



EUROPEAN COMMISSION

Brussels, 12.6.2012
C(2012) 3831 final

Dear President,

The Commission would like to thank the Riksdag for its reasoned opinion concerning the Proposal for a Directive of the European Parliament and of the Council on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms ("CRD IV") {COM(2011) 453 final} and would like to apologise for the long delay in replying.

In June 2009, the European Council called for the establishment of a "European single rule book applicable to all financial institutions in the Single Market."

Today, European banking legislation is based on a Directive which leaves room for significant divergences in national rules. This has created a regulatory patchwork, leading to legal uncertainty, enabling institutions to exploit regulatory loopholes, distorting competition, and making it burdensome for firms to operate across the Single Market.

The CRD IV proposal accordingly sets out a single set of harmonised prudential rules which credit institutions and investment firms throughout the EU must respect. This will ensure uniform application of Basel III in all Member States. It will close regulatory loopholes and will thus contribute to a more effective functioning of the Single Market. The Commission suggests removing national options and discretions from the CRD, and achieving full harmonisation by allowing Member States to apply stricter requirements only where these are needed on financial stability grounds or because of a bank's specific risk profile.

A Single Rulebook is particularly important, as the EU in general and the euro area in particular has a very high degree of financial and monetary integration. Decisions on the level of capital requirements therefore need to be taken for the single market as a whole, as the impact of such requirements is felt by all Member States. Financial stability can only be achieved by the EU acting together; not by each Member State on its own. We need to set the level of capital at a level that is appropriate for the EU as a whole.

That said, the Commission fully recognises that there are differences between the banking sectors in the different Member States in terms of size, structure and systemic importance. To this end, the Commission's proposal foresees that Member States will retain the necessary flexibility. National regulators may apply capital requirements that go beyond those laid down in the Regulation for the following purposes:

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- *to address risks pertaining to an individual institution or group of institutions, taking into account the geographical location of an institution's exposures, the systemic risk it poses and its business model (so-called 'Pillar 2');*
- *to address excessive credit growth – or to protect the economy from any other structural risks to financial stability – through the holding of a Countercyclical Buffer; or*
- *to address risks arising from real estate markets, reflecting the significance and heterogeneity of those markets in the EU.*

In addition, under the CRD IV proposal, the Commission may raise own funds requirements, or strengthen further the definition of own funds, temporarily in order to address prudential risks.

As a result of these measures, Member States and the Commission will have the flexibility required to ensure that prudential requirements remain flexible and appropriate.

As you may be aware, this matter is also in the focus of the ongoing legislative negotiations in the Council and European Parliament.

The Commission hopes that these explanations serve to clarify the concerns raised in the reasoned opinion and looks forward to continuing the political dialogue on this very important issue.

Yours faithfully,

*Maroš Šefčovič
Vice-President*