European Commission - Press release

Banking Package 2021: new EU rules to strengthen banks' resilience and better prepare for the future

Brussels, 27 October 2021

The European Commission has today adopted a review of EU banking rules (the Capital Requirements Regulation and the Capital Requirements Directive). These new rules will ensure that EU banks become more resilient to potential future economic shocks, while contributing to Europe's recovery from the COVID-19 pandemic and the transition to climate neutrality.

Today's package finalises the implementation of the Basel III agreement in the EU. This agreement was reached by the EU and its G20 partners in the Basel Committee on Banking Supervision to make banks more resilient to possible economic shocks. Today's proposals mark the final step in this reform of banking rules.

The review consists of the following legislative elements:

- a legislative proposal to amend the Capital Requirements Directive (Directive 2013/36/EU);
- a legislative proposal to amend the Capital Requirements Regulation (Regulation 2013/575/EU);
- a separate legislative proposal to amend the Capital Requirements Regulation in the area of resolution (the so-called "daisy chain" proposal).

The package is comprised of the following parts:

1. **Implementing Basel III – strengthening resilience to economic shocks**

Today's package faithfully implements the international Basel III agreement, while taking into account the specific features of the EU's banking sector, for example when it comes to low-risk mortgages. Specifically, today's proposal aims to ensure that "internal models" used by banks to calculate their capital requirements do not underestimate risks, thereby ensuring that the capital required to cover those risks is sufficient. In turn, this will make it easier to compare risk-based capital ratios across banks, restoring confidence in those ratios and the soundness of the sector overall.

The proposal aims to strengthen resilience, without resulting in significant increases in capital requirements. It limits the overall impact on capital requirements to what is necessary, which will maintain the competitiveness of the EU banking sector. The package also further reduces compliance costs, in particular for smaller banks, without loosening prudential standards.

2. **Sustainability – contributing to the green transition**

Strengthening the resilience of the banking sector to environmental, social and governance (ESG) risks is a key area of the Commission's Sustainable Finance Strategy. Improving the way banks measure and manage these risks is essential, as is ensuring that markets can monitor what banks are doing. Prudential regulation has a crucial role to play in this respect.

Today's proposal will require banks to systematically identify, disclose and manage ESG risks as part of their risk management. This includes regular climate stress testing by both supervisors and banks. Supervisors will need to assess ESG risks as part of regular supervisory reviews. All banks will also have to disclose the degree to which they are exposed to ESG risks. To avoid undue administrative burdens for smaller banks, disclosure rules will be proportionate.

The proposed measures will not only make the banking sector more resilient, but also ensure that banks take into account sustainability considerations.

3. **Stronger supervision – ensuring sound management of EU banks and better protecting financial stability**

Today's package provides stronger tools for supervisors overseeing EU banks. It establishes a clear,

robust and balanced "fit-and-proper" set of rules, where supervisors assess whether senior staff have the requisite skills and knowledge for managing a bank.

Moreover, as a response to the WireCard scandal, supervisors will now be equipped with better tools to oversee fintech groups, including bank subsidiaries. This enhanced toolkit will ensure the sound and prudent management of EU banks.

Today's review also addresses – in a proportionate manner – the issue of the establishment of branches of third-country banks in the EU. At present, these branches are mainly subject to national legislation, harmonised only to a very limited extent. The package harmonises EU rules in this area, which will allow supervisors to better manage risks related to these entities, which have significantly increased their activity in the EU over recent years.

Members of the College said:

Valdis **Dombrovskis**, Executive Vice-President for an Economy that Works for People, said: *"Europe needs a strong banking sector to keep lending to the economy as we recover from the COVID-19 pandemic. Today's proposals ensure that we implement the key parts of the Basel III international standards. This is important for the stability and resilience of our banks. We do it by taking into account the specificities of the EU banking sector, and avoiding a significant increase in capital requirements. Today's package will make EU banks stronger and able to support the economic recovery and the green and digital transitions."*

Mairead **McGuinness**, EU Commissioner responsible for Financial services, financial stability and Capital Markets Union, said: *"Banks have an essential role to play in the recovery and it is in all our interests that EU banks are resilient going forward. Today's package makes sure that the EU banking sector is fit for the future, and can continue to be a reliable and sustainable source of finance for the EU economy. By incorporating ESG risk assessments, banks will be better prepared and protected to weather future challenges such as climate risks."*

Didier **Reynders**, Commissioner for Justice, said: *"The board members and key function holders of banks can have a significant influence on the activities of a credit institution. They play a pivotal role in directing the businesses and managing banks' activities in a cautious and sound manner. Harmonised rules were necessary to assess whether board members and key function holders are suitable for their duties. Today's adopted rules will clarify the respective obligations of credit institutions and competent authorities. They will then ensure consistency at EU level and will ultimately contribute to the increased robustness of banks."*

Next steps

The legislative package will now be discussed by the European Parliament and Council.

Background

In the aftermath of the financial crisis, regulators from 28 jurisdictions across the globe, within the Basel Committee on Banking Supervision (BCBS), agreed on a new international standard for strengthening banks, known as Basel III. This agreement was finalised in 2017. The EU has already implemented the vast majority of these rules, which has resulted in the EU's banking sector being much more robustly capitalised.

As a result, EU banks remained resilient during the COVID-19 crisis, as evidenced by the fact that they continued lending. Today's reforms complete the post-financial crisis agenda with a view to substantially boosting the competitiveness and sustainability of the EU's banking sector.

For More Information

Questions and answers

Factsheet

Legal texts

Prudential requirements

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