.
6. The group supervisor determined pursuant to Article 46 shall chair the meetings of the college of supervisors and adopt decisions. That group supervisor shall keep all members of the college of supervisors fully informed in advance of the organisation of those meetings, of the main issues to be discussed and of the activities to be considered. The group supervisor shall also keep all the members of the college of supervisors fully informed, in a timely manner, of the decisions adopted in those meetings or the measures carried out.



The group supervisor shall take account of the relevance of the supervisory activity to be planned or coordinated by the authorities referred to in paragraph 5 when adopting decisions.

The establishment and functioning of the colleges of supervisors shall be formalised by means of written arrangements.

7. In the event of disagreement with a decision adopted by the group supervisor on the functioning of colleges of supervisors, any of the competent authorities concerned may refer the matter to EBA and request EBA's assistance in accordance with Article 19 of Regulation (EU) No 1093/2010.

EBA may also assist the competent authorities in the event of a disagreement concerning the functioning of colleges of supervisors under this Article on its own initiative in accordance with the second subparagraph of Article 19(1) of Regulation (EU) No 1093/2010.

8. EBA shall, in consultation with ESMA, develop draft regulatory technical standards to further specify the conditions under which the colleges of supervisors exercise their tasks referred to in paragraph 1.

EBA shall submit those draft regulatory technical standards to the Commission by ... [18 months after the date of entry into force of this Directive].

Power is delegated to the Commission to supplement this Directive by adopting the regulatory technical standards referred to in the first subparagraph in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010.

## Article 49

### Cooperation requirements

1. Member States shall ensure that the group supervisor and the competent authorities referred to in Article 48(5) shall provide each other with all relevant information as required, including the following:
  - (a) identification of the investment firm group's legal and governance structure, including its organisational structure, covering all regulated and non-regulated entities, non-regulated subsidiaries and the parent undertakings, and of the competent authorities of the regulated entities in the investment firm group;
  - (b) procedures for the collection of information from the investment firms in an investment firm group, and the procedures for the verification of that information;
  - (c) any adverse developments in investment firms or in other entities of an investment firm group, which could seriously affect those investment firms;
  - (d) any significant *sanctions* and exceptional measures taken by competent authorities in accordance with national provisions transposing this Directive;
  - (e) the imposition of a specific own funds requirement under Article 39 of this Directive.

2. Competent authorities and the group supervisor may refer to EBA, in accordance with Article 19(1) of Regulation (EU) No 1093/2010, where relevant information has not been communicated pursuant to paragraph 1 without undue delay or where a request for cooperation, in particular to exchange relevant information, has been rejected or has not been acted upon within a reasonable period of time.

EBA may, in accordance with the second subparagraph of Article 19(1) of Regulation (EU) No 1093/2010 and on its own initiative assist competent authorities in developing consistent cooperation practices.

3. Member States shall ensure that competent authorities, before adopting a decision that may be important for other competent authorities' supervisory tasks, consult each other on the following:
- (a) changes in the shareholder, organisational or management structure of investment firms in the investment firm group, which require the approval or authorisation of competent authorities;
  - (b) significant *sanctions* imposed on investment firms by competent authorities or any other exceptional measures taken by those authorities; and
  - (c) specific own funds requirements imposed in accordance with Article 39.

4. The group supervisor shall be consulted where significant *sanctions* are to be imposed or any other exceptional measures are to be taken by competent authorities as referred to in point (b) of paragraph 3.
5. By way of derogation from paragraph 3, a competent authority is not obliged to consult other competent authorities in cases of urgency or where such consultation could jeopardise the effectiveness of its decision, in which case the competent authority shall inform the other competent authorities concerned of that decision not to consult without delay.

#### Article 50

##### Verification of information concerning entities located in other Member States

1. Member States shall ensure that where a competent authority in one Member State needs to verify information about investment firms, investment holding companies, mixed financial holding companies, financial institutions, ancillary services undertakings, mixed-activity holding companies or subsidiaries that are located in another Member State, including subsidiaries which are insurance companies, and makes a request to that effect, the relevant competent authorities of that other Member State carry out that verification in accordance with paragraph 2.

2. Competent authorities that have received a request pursuant to paragraph 1 shall do any of the following:
- (a) carry out the verification themselves within the framework of their competence;
  - (b) allow the competent authorities who made that request to carry out the verification;
  - (c) request an auditor or expert to carry out the verification *impartially and to report the results promptly*.

For the purposes of points (a) and (c), the competent authorities that made the request shall be allowed to participate in the verification.

## Section 2

Investment holding companies, mixed financial holding companies and mixed-activity holding companies

### Article 51

Inclusion of holding companies in supervision of compliance with the group capital test

Member States shall ensure that investment holding companies and mixed financial holding companies are included in the supervision of compliance with the group capital test.

### Article 52

Qualifications of directors

Member States shall require that the members of the management body of an investment holding company or mixed financial holding company are of sufficiently good repute and possess sufficient knowledge, skills and experience to effectively perform their duties, *taking into account the specific role of an investment holding company or mixed financial holding company*.

