Citizens' summary

Proposal to change the capital requirements directive

WHAT'S THE ISSUE?

The financial crisis has exposed a number of weaknesses in current EU banking rules.

- Investment in "resecuritisations"

  Multiple financial assets – such as mortgages – can be pooled to form **securitised** financial products, which are then sold to investors. Already securitised products can themselves be further combined into a single investment for resale – a **resecuritisation**.

  Banks holding these highly complex products had insufficient **capital** to cover the huge losses incurred when the value of the underlying assets plummeted.

- Failure to disclose investments in securitised products

  Banks' disclosures of their **exposures** to securitised products are not sufficiently comprehensive. This undermines confidence because the market cannot be certain about banks' financial positions.

- Insufficient capital to cover investments

  Banks are not currently required to have enough capital to cover huge financial losses in their **trading book** (all the financial instruments they hold for reselling in the short term or to offset potential losses in other trading book assets).

- Salaries and bonuses

  Banks' remuneration policies have been geared to short-term success at the expense of long-term profitability and, worse, have in some cases rewarded failure. This has fostered a culture of excessive risk-taking.

WHY DOES ACTION HAVE TO BE TAKEN BY THE EU?

The financial crisis has affected all EU member countries. Measures at EU level should ensure comparable levels of accountability and oversight in banks in every member country.

WHAT EXACTLY WILL CHANGE?

Banks will:

- have to have more financial resources on hand to cover the risks when investing in resecuritisations.
- be required to disclose more information on their exposure to complex products, creating a climate of confidence where they can start lending to each other again.
- assess the risks associated with their trading books differently to avoid being forced to sell in a falling market – which could make the situation worse by driving down market prices even further.
- establish remuneration policies that no longer reward excessive risk-taking by bank executives and employees such as traders.
- face sanctions if their remuneration policies don't meet the new requirements.

WHO WILL BENEFIT AND HOW?

Financial system:

- more stable

- climate of confidence on the market.

Banks:

- more careful when investing in highly complex, risky financial products
- better risk management and better resilience to financial losses
- new remuneration policies encourage employees to act in banks' long-term interests.

WHEN IS THE PROPOSAL LIKELY TO COME INTO EFFECT?

2011 – if approved by the EU Council (representing national governments) and the European Parliament.

Data for search engines	
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