



EUROPEAN COMMISSION

PRESS RELEASE

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## Commission adopts detailed prudential rules for banks and insurers to stimulate investment in the economy

The European Commission has today adopted delegated acts under the [Solvency II Directive](#) and the [Capital Requirements Regulation](#) which will help promote high quality securitisation, ensure that banks have sufficient liquid assets in testing circumstances and introduce international comparability to leverage ratios.

Today's package is part of the ongoing calibration of the regulatory framework to ensure that it enables the financial sector to effectively support the real economy, without jeopardising financial stability. It is also part of the overall objective of the European Commission to boost jobs, growth and investment. As President-elect Juncker announced in his [Political Guidelines of 15 July](#), he intends to mobilise up to € 300 billion in additional public and private investment in the real economy over the next three years by proposing an ambitious Jobs, Growth and Investment Package during the first three months of the mandate of the next European Commission.

"These detailed rules put more flesh on the bones of the Solvency II Directive and the Capital Requirements Regulation", said EU Commission Vice-President Michel Barnier, responsible for Internal Market and Services. "They show that Europe is serious about creating a framework to support investment in the economy, particularly through promoting safe and transparent securitisation and encouraging insurers to invest for the long term. They also show that Europe is at the forefront of implementing internationally agreed principles and is making our financial institutions more resilient, while allowing for the financing needs of the real economy and respecting the diversity of our financial sector."

The acts adopted today include:

1) Detailed rules to implement the **Solvency II** Directive, particularly concerning:

- the valuation of assets and liabilities, including the so-called 'long-term guarantee measures';
- how to set the level of capital and calibrate various asset classes an insurer may invest in;
- and how insurance companies should be managed and governed.

Simplified methods and exemptions apply in some cases to make the application of Solvency II easier, in particular for smaller insurers.

2) A detailed **liquidity coverage requirement** for banks: a requirement that banks should hold enough high quality liquid assets to cover the difference between the expected outflows and inflows over a 30-day stressed period.

3) Clarification of the **leverage ratio**, setting out details for banking institutions across the EU on how to apply the existing rules on the leverage ratio in a uniform manner.

The Solvency II and Liquidity Coverage Ratio delegated acts establish a risk-sensitive prudential treatment for banks and insurance undertakings acting as investors in securitisations. A more favourable treatment applies to highly transparent, simple and sound securitisation instruments with a view to supporting investment in Europe's economy.

### **Solvency II Delegated Act**

Solvency II, a new harmonised sound and robust prudential framework for insurance and reinsurance firms in the EU, will apply from 1 January 2016. Solvency II also aims to ensure that the rules do not present any unnecessary obstacles to insurance and reinsurance firms investing in the European economy with a long term focus, creating sustainable, inclusive, resource-efficient and job-creating growth in Europe.

The rules being announced today set out detailed requirements for the application of the Solvency II framework and represent the core of the single prudential rulebook for insurance and reinsurance firms. In addition to the areas mentioned above, they cover equivalence assessments of third-country solvency regimes, the internal model framework and rules related to insurance groups.

The new capital requirements will be more risk-sensitive and more sophisticated than in the past and allow individual insurers to have better coverage of the real risks they run. They will incentivise insurers, acting as investors, to channel more funds into safe, simple and transparent securitisation markets in Europe, contributing to their development and liquidity. The new requirements also put a greater focus on risk management, and introduce stricter rules on the disclosure of certain information.

Further explanations of the specific rules may be found in [MEMO/14/578](#).

### **Liquidity Coverage Requirement**

The liquidity coverage requirement sets out the detailed rules for the calculation of the general liquidity coverage requirement already established in the Capital Requirements Regulation (CRR). This regulation was adopted in June 2013 as the single rulebook for prudential requirements for all banks in the EU.

The financial crisis showed that banks did not hold sufficient liquid means (e.g. cash or other assets that can be quickly converted into cash with no or little loss of value) to meet net cash outflows in difficult circumstances. Therefore when the crisis hit, many firms were short of liquidity and were forced into a fire sale of assets which contributed to the downfall of several financial institutions.

The delegated act on the liquidity coverage requirement sets out detailed quantitative liquidity rules. These determine how to calculate net cash outflows expected in times of crisis and what liquid assets banks must hold to meet them. Banks will be required to constitute a buffer of liquid assets as a percentage of net cash outflows in stressed conditions over a 30-day period.

The rules take into account comprehensive reports from the European Banking Authority, the Basel standards and relevant specificities of the EU banking and financial landscape.

Further explanations of the liquidity coverage requirement may be found in [MEMO/14/579](#).

### **Leverage ratio**

As a complement to risk-based capital requirements, the Capital Requirements Regulation requires banks to measure and disclose its leverage ratio as a measure of its assets against its capital base.

The delegated act establishes a common definition of the leverage ratio for EU banks which will be the basis for publishing the leverage ratio from the beginning of 2015 onwards. It does not introduce a binding leverage ratio. A decision on whether or not to introduce a binding leverage ratio will only be made in 2016.

The delegated act amending the methodology for calculating banks' leverage ratio will enhance the uniform understanding of the components of the leverage ratio. It aims to align the leverage ratio as currently included in the Capital Requirements Regulation with the internationally agreed leverage ratio so that there is an international level playing field and true global comparability.

Further details may be found in [MEMO/14/580](#).

### **High quality securitisation**

Securitisation can constitute an important funding instrument for the economy. Securitisation markets can enable banks and non-banks to refinance loans/assets by pooling them and converting them into securities that may be liquid, tradable and attractive to institutional investors.

However, highly complex, opaque and risky instruments such as subprime instruments were one of the triggers of the financial crisis. Therefore there is a need to identify transparent, simple and sound securitisation instruments. This issue is currently being explored at both EU and international level.

The Solvency II and Liquidity Coverage Ratio delegated acts are, however, the first legislative acts to provide a differentiated approach to securitisation. Securitisation positions will be eligible for a more proportionate and risk-sensitive prudential treatment for banks and insurance undertakings acting as investors, provided that they meet a set of eligibility criteria, which are set out in the delegated acts.

### **More information:**

[http://ec.europa.eu/internal\\_market/insurance/solvency/solvency2/index\\_en.htm#141010](http://ec.europa.eu/internal_market/insurance/solvency/solvency2/index_en.htm#141010)

[http://ec.europa.eu/internal\\_market/bank/regcapital/acts/delegated/index\\_en.htm#141010-liquidity](http://ec.europa.eu/internal_market/bank/regcapital/acts/delegated/index_en.htm#141010-liquidity)

[http://ec.europa.eu/internal\\_market/bank/regcapital/acts/delegated/index\\_en.htm#141010-leverage](http://ec.europa.eu/internal_market/bank/regcapital/acts/delegated/index_en.htm#141010-leverage)

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