## Article 53

### Mixed-activity holding companies

1. Member States shall provide that, where *the parent undertaking of* an investment firm **■** is **■** a mixed-activity holding company, the competent authorities responsible for the supervision of the investment firm may:
  - (a) require that the mixed-activity holding company supply them with any information that may be relevant for the supervision of that investment firm;
  - (b) supervise transactions between the investment firm and the mixed-activity holding company and the subsidiaries of the latter, and require the investment firm to have in place adequate risk management processes and internal control mechanisms, including sound reporting and accounting procedures to identify, measure, monitor and control those transactions.
2. Member States shall provide that their competent authorities may carry out, or have carried out by external inspectors, on-the-spot inspections to verify the information received from mixed-activity holding companies and their subsidiaries.

## Article 54

### *Sanctions*

In accordance with Section 3 of Chapter 2 of this Title, Member States shall ensure that administrative *sanctions* or other administrative measures aiming to end or mitigate breaches of the laws, regulations or administrative provisions transposing this Chapter or to address the causes of such breaches may be imposed on investment holding companies, mixed financial holding companies and mixed-activity holding companies, or their effective managers.

## Article 55

### Assessment of third-country supervision and other supervisory techniques

1. Member States shall ensure that, where *two or more* investment *firms that are subsidiaries of the same* parent undertaking, *the* head office *of which is* in a third country, *are* not subject to effective supervision at group level, the competent *authority* assesses whether the investment *firms are* subject to supervision by the third-country supervisory authority which is equivalent to the supervision set out in this Directive and in Part One of Regulation (EU) 2019/...<sup>+</sup>.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).



2. Where the assessment referred to in paragraph 1 of this Article concludes that no such equivalent supervision applies, Member States **█** shall allow for appropriate supervisory techniques which achieve the objectives of supervision *in accordance with Article 7 or 8 of Regulation (EU) 2019/...*<sup>+</sup>. Those supervisory techniques shall be decided by the competent authority which would be the group supervisor had the parent undertaking been established in the Union, after consulting the other competent authorities involved. Any measures taken pursuant to this paragraph shall be notified to the other competent authorities involved, to EBA and to the Commission.
3. The competent authority which would be the group supervisor had the parent undertaking been established in the Union may, in particular, require the establishment of an investment holding company or mixed financial holding company in the Union and apply *Article 7 or 8 of Regulation (EU) 2019/...*<sup>+</sup> to that investment holding company or **█** mixed financial holding company.

## Article 56

### Cooperation with third-country supervisory authorities

The Commission may submit recommendations to the Council, *either at the request of a Member State or on its own initiative*, for the negotiation of agreements with one or more third countries regarding the means of supervising compliance with the group capital test by the following investment firms:

- (a) investment firms the parent undertaking of which has its head office in a third country;
- (b) investment firms located in third countries, the parent undertaking of which has its head office in the Union.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

## TITLE V

### PUBLICATION BY COMPETENT AUTHORITIES

#### Article 57

##### Publication requirements

1. Competent authorities shall make public all of the following information:
  - (a) the texts of laws, regulations, administrative rules and general guidance adopted in their Member State pursuant to this Directive;
  - (b) the manner of exercise of the options and discretions available pursuant to this Directive and to Regulation (EU) 2019/...<sup>+</sup>;
  - (c) the general criteria and methodologies they use in the supervisory review and evaluation referred to in Article 36 of this Directive;
  - (d) aggregate statistical data on key aspects of the implementation of this Directive and of Regulation (EU) 2019/...<sup>+</sup> in their Member State, including the number and nature of supervisory measures taken in accordance with point (a) of Article 39(2) of this Directive and of administrative *sanctions* imposed in accordance with Article 18 of this Directive.
  
2. The information published in accordance with paragraph 1 shall be sufficiently comprehensive and accurate to enable a meaningful comparison of the application of points (b), (c) and (d) of paragraph 1 by the competent authorities of the different Member States.

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

3. The publication of information shall follow a common format and shall be updated regularly. It shall be accessible at a single electronic location.
4. ***EBA, in consultation with ESMA, shall develop draft implementing technical standards to determine the format, structure, content lists and annual publication date of the information listed in paragraph 1.***

***Power is conferred on the Commission to adopt the implementing technical standards referred to in the first subparagraph in accordance with Article 15 of Regulation (EU) No 1093/2010.***

5. ***EBA shall submit the draft implementing technical standards referred to in paragraph 4 to the Commission by ... [18 months after the date of entry into force of this Directive].***

## TITLE VI

### DELEGATED ACTS

#### Article 58

##### Exercise of the delegation

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.
2. The power to adopt delegated acts referred to in Article 3(2), Article 29(4) and Article 36(4) shall be conferred on the Commission for *a* period of *five years* from ... [date of entry into force of this Directive].
3. The delegation of power referred to in Article 3(2), Article 29(4) and Article 36(4) may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the *Official Journal of the European Union* or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.
4. Before adopting a delegated act, the Commission shall consult experts designated by each Member State in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making.
5. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and to the Council.

6. A delegated act adopted pursuant to Article 3(2), Article 29(4) and Article 36(4) shall enter into force only if no objection has been expressed either by the European Parliament or the Council within a period of two months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by two months at the initiative of the European Parliament or of the Council.

