Financial Conduct Authority

Capital Requirements Directive

Name	Number	Web address
Amendments to Capital Requirements Directive (CRD) and proposal for Capital Requirements Regulation (CRR)	2006/48/EC; 2006/49/EC	http://ec.europa.eu/internal_market/bank/regcapital/index_en.htm http://www.fca.org.uk/about/what/international/basel

Status
The CRD was formally adopted on 14 June 2006 and subsequently published in the Official Journal (L177/201) on 30 June 2006. It has since been amended a number of times. CRD II This amendment of the CRD was, in part, a response to the recommendations of the G-7 Financial Stability Forum (FSF) and the market crisis. The content of CRD II covered: (i) large exposures, (ii) hybrid capital instruments, (iii) supervisory arrangements (colleges), (iv) liquidity risk management, (v) securitisations, (vi) the waivers for banks organised in networks and (vii) adjustments to certain technical provisions. The final text was published in the Official Journal on 17 November 2009, and was implemented on 31 December 2010. CRD III Consistent with the parallel work undertaken by the Basel Committee on Banking Standards (BCBS or 'Basel'), the Commission consulted and issued proposals, in July 2009, on amendments to the trading book (stressed VaR, incremental risk charge), re-securitisation, remuneration, and Basel 1 floors as part of the CRD III package. Further technical amendments also arose from the on-going work of the CRD-TG. After going through the Council, the compromise text went to the European Parliament The final text was published in the Official Journal on 14 December 2010, and was implemented on 31 December 2011[1]. CRD IV The latest set of amendments, CRD IV, sets out to implement the Basel III agreement and build on the lessons learnt from the recent crisis. The Commission's legislative proposal was published on 20 July 2011, consisting of two separate legislative instruments; a Regulation (CRR) and a Directive (CRDIV). Most of the reformed Pillar 1 requirements for calculating capital requirements and resources are set out in the Regulation and will be directly applicable to all firms in scope. The Directive includes requirements for authorisation, governance, remuneration, supervisory cooperation and information sharing, enhanced Pillar 2 and Pillar 3, as well as for the Basel capital buffers. The Commission published its formal proposal on 20 July 2011. The Council and EU Parliament published its respective positions in May 2012. Negoitiations at EU level are still ongoing . The original proposed deadline of 1 January 2013 for entry itno force of the draft European Union legislation to update the framework for capital requirements, kown as CRD IV, has now passed. No alternative date has yet been communicated by the EU instititions.

[1] Some elements of CRD3 were implemented earlier in 2011.

UK implementation details

The CRD has been implemented in the UK. The (2008) CRD II amendments package was transposed on 31 October 2010 and implemented on 31 December 2010. The CRD III amendments were published on 14 December 2010, with differing implementation deadlines; parts of CRD III, relating to the extension of the floors, remuneration principles and several technical adjustments, became effective on 1 January 2011; the changes in the market risk framework and on (re)securitisations entered into force on 31 December 2011.

Change to FCA and PRA rules will be required to implement the CRD IV Directive changes, and rules may need to be removed or modified if they conflict with the Regulation.

FCA and PRA public material will follow in 2013, subject to finalisation of the text and the implementation deadline.

External

The FCA is working closely with HMT and the Bank of England

Background to Directive

The original Basel Accord was agreed in 1988 by the Basel Committee on Banking Supervision and implemented in the EC by the Banking Consolidation Directive (BCD) (2000/12/EC) and the Capital Adequacy Directive (CAD) (93/6/EEC). Basel II updated the existing Basel framework and the CRD amended the BCD & CAD for EU implementation. Basel III seeks to introduce major strengthening in response to the turmoil expercienced in the banking markets.

Purpose of Directive

The first CRD incorporated revised forms of both the Capital Adequacy Directive and the Banking Consolidation Directive. It implemented the revised Basel capital adequacy framework (Basel II) and applied it to all credit institutions – essentially banks, building societies and some investment firms

The aim of the CRD is to reduce the probability of consumer loss or market disruption as a result of prudential failure. It does this by seeking to ensure that the financial resources held by a firm are commensurate with the risks associated with its business profile and control environment. The various amendments packages from the Commission attempt to strengthen the prudential framework for individual institutions and provide responses to financial stabiltiy concerns that arose during the banking crisis.

Key provisions

The CRD framework consists of three 'pillars'.

- Pillar 1 – sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk.
- Pillar 2 – requires firms and supervisors to take a view on whether a firm needs to hold additional capital against risks not adequately covered in Pillar 1 and to take action accordingly.
- Pillar 3 – requires firms to publish certain details of their risks, capital and risk management, in order to improve market discipline.
- All firms were required to adopt the CRD (based on the Basel II framework) from 1 January 2007. At that point firms had to apply Pillars 2 and 3 but had a number of options relating to Pillar 1; for operational risk they could choose either the basic indicator or the standardised approach; with respect to credit risk, they could choose between the standardised approach, the Foundation Internal Ratings Based Approach and the Retail Internal Ratings Based Approach. In addition, firms could opt to move straight to the revised standardised approach for credit risk under the Basel II/CRD or remain on Basel I until 1 January 2008. From this date, the Basel I method became invalid, and all firms had to apply one of the standardised, the foundation or the advanced Internal Ratings Based Approach for credit risk, and one of the Basic Indicator Approach, the Standardised Approach or the Advanced Measurement Approach for operational risk.

The (2008 or CRD II) amendments to the CRD included: (i) large exposures; (ii) hybrid capital instruments; (iii) supervisory arrangements (colleges); (iv) liquidity risk management; (v) securitisations; (vi) the waivers for banks organised in networks; and (vii) adjustments to certain technical provisions.

The CRD III amendments to the CRD included: (i) trading book; (ii) resecuritisation; (iii) remuneration; (iv)

pillar 2; (v) pillar 3 and (vi) adjustments to certain technical provisions. The CRD IV amendments package is currently being negotiated. It includes: (i) liquidity standards; (ii) definition of capital; (iii) leverage ratio; (iv) capital buffers (v) counterparty credit risk; and (vi) creating a Single Rule Book for banking (including the removal of national options and discretions and maximum harmonisation).

Consultation		
Consulting institution	**Consulting details**	**Deadline**
n/a		

Original timetable	**Achieved / [Planned]**
CRD IV	
Formulation of proposal	
Commission's draft proposal	21 July 2011
COREPER	
Council working group meetings	November 2011 - Ongoing [at January 2012]
Council decision: General conditions for political agreement	[End-Summer 2012]
Parliament's opinion on common position (first and final reading)	
Plenary vote	[ ]
Council	
Agreement on adoption (informal adoption)	[ ]
Approval	
Publication in the Official Journal	30 June 2006
(Finalising level 2 measures)	None
UK Authorities' implementation	1 January 2013
Industry implementation	Same as authorities' implementation date
Commentary CRD II amendments (2008): Transposition date Implementation date CRD III amendments (2009) Transposition date Implementation date CRD IV dates	 31 October 2010 31 December 2010 31 December 2011 31 December 2011 Implementation by 1 January 2013, with some changes phased in over the following years.

EU institution's meetings		
EU institution	**Details**	**Date**
Council	CRDIV Working Group Discussions commence	November 2011 - ongoing

Internal contacts

PRA Lead	**International Lead**	**GCD Lead**
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