

The European Council and the European Parliament adopted the Capital Requirements Directive for credit institutions and investment firms. The Directive introduces an updated supervisory framework in the EU which reflects the Basel II rules on capital standards agreed at G-10 level. Member States can now focus on transposing and implementing the Directive by the end of this year.

Excellent cooperation between Parliament, Council and Commission led to political agreement on this important measure in October 2005. The Directive, one of the measures required to complete the EU Financial Services Action Plan, modernises the existing capital framework to make it more comprehensive and risk-sensitive encouraging enhanced risk management by financial institutions. This will maximise the effectiveness of the framework in ensuring continuing financial stability, maintaining confidence in financial institutions and protecting consumers. Improved risk-sensitivity in the capital requirements will lead to more effective allocation of capital, contributing to boosting the competitiveness of the EU economy.

A key aspect of the new framework is its flexibility. This provides institutions with the opportunity to adopt the approaches most appropriate to their situation and to the sophistication of their risk management.

The new regime is also designed to ensure that the capital requirements for lending to small- and medium-sized enterprises (SMEs) are appropriate and proportionate, recognising the importance of SMEs in the EU economy.

Member States are to apply the Directive from the start of 2007, with the most sophisticated approaches being available from 2008. This is in line with the planned global introduction of the Basel II rules.

For further details on EU policy on capital requirements see:

http://ec.europa.eu/internal_market/bank/regcapital/index_en.htm#directive