## TITLE VII

### AMENDMENTS TO OTHER DIRECTIVES

#### *Article 59*

#### *Amendment to Directive 2002/87/EC*

*In Article 2 of Directive 2002/87/EC, point 7 is replaced by the following:*

**“(7) ‘sectoral rules’ means Union legal acts relating to the prudential supervision of regulated entities, in particular Regulations (EU) No 575/2013\* and (EU) 2019/... \*\*\* of the European Parliament and of the Council and Directives 2009/138/EC, 2013/36/EU\*\*\*, 2014/65/EU\*\*\*\* and Directive (EU) 2019/... \*\*\*\*\* of the European Parliament and of the Council.**

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\* **Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).**

\*\* **Regulation (EU) 2019/... of the European Parliament and of the Council of ... on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 (OJ L ..., ..., p. ...).**

\*\*\* **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, p. 338).**

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+ OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)) and complete the corresponding footnote.

++ OJ: Please insert in the text the number of the Directive contained in document PE- CONS 79/19 (2017/0358(COD)) [this amending Directive] and complete the corresponding footnote.

\*\*\*\* *Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (OJ L 173, 12.6.2014, p. 349).*

\*\*\*\*\* *Directive (EU) 2019/... of the European Parliament and of the Council of ... on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU (OJ L ..., ..., p. ...).”.*

#### *Article 60*

##### *Amendment to Directive 2009/65/EC*

*In point (a) of Article 7(1) of Directive 2009/65/EC, point (iii) is replaced by the following:*

*“(iii) irrespective of the amount of those requirements, the own funds of the management company must at no time be less than the amount prescribed in Article 13 of Regulation (EU) 2019/... of the European Parliament and of the Council\*\*.*

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*\* Regulation (EU) 2019/... of the European Parliament and of the Council of ... on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 (OJ L ..., ..., p. ...).”.*

#### *Article 61*

##### *Amendment to Directive 2011/61/EU*

*In Article 9 of Directive 2011/61/EU, paragraph 5 is replaced by the following:*

*“5. Irrespective of paragraph 3, the own funds of the AIFM shall never be less than the amount required under Article 13 of Regulation (EU) 2019/... of the European Parliament and of the Council\*\*.*

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*+* OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)) and complete the corresponding footnote.

\* *Regulation (EU) 2019/... of the European Parliament and of the Council of ... on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 (OJ L ..., ..., p. ...).*”.

## Article 62

### Amendments to Directive 2013/36/EU

Directive 2013/36/EU is amended as follows:

(1) the title is replaced by the following:

“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, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC”;

(2) Article 1 is replaced by the following:

"Article 1

Subject matter

This Directive lays down rules concerning:

- (a) access to the activity of credit institutions;
- (b) supervisory powers and tools for the prudential supervision of credit institutions by competent authorities;
- (c) the prudential supervision of credit institutions by competent authorities in a manner that is consistent with the rules set out in Regulation (EU) No 575/2013;
- (d) publication requirements for competent authorities in the field of prudential regulation and supervision of credit institutions.”;



(3) Article 2 is amended as follows:

- (a) paragraphs 2 and 3 are deleted;
- (b) in paragraph 5, point (1) is deleted;
- (c) paragraph 6 is replaced by the following:

" 6. The entities referred to in points (3) to (24) of paragraph 5 of this Article shall be treated as financial institutions for the purposes of Article 34 and Title VII, Chapter 3.";

(4) in Article 3(1), point (4) is deleted;

(5) Article 5 is replaced by the following:

"Article 5

Coordination within Member States

Member States that have more than one competent authority for the prudential supervision of credit institutions and financial institutions shall take the requisite measures to organise coordination between such authorities.";

(6) the following article is inserted:

"Article 8a

Specific requirements for authorisation of credit institutions referred to in point (1)(b) of Article 4(1) of Regulation (EU) No 575/2013

1. Member States shall require the undertakings referred to in point (1)(b) of Article 4(1) of Regulation (EU) No 575/2013 which have already obtained an authorisation pursuant to Title II of Directive 2014/65/EU to submit an application for authorisation in accordance with Article 8, at the latest on the day when either of the following events takes place:

- (a) the average of monthly total assets, calculated over a period of 12 consecutive months, is equal to or exceeds EUR 30 billion; or
  - (b) the average of monthly total assets calculated over a period of 12 consecutive months is less than EUR 30 billion, and the undertaking is part of a group in which the *total* value of the *consolidated* assets of all undertakings in the group that individually have total assets of less than EUR 30 billion and that carry out any of the activities referred to in points (3) and (6) of Section A of Annex I to Directive 2014/65/EU is equal to or exceeds EUR 30 billion, both calculated as an average over a period of 12 consecutive months.
2. The undertakings referred to in paragraph 1 of this Article may continue carrying out the activities referred to in point (1)(b) of Article 4(1) of Regulation (EU) No 575/2013 until they obtain the authorisation referred to in paragraph 1 of this Article.
3. By way of derogation from paragraph 1 of this Article, the undertakings referred to in point (1)(b) of Article 4(1) of Regulation (EU) No 575/2013 that on ... [the day before the date of entry into force of Directive (EU) 2019/...<sup>+</sup>] carry out activities as investment firms authorised under Directive 2014/65/EU shall apply for authorisation in accordance with Article 8 of this Directive by ... [one year and one day after the date of entry into force of Directive (EU) 2019/...<sup>+</sup>].

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<sup>+</sup> OJ: Please insert in the text the number of the Directive contained in document PE- CONS 79/19 (2017/0358(COD)) [this amending Directive].

