European Commission - Press release

Capital Markets Union: more proportionate and risk-sensitive rules for stronger investment firms

Brussels, 20 December 2017

Europe's capital markets will be more efficient and better supervised thanks to a revamp of rules for investment firms.

The European Commission is today proposing a two-track overhaul to make life simpler for smaller investment firms, while bringing the largest, systemic ones under the same regime as European banks. Investment firms and the services they provide are vital to a well-functioning Capital Markets Union (CMU). Alongside banks, EU capital markets rely on several thousands of small and large investment firms which give advice to clients, help companies to tap capital markets, manage assets, and provide market liquidity, thereby facilitating investments across the EU. The EU needs stronger capital markets in order to promote investment, unlock new sources of financing for companies, offer households better opportunities and strengthen the Economic and Monetary Union.

Under today's proposals, the vast majority of investment firms in the EU would no longer be subject to rules that were originally designed for banks. This will reduce administrative burden, boost competition and increase investment flows, all of which are priorities of the CMU, without compromising financial stability. At the same time, the largest and most systemic investment firms would be subject to the same rules and supervision as banks.

Valdis **Dombrovskis,** Vice-President responsible for Financial Stability, Financial Services and Capital Markets Union said: "*Our rules must be proportionate and risk sensitive. Smaller investment firms will benefit from simpler requirements which are more in line with their risk profile. At the same time, larger firms posing similar risks as banks should be regulated and supervised like banks. This overhaul will help all investment firms to link savings from consumers and investors to companies. The new rules will support well-functioning capital markets, while ensuring financial stability.*"

Jyrki **Katainen,** Vice-President responsible for Jobs, Growth, Investment and Competitiveness said: *"Our goal is to reduce the cost of complying with EU laws. Today's proposal to simplify and streamline the prudential rules for investment firms is part of this effort. Our rulebook needs to support the pivotal role played by these firms in channelling investment flows in capital markets, while making sure that the risks in their activities are appropriately covered. Greater competition and investor protection are two sides of the same coin, boosting market confidence and supporting growth."*

Key features of the proposal

Investment firms play an important role in facilitating savings and investment flows across the EU. They provide a range of services which give investors access to securities and derivatives markets. These services include investment advice, portfolio management, executing orders for clients, trading in financial instruments and helping companies raise funds on capital markets.

The proposal includes:

- new and simpler prudential rules for the large majority of investment firms which are not systemic, without compromising financial stability; and
- amended rules to ensure that large, systemic investment firms which carry out bank-like activities and pose similar risks as banks are regulated and supervised like banks. As a consequence, the European Central Bank, in its supervisory capacity, (the Single Supervisory Mechanism) would supervise such systemic investment firms in the Banking Union. This will ensure level playing field between the large and systemic financial institutions.

The new rules split **non-systemic investment firms** into two groups. The capital requirements for the smallest and least risky investment firms will be set in a simpler way. The rules will be comprehensive and robust enough to capture the risks of investment firms, yet flexible enough to cater to various business models and ensure that these firms can remain commercially-viable. These firms would not be subject to any additional requirements on corporate governance or remuneration. For larger firms, the rules introduce a new way of measuring their risks based on their business models. For firms which trade financial instruments, these will be combined with a simplified version of existing rules.

The proposal further defines as credit institutions those **systemic investment firms** which carry out certain bank-like activities (i.e. underwriting and dealing on own account) and have assets over €30 billion. These systemic firms will be fully subject to the same treatment as banks. As announced in the Commission's review of the European Supervisory Authorities (ESAs), this means that their operations in Member States participating in the Banking Union are subject to direct supervision by the ECB in the Single Supervisory Mechanism.

Background

As part of its work to strengthen capital markets, the Commission announced in its Mid-Term Review of the Capital Markets Union Action Plan that it would propose a more effective prudential and supervisory framework for investment firms.

There are several thousand investment firms in all Member States in the European Economic Area (EEA). The bulk of these firms are small to medium-sized and focus on offering investment advice, receiving, transmitting and executing orders, and managing portfolios. Unlike credit institutions, investment firms do not take deposits or make loans. This means that they are a lot less exposed to credit risk and the risk of depositors withdrawing their money at short notice.

Today's review is part of the Commission's REFIT programme and in line with a mandate in the Capital Requirements Regulation (CRR). Its aim is to ensure that capital, liquidity and other key prudential requirements for investment firms are set appropriately. The CRR requirements are largely focused on banks and not fully suited to all investment firms.

The review is based on the September 2017 policy advice from the EBA and was also announced in the October 2017 Communication on completing the Banking Union.

For More Information

Prudential rules on investment firms

MEMO

Factsheet

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