#BankingUnion
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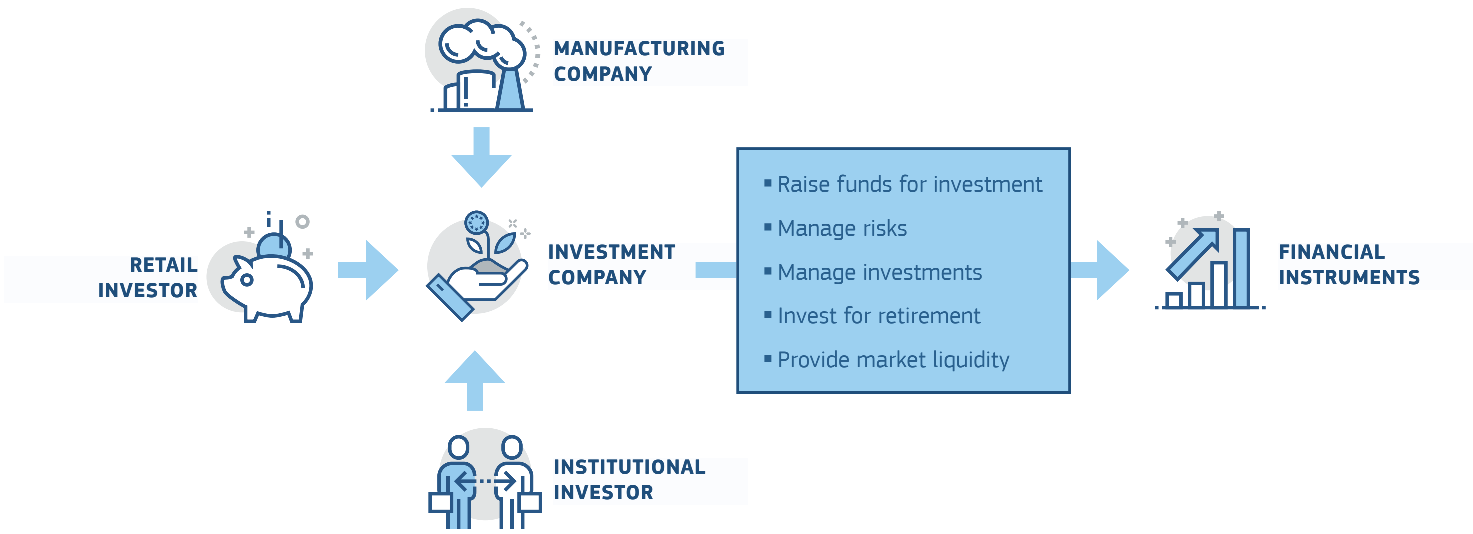
# NEW PRUDENTIAL RULES FOR INVESTMENT FIRMS

**Investment firms play an important role in facilitating investments across the EU. Today's proposal would considerably simplify how these firms account for their risks without compromising financial stability, and enable supervisors to better oversee their activities. This will reduce administrative burdens, boost competition, and help increase investment flows, which are important priorities of the Capital Markets Union.**

## WHY ARE INVESTMENT FIRMS IMPORTANT FOR CAPITAL MARKETS UNION?

Alongside banks, investment firms help investors find productive uses for their funds and help companies raise money on capital markets. They provide a range of services which give investors access to capital markets. Such services include:




*"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 serve the purpose of linking savings from consumers and investors to companies. The new rules will support well-functioning capital markets, while ensuring financial stability."*

**Valdis DOMBROVSKIS**
Vice-President in charge of Financial Stability, Financial Services and Capital Markets Union

*"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."*

**Jyrki KATAINEN**
Vice-President responsible for Jobs, Growth, Investment and Competitiveness

## HOW CAN INVESTMENT FIRMS' RISKS BE REGULATED IN A PROPORTIONATE WAY?

- ✓ How do they differ from banks: investment firms do not take any deposits, nor do they provide loans on an extensive scale and are less exposed to the risk of depositors withdrawing their money at short notice and of borrowers failing to pay back loans
- ✓ Large investment firms are like banks and should be regulated like banks
- ✓ In principle, smaller investment firms have no systemic importance. To protect clients they must hold enough capital to wind them down in an orderly way in case of difficulties
- ✓ Key risk factors include risks for their customers in key activities that firms perform, such as portfolio management, handling and executing client orders, handling client money and assets and risks for their balance sheet and for other market participants when entering into financial transactions

## NEW CLASSIFICATION AND PRUDENTIAL REGIME FOR INVESTMENT FIRMS

| SYSTEMIC | NON-SYSTEMIC | |
|---|---|---|
| **CLASS 1** | **CLASS 2** | **CLASS 3** |
| ▪ Largest firms (with assets over EUR 30 billion)<br>▪ Carry out risky, bank-like activities<br>▪ Will remain under CRR/CRD and subject to banking supervision | ▪ Large firms, above specific thresholds (e.g. assets under management, balance sheet, revenues, etc)<br>▪ New risk assessment tailored to their business<br>▪ Simplified version of existing rules (if they trade financial instruments) | ▪ Smaller, non-interconnected firms<br>▪ Simpler capital requirements (higher of initial capital or fixed costs in previous year) |

## WHAT WILL CHANGE IN THE FUTURE?

| | | REGULATION | SUPERVISION |
|---|---|---|---|
| **Class 1** | TODAY | CRR/CRD | National arrangements |
| | NEW REGIME | CRR/CRD | Banking supervisor (SSM for Banking Union) |
| **Class 2&3** | TODAY | CRR/CRD | National arrangements |
| | NEW REGIME | New prudential regime for investment firms | National arrangements |