4. Where the competent authority, after receiving the information in accordance with Article 95a of Directive 2014/65/EU, determines that an undertaking is to be authorised as a credit institution in accordance with Article 8 of this Directive, it shall notify the undertaking and the competent authority as defined in point (26) of Article 4(1) of Directive 2014/65/EU and shall take over the authorisation procedure from the date of that notification.
5. ***In cases of reauthorisation, the authorising competent authority shall ensure that the process is as streamlined as possible and that information from existing authorisations is taken into account.***
6. EBA shall develop draft regulatory technical standards to specify:
  - (a) the information to be provided by the undertaking to the competent authorities in the application for the authorisation, including the programme of operations provided for in Article 10;
  - (b) the methodology for calculating the thresholds referred to in paragraph 1.

Power is delegated to the Commission to supplement this Directive by adopting the regulatory technical standards referred to in points (a) and (b) of the first subparagraph in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010.

EBA shall submit those draft regulatory technical standards to the Commission by ... **[12 months after the date of entry into force of this Directive]**.";

(7) in Article 18, the following point is inserted:

"(aa) uses its authorisation exclusively to engage in the activities referred to in point (1)(b) of Article 4(1) of Regulation (EU) No 575/2013 and has, for a period of five consecutive years, average total assets below the thresholds set out in that Article;"

(8) *Article 20 is amended as follows:*

(a) *paragraph 2 is replaced by the following:*

**"2. EBA shall publish on its website, and shall update at least annually, a list of the names of all credit institutions that have been granted authorisation."**;

(b) *the following paragraph is inserted:*

**"3a. The list referred to in paragraph 2 of this Article shall include the names of undertakings referred to in point (1)(b) of Article 4(1) of Regulation (EU) No 575/2013 and shall identify those credit institutions as such. That list shall also outline any changes in comparison with the previous version of the list."**;

(9) *in Article 21b, paragraph 5 is replaced by the following:*

*"5. For the purposes of this Article:*

*(a) the total value of assets in the Union of the third-country group shall be the sum of the following:*

*(i) the total value of assets of each institution in the Union of the third-country group, as resulting from its consolidated balance sheet or as resulting from their individual balance sheets, where an institution's balance sheet is not consolidated; and*

*(ii) the total value of assets of each branch of the third-country group authorised in the Union in accordance with this Directive, Regulation (EU) No 600/2014 of the European Parliament and of the Council\* or Directive 2014/65/EU;*

*(b) the term 'institution' shall also include investment firms.*

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\* Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (OJ L 173, 12.6.2014, p. 84)";

(10) Title IV is deleted;

(11) in Article 51(1), the first subparagraph is replaced by the following:

"1. The competent authorities of a host Member State may request the consolidating supervisor, where Article 112(1) applies, or the competent authorities of the home Member State, that a branch of a credit institution shall be considered to be significant.";

(12) in Article 53, paragraph 2 is replaced by the following:

"2. Paragraph 1 **shall** not prevent the competent authorities from exchanging information with each other or transmitting information to the ESRB, EBA, or the European Supervisory Authority (European Securities and Markets Authority) ("ESMA") established by Regulation (EU) No 1095/2010 of the European Parliament and of the Council\* in accordance with this Directive, with Regulation (EU) No 575/2013, with **Regulation (EU) 2019/... of the European Parliament and of the Council\*\*+**, with Article 15 of Regulation (EU) No 1092/2010, with Articles 31, 35 and 36 of Regulation (EU) No 1093/2010 and with Articles 31 and 36 of Regulation (EU) No 1095/2010, with Directive (EU) 2019/... of the European Parliament and of the Council\*\*\*++ and with other directives applicable to credit institutions. That information shall be subject to paragraph 1.



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\* Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84).

\*\* Regulation (EU) 2019/... of the European Parliament and of the Council of ... on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 (OJ L ..., ..., p. ...).

\*\*\* Directive (EU) 2019/... of the European Parliament and of the Council of ... on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU (OJ L ..., ..., p. ...).";

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+ OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)) and complete the corresponding footnote.

++ OJ: Please insert in the text the number of the Directive contained in document PE- CONS 79/19 (2017/0358(COD)) [this amending Directive] and complete the corresponding footnote.

(13) in Article 66(1), the following point is inserted:

"(aa) carrying out at least one of the activities referred to in point (1)(b) of Article 4(1) of Regulation (EU) No 575/2013 and meeting the threshold indicated in that Article without being authorised as a credit institution;"

(14) in Article 76(5), the sixth subparagraph is deleted;

(15) in Article 86, paragraph 11 is replaced by the following:

"11. Competent authorities shall ensure that institutions have in place liquidity recovery plans setting out adequate strategies and proper implementation measures to address possible liquidity shortfalls, including in relation to branches established in another Member State. Competent authorities shall ensure that those plans are tested by the institutions at least annually, updated on the basis of the outcome of the alternative scenarios set out in paragraph 8, reported to and approved by senior management, so that internal policies and processes can be adjusted accordingly. Institutions shall take the necessary operational steps in advance to ensure that liquidity recovery plans can be implemented immediately. Those operational steps shall include holding collateral immediately available for central bank funding. This includes holding collateral in the currency of another Member State where necessary, or the currency of a third country to which the institution has exposures, and where operationally necessary within the territory of a host Member State or of a third country to whose currency it is exposed.";



(16) in Article 110, paragraph 2 is deleted;

