EP votes to adjust capital requirements to rebuild trust in the banking sector

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The European Parliament adopted its view on capital requirements in the European banking sector. As the voted text has been agreed with the Council in first reading, the new arrangements become effective from 31 December 2010.
The new rules tighten the definitions of core capital, limit the amount of short term exposure that banks can have to one another, introduce colleges for supervision of cross-national groups and put in place controls on the securitisation process. In particular, banks will be made more responsible, as they will be obliged to retain in their own balance sheets and consequently in their own funds not less than 5% of the credit they issue and then sell in the form of shares on the financial markets by means of securitisation.
Sharon BOWLES (Lib-Dem, UK) who is the shadow rapporteur for the ALDE group comments: "As far as supervision is concerned, these changes are an important first step. They will be augmented in due course when the appropriate way forward for a layer of European supervision has been worked out."
"'The most controversial issue was the provision to make securitisation safer. This included banks retaining 5% of all securitisations and measures to ensure that appropriate checking, or due diligence, is done on the underlying loans in order to avoid a repeat of the 'toxic loans' problem. I advocated that the measures finally become fit for purpose and should build confidence in a new kind of 'quality assured' European securitisation".
"European problems with 'toxic' securitisation came from the US. However, the fear that created has also caused our own securitisations to dry up. Our banks thus lost the main instrument that enabled them to sell on their loans - an important instrument because it freed up capital for further lending and was a major driver for growth."
Additionally, a new Paragraph has been introduced which calls for a "review" clause on the basis of which the Commission is requested, by 31 December 2009, to report on the need for further reform of the supervisory system with the aim of addressing the need for better analysis of and response to macro-prudential problems.

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