

LAW & POLICY GROUP | [GRIST](#)

EU PROPOSES NEW REGULATORY AND SUPERVISION FRAMEWORK FOR INVESTMENT FIRMS

*By Mercer's Sophie Black, Richard Symons and Stephanie Rosseau
2 Apr 2019*

An EU regulatory and supervision framework comprising a [regulation](#) and a [directive](#) would establish new prudential requirements and supervisory arrangements for investment firms and differentiate the requirements according to their size, nature and complexity. The proposals may be approved by the European Parliament as early as this month and, subject to the Council of the EU's agreement, could take effect in 18 months.

Currently, the same capital, liquidity and risk management rules apply to banks and investment firms, but these rules are based on international standards for banks and don't take into account the sector specific nature of the investment industry. The European Commission estimates there are approximately 6,000 investment firms in the European Economic Area (EEA).

KEY PROPOSALS

Highlights include the following:

- All but the smallest firms would be subject to some additional degree of remuneration regulations; the largest firms would be classified as credit institutions and would be subject to CRD IV requirements.
- The proposals don't include a cap on variable remuneration, but firms would have to consider what ratio of fixed to variable pay is appropriate to their particular circumstances. Member states' national laws could set a maximum percentage for the ratio between variable and fixed pay.
- Firms could apply the principle of proportionality at a firm and individual level to payments in instruments and the deferral on variable compensation.
- The proposals strengthen the equivalence regime that would apply to investment firms from third countries outside the EEA.

Further details can be found in this Mercer [summary](#).

RELATED RESOURCES

Non-Mercer Resources

- [Investment Firm Regulation to Amend Regulations \(EU\) No