(17) *Article 111 is replaced by the following:*

*"Article 111*

*Determination of the consolidating supervisor*

*1. Where a parent undertaking is a parent credit institution in a Member State or an EU parent credit institution, supervision on a consolidated basis shall be exercised by the competent authority that supervises that parent credit institution in the Member State or that EU parent credit institution on an individual basis.*

*Where a parent undertaking is a parent investment firm in a Member State or an EU parent investment firm and none of its subsidiaries is a credit institution, supervision on a consolidated basis shall be exercised by the competent authority that supervises that parent investment firm in the Member State or that EU parent investment firm on an individual basis.*

*Where a parent undertaking is a parent investment firm in a Member State or an EU parent investment firm, and at least one of its subsidiaries is a credit institution, supervision on a consolidated basis shall be exercised by the competent authority of the credit institution, or where there are several credit institutions, the credit institution with the largest balance sheet total.*

*2. Where the parent of a credit institution or investment firm is a parent financial holding company in a Member State, a parent mixed financial holding company in a Member State, an EU parent financial holding company or an EU parent mixed financial holding company, supervision on a consolidated basis shall be exercised by the competent authority that supervises the credit institution or investment firm on an individual basis.*

3. *Where two or more credit institutions or investment firms authorised in the Union have the same parent financial holding company in a Member State, parent mixed financial holding company in a Member State, EU parent financial holding company or EU parent mixed financial holding company, supervision on a consolidated basis shall be exercised by:*
- (a) the competent authority of the credit institution where there is only one credit institution within the group;*
  - (b) the competent authority of the credit institution with the largest balance sheet total, where there are several credit institutions within the group; or*
  - (c) the competent authority of the investment firm with the largest balance sheet total, where the group does not include any credit institution.*
4. *Where consolidation is required pursuant to Article 18(3) or (6) of Regulation (EU) No 575/2013, supervision on a consolidated basis shall be exercised by the competent authority of the credit institution with the largest balance sheet total or, where the group does not include any credit institution, by the competent authority of the investment firm with the largest balance sheet total.*
5. *By way of derogation from the third subparagraph of paragraph 1, from point (b) of paragraph 3 and from paragraph 4, where a competent authority supervises on an individual basis more than one credit institution within a group, the consolidating supervisor shall be the competent authority that supervises on an individual basis one or more credit institutions within the group where the sum of the balance sheet totals of those supervised credit institutions is higher than that of the credit institutions supervised on an individual basis by any other competent authority.*

*By way of derogation from point (c) of paragraph 3, where a competent authority supervises on an individual basis more than one investment firm within a group, the consolidating supervisor shall be the competent authority that supervises on an individual basis one or more investment firms within the group with the highest balance sheet total in aggregate.*



6. *In particular cases, the competent authorities may waive by common agreement the criteria referred to in paragraphs 1, 3 and 4 and appoint a different competent authority to exercise supervision on a consolidated basis where the application of the criteria referred to therein would be inappropriate, taking into account the credit institutions or investment firms concerned and the relative importance of their activities in the relevant Member States, or the need to ensure the continuity of supervision on a consolidated basis by the same competent authority. In such cases, the EU parent institution, EU parent financial holding company, EU parent mixed financial holding company or the credit institution or investment firm with the largest balance sheet total, as applicable, shall have the right to be heard before the competent authorities take the decision.*
7. *The competent authorities shall notify the Commission and EBA without delay of any agreement falling within paragraph 6."*

(18) in Article 114(1), the first subparagraph is replaced by the following:

"1. Where an emergency situation arises, including a situation as described in Article 18 of Regulation (EU) No 1093/2010 or a situation of adverse developments in markets, which potentially jeopardises the market liquidity and the stability of the financial system in any of the Member States where entities of a group have been authorised or where significant branches as referred to in Article 51 are established, the consolidating supervisor shall, subject to Section 2 of Chapter 1 of Title VII of this Directive and where applicable Section 2 of Chapter 1 of Title IV of Directive (EU) 2019/...<sup>+</sup>, alert as soon as is practicable, EBA and the authorities referred to in Article 58(4) and Article 59 and shall communicate all information essential for the performance of their tasks. Those obligations shall apply to all competent authorities.”;

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<sup>+</sup> OJ: Please insert in the text the number of the Directive contained in document PE- CONS 79/19 (2017/0358(COD)) [this amending Directive].

(19) Article 116 is amended as follows:

(a) paragraph 2 is replaced by the following:

"2. The competent authorities participating in the colleges of supervisors and EBA shall cooperate closely. The confidentiality requirements under Title VII, Chapter 1, Section II of this Directive, and, where applicable, Section 2 of Chapter 1 of Title IV of Directive (EU) 2019/...<sup>+</sup> shall not prevent the competent authorities from exchanging confidential information within colleges of supervisors. The establishment and functioning of colleges of supervisors shall not affect the rights and responsibilities of the competent authorities under this Directive and under Regulation (EU) No 575/2013.";

(b) in paragraph 6, the first subparagraph is replaced by the following:

"6. The competent authorities responsible for the supervision of subsidiaries of an EU parent institution or an EU parent financial holding company or EU parent mixed financial holding company and the competent authorities of a host Member State where significant branches as referred to in Article 51 are established, ESCB central banks as appropriate, and third-country supervisory authorities where appropriate and subject to confidentiality requirements that are equivalent, in the opinion of all competent authorities, to the requirements under Title VII, Chapter 1, Section II of this Directive and, where applicable, under Section 2 of Chapter 1 of Title IV of Directive (EU) 2019/...<sup>+</sup> may participate in colleges of supervisors.";

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<sup>+</sup> OJ: Please insert in the text the number of the Directive contained in document PE- CONS 79/19 (2017/0358(COD)) [this amending Directive].

