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Council adopts new rules on capital requirements and remuneration policies in the banking sector

The Council adopted[1] today a directive[2] aimed at:

– strengthening capital requirements and disclosure for the trading book and for re-securitisation instruments in the banking sector; and

– ensuring that remuneration policies in the banking sector do not generate unacceptable levels of risk (*35/10* + *14218/10 ADD 1 REV 1*).

As regards the **capital requirements** framework, the directive sets higher and reinforced capital requirements for certain assets that banks hold in the trading book and for re-securitisation instruments. Such investments entail higher risks on account of their complexity and their sensitivity to losses. This is in line with the approach envisaged by the Basel Committee on Banking Supervision.[3]

The directive also enhances disclosure requirements, in line with internationally agreed standards, in several areas such as securitisation exposures in the trading book and sponsorship of off-balance-sheet vehicles.

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1 The decision was taken without discussion at a meeting of the Competitiveness Council.

2 Draft directive amending directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies.

3 The Basel Committee provides a forum for regular cooperation on banking supervisory matters. In recent years, it has developed into a standard-setting body for all aspects of banking supervision, now comprising 28 member countries (http://www.bis.org/bcbs/).

P R E S S

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It is widely recognised that weaknesses in the regulatory framework on capital requirements for the banking sector and in the risk management of financial institutions contributed to the crisis in global financial markets.

The directive also introduces a requirement that the **remuneration policies** of financial institutions be subject to supervisory oversight. As a result, supervisory authorities will from now on have to monitor the implications of remuneration policies for the risk management of financial institutions.

More specifically, the directive:

– imposes a binding obligation on credit institutions and investment firms to have remuneration policies and practices that are consistent with and promote sound and effective risk management;

– brings remuneration policies within the scope of supervisory review, so that supervisors may require firms to take measures to rectify any problems that they may identify.