(c) in paragraph 9, the first subparagraph is replaced by the following:

"9. The consolidating supervisor, subject to the confidentiality requirements under Title VII, Chapter 1, Section II, of this Directive, and where applicable, under Section 2 of Chapter 1 of Title IV of Directive (EU) 2019/...+, shall inform EBA of the activities of the college of supervisors, including in emergency situations, and communicate to EBA all information that is of particular relevance for the purposes of supervisory convergence.”;

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<sup>+</sup> OJ: Please insert in the text the number of the Directive contained in document PE- CONS 79/19 (2017/0358(COD)) [this amending Directive].

(20) in Article 125, paragraph 2 is replaced by the following:

"2. Information received within the framework of supervision on a consolidated basis, and in particular any exchange of information between competent authorities which is provided for in this Directive, shall be subject to professional secrecy requirements at least equivalent to those referred to in Article 53(1) of this Directive for credit institutions or under Article 15 of Directive (EU) 2019/...<sup>+</sup>.";

(21) in Article 128, the fifth paragraph is deleted;

(22) in Article 129, paragraphs 2, 3 and 4 are deleted;

(23) in Article 130, paragraphs 2, 3 and 4 are deleted;

(24) in Article 143(1), point (d) is replaced by the following:

"(d) without prejudice to the provisions set out in Title VII, Chapter 1, Section II of this Directive and where applicable, the provisions set out in Title IV, Chapter 1, Section 2 of Directive (EU) 2019/...<sup>+</sup>, aggregate statistical data on key aspects of the implementation of the prudential framework in each Member State, including the number and nature of supervisory measures taken in accordance with point (a) of Article 102(1) of this Directive and of administrative penalties imposed in accordance with Article 65 of this Directive."

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<sup>+</sup> OJ: Please insert in the text the number of the Directive contained in document PE- CONS 79/19 (2017/0358(COD)) [this amending Directive].



Article 63

*Amendments to Directive 2014/59/EU*

Directive 2014/59/EU is amended as follows:

(1) *in Article 2(1), point (3) is replaced by the following:*

*"(3) 'investment firm' means an investment firm as defined in point (22) of Article 4(1) of Regulation (EU) 2019/... of the European Parliament and of the Council\*<sup>+</sup> which is subject to the initial capital requirement laid down in Article 9(1) of Directive (EU) 2019/...<sup>++</sup>."*

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\* *Regulation (EU) 2019/... of the European Parliament and of the Council of ... on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 (OJ L ..., ..., p. ...).*

\*\* *Directive (EU) 2019/... of the European Parliament and of the Council of ... on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU (OJ L ..., ..., p. ...).";*

(2) *in Article 45, the following paragraph is added:*

*"3. In accordance with Article 65(4) of Regulation (EU) 2019/...<sup>+++</sup>, references to Article 92 of Regulation (EU) No 575/2013 in this Directive as regards the own funds requirements on an individual basis of investment firms referred to in point 3 of Article 2(1) of this Directive and which are not investment firms referred to in*

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)) and complete the corresponding footnote.

<sup>++</sup> OJ: Please insert in the text the number of the Directive contained in document PE- CONS 79/19 (2017/0358(COD)) [this amending Directive] and complete the corresponding footnote.

<sup>+++</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

*Article 1(2) or (5) of Regulation (EU) 2019/...<sup>+++</sup> shall be construed in the following way:*

- (a) references to point (c) of Article 92(1) of Regulation (EU) No 575/2013 as regards the total capital ratio requirement in this Directive shall refer to Article 11(1) of Regulation (EU) 2019/...<sup>+++</sup>;*
- (b) references to Article 92(3) of Regulation (EU) No 575/2013 as regards the total risk exposure amount in this Directive shall refer to the applicable requirement in Article 11(1) of Regulation (EU) 2019/...<sup>+++</sup> multiplied by 12,5.*

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<sup>+++</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

*In accordance with Article 65 of Directive (EU) 2019/...<sup>+++</sup>, references in this Directive to Article 104a of Directive 2013/36/EU as regards additional own funds requirements of investment firms referred to in point 3 of Article 2(1) of this Directive and which are not investment firms referred to in Article 1(2) or (5) of Regulation (EU) 2019/...<sup>++++</sup> shall be construed as referring to Article 40 of Directive (EU) 2019/...<sup>++++</sup>.”*

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<sup>+++</sup> OJ: Please insert in the number of the Directive contained in document PE- CONS 79/19 (2017/0358(COD)) [this amending Directive].

<sup>++++</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

## Article 64

### Amendments to Directive 2014/65/EU

Directive 2014/65/EU is amended as follows:

(1) in Article 8, point (c) is replaced by the following:

"(c) no longer meets the conditions under which authorisation was granted, such as compliance with the conditions set out in Regulation (EU) 2019/... of the European Parliament and of the Council\*+;

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\* Regulation (EU) 2019/... of the European Parliament and of the Council of ... on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 (OJ L ..., ..., p. ...).";

(2) Article 15 is replaced by the following:

"Article 15

Initial capital endowment

“Member States shall ensure that the competent authorities do not grant authorisation unless the investment firm has sufficient initial capital in accordance with the requirements of Article 9 of Directive (EU) 2019/... of the European Parliament and of the Council\*+, having regard to the nature of the investment service or activity in question.

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\* Directive (EU) 2019/... of the European Parliament and of the Council of ... on the prudential supervision of investment firms and amending Directives 2002/87/EC,

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+ OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)) and complete the corresponding footnote.

++ OJ: Please insert in the text the number of the Directive contained in document PE- CONS 79/19 (2017/0358(COD)) [this amending Directive] and complete the corresponding footnote.

2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU (OJ L ..., ..., p. ...).";

(3) Article 41 is replaced by the following:

"Article 41

Granting of the authorisation

“1. The competent authority of the Member State where the third-country firm has established or intends to establish its branch shall only grant authorisation where the competent authority is satisfied that:

(a) the conditions under Article 39 are fulfilled; and

(b) the branch of the third-country firm will be able to comply with the provisions referred to in paragraphs 2 and 3.

The competent authority shall inform the third-country firm, within six months of submission of a complete application, whether or not the authorisation has been granted.

2. The branch of the third-country firm authorised in accordance with paragraph 1 shall comply with the obligations laid down in Articles 16 to 20, 23, 24, 25 and 27, Article 28(1), and Articles 30, 31 and 32 of this Directive and in Articles 3 to 26 of Regulation (EU) No 600/2014 and the measures adopted pursuant thereto and shall be subject to the supervision of the competent authority in the Member State where the authorisation was granted.

Member States shall not impose any additional requirements on the organisation and operation of the branch in respect of the matters covered by this Directive and shall not treat any branch of third-country firms more favourably than Union firms.

Member States shall ensure that competent authorities notify ESMA on an annual basis of the *list* of branches of third-country firms active on their territory.

***ESMA shall publish on annual basis a list of third-country branches active in the Union, including the name of the third-country firm to which the branch belongs.***

3. The branch of the third-country firm that is authorised in accordance with paragraph 1 shall report to the competent authority referred to in paragraph 2 the following information on an annual basis:
- (a) the scale and scope of the services and activities **■** carried out by the branch in that Member State;
  - (b) *for third-country firms performing the activity listed in point (3) of Section A of Annex I, their monthly minimum, average and maximum exposure to EU counterparties;***
  - (c) *for third-country firms providing one or both of the services listed in point (6) of Section A of Annex I, the total value of financial instruments originating from EU counterparties underwritten or placed on a firm commitment basis over the previous 12 months;***
  - (d) the turnover and the aggregated value of the assets corresponding to the services and activities referred to in point (a);
  - (e) a detailed description of the investor protection arrangements available to the clients of the branch, including the rights of those clients resulting from the investor-compensation scheme referred to in point (f) of Article 39(2);



- (f) their risk management policy and arrangements applied by the branch for the services and activities referred to in point (a);
  - (g) *the governance arrangements, including key function holders for the activities of the branch;*
  - (h) *any other information considered by the competent authority to be necessary to enable comprehensive monitoring of the activities of the branch.*
4. *Upon request, the competent authorities shall communicate the following information to ESMA:*
- (a) *all the authorisations for branches authorised in accordance with paragraph 1 and any subsequent changes to such authorisations;*
  - (b) *the scale and scope of the services and activities carried out by an authorised branch in the Member State;*
  - (c) *the turnover and the total assets corresponding to the services and activities referred to in point (b);*
  - (d) *the name of the third country group to which an authorised branch belongs.*

5. The competent authorities referred to in paragraph 2 of this Article, the competent authorities of entities that are part of the same group to which branches of third-country firms authorised in accordance with paragraph 1 belong, and ESMA and EBA shall cooperate closely to ensure that all activities of that group in the Union are subject to comprehensive, consistent and effective supervision in accordance with this Directive, Regulation (EU) No 575/2013, Regulation (EU) No 600/2014, Regulation (EU) 2019/...<sup>+</sup>, Directive 2013/36/EU, and Directive (EU) 2019/...<sup>++</sup>.

6. ESMA shall develop draft implementing technical standards to specify the format in which the information referred to in paragraphs 3 and 4 is to be reported **█**.

ESMA shall submit those draft implementing technical standards to the Commission by ... [*nine months after the date of entry into force of this amending Directive*].

Power is conferred on the Commission to supplement this Directive by adopting the implementing technical standards referred to in the first subparagraph in accordance with Article 15 of Regulation (EU) No 1095/2010.<sup>+</sup>;

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

<sup>++</sup> OJ: Please insert in the text the number of the Directive contained in document PE- CONS 79/19 (2017/0358(COD)) [this amending Directive].

(4) *Article 42 is replaced by the following:*

“Article 42

Provision of services at the exclusive initiative of the client

*1. Member States shall ensure that where a retail client or professional client within the meaning of Section II of Annex II established or situated in the Union initiates at its own exclusive initiative the provision of an investment service or activity by a third-country firm, the requirement for authorisation under Article 39 shall not apply to the provision of that service or activity by the third-country firm to that person, including a relationship specifically relating to the provision of that service or activity.*

*Without prejudice to intragroup relations, where a third-country firm, including through an entity acting on its behalf or having close links with such third-country firm or any other person acting on behalf of such entity, solicits clients or potential clients in the Union, it shall not be deemed to be a service provided at the own exclusive initiative of the client.*

*2. An initiative by a client as referred to in paragraph 1 shall not entitle the third-country firm to market new categories of investment products or investment services to that client otherwise than through the branch, where one is required in accordance with national law.”;*

(5) *in Article 49, paragraph 1 is replaced by the following:*

*“1. Member States shall require regulated markets to adopt tick-size regimes in shares, depositary receipts, exchange-traded funds, certificates and other similar financial instruments and in any other financial instrument for which regulatory technical standards are developed in accordance with paragraph 4. The application of tick sizes shall not prevent regulated markets from matching orders large in scale at mid-point within the current bid and offer prices.”;*

(6) in Article 81(3), point (a) is replaced by the following:

“(a) to check that the conditions governing the taking-up of the business of investment firms are met and to facilitate the monitoring of the conduct of that business, administrative and accounting procedures and internal-control mechanisms;”;

(7) the following article is inserted:

"Article 95a

Transitional provision on the authorisation of credit institution referred to in point (1)(b) of Article 4(1) of Regulation (EU) No 575/2013

Competent authorities shall inform the competent authority referred to in Article 8 of Directive 2013/36/EU where the envisaged total assets of an undertaking which has applied for authorisation pursuant to Title II of this Directive before ... [date of entry into force of this amending Directive] in order to carry out the activities referred to in points (3) and (6) of Section A of Annex I are equal to or exceed EUR 30 billion, and notify the applicant thereof.”

## TITLE VIII

### FINAL PROVISIONS

#### Article 65

##### References to Directive 2013/36/EU in other Union legal acts

For the purposes of prudential supervision and resolution of investment firms, references to Directive 2013/36/EU in other Union acts shall be construed as references to this Directive.

#### Article 66

##### Review

By ... [54 months after the date of entry into force of this Directive], the Commission, in close cooperation with EBA and ESMA, shall submit a report, together with a legislative proposal if appropriate, to the European Parliament and to the Council, on the following:

- (a) the provisions on remuneration in this Directive and in Regulation (EU) 2019/...<sup>+</sup> *as well as in Directives 2009/65/EC and 2011/61/EU with the aim of achieving a level playing field for all investment firms active in the Union, including the application of those provisions;*
- (b) *the appropriateness of the reporting and disclosure requirements in this Directive and in Regulation (EU) 2019/...<sup>+</sup>, taking into account the principle of proportionality;*
- (c) *an assessment, which shall take into account the EBA report referred to in Article 35 and the taxonomy on sustainable finance, on whether any:*
  - (i) *ESG risks are to be considered for an investment firm's internal governance;*
  - (ii) *ESG risks are to be considered for an investment firm's remuneration policy;*

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).

*(iii) ESG risks are to be considered for the treatment of risks;*

*(iv) ESG risks are to be included in the supervisory review and evaluation process;*

- (d) the effectiveness of information-sharing arrangements under this Directive;
- (e) the cooperation of the Union and Member States with third countries in the application of this Directive and of Regulation (EU) 2019/...<sup>+</sup>;
- (f) the implementation of this Directive and of Regulation (EU) 2019/...<sup>+</sup> to investment firms on the basis of their legal structure or ownership model;
- (g) *the potential for investment firms to pose a risk of disruption in the financial system with serious negative consequences to the financial system and the real economy and appropriate macroprudential tools to address such a risk and replace the requirements of point (d) of Article 36(1) of this Directive;***
- (h) *the conditions under which the competent authorities may apply to investment firms, in accordance with Article 5 of this Directive, the requirements of Regulation (EU) No 575/2013.***

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<sup>+</sup> OJ: Please insert in the text the number of the Regulation contained in document PE- CONS 80/19 (2017/0359(COD)).



Article 67  
Transposition

1. By ... [18 months after the date of entry into force of this Directive], Member States shall adopt and publish the measures necessary to comply with this Directive. They shall immediately inform the Commission thereof.

They shall apply those measures from ... [18 months after the date of entry into force of this Directive]. However, Member States shall apply the measures necessary to comply with point (5) of Article 64 from ... [three months after the date of publication of this Directive].

When Member States adopt those measures, they shall contain a reference to this Directive or shall be accompanied by such reference on the occasion of their official publication. The methods of making such reference shall be laid down by Member States.

2. As soon as this Directive has entered into force, Member States shall ensure that the Commission is informed, in sufficient time for it to submit its comments, of any draft laws, regulations or administrative provisions which they intend to adopt in the field covered by this Directive.
3. Member States shall communicate to the Commission and to EBA the text of the provisions of national law which they adopt in the field covered by this Directive.

Where the documents accompanying notification of transposition measures provided by Member States are not sufficient to fully assess the compliance of the transposing provisions with certain provisions of this Directive, the Commission may, upon EBA's request and with a view to carrying out its tasks under Regulation (EU) No 1093/2010, or on its own initiative, require Member States to provide more detailed information regarding the transposition and implementation of those provisions and this Directive.

Article 68

Entry into force

This Directive shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

Article 69

Addressees

This Directive is addressed to the Member States.

Done at ...,

*For the European Parliament*

*For the Council*

*The President*

*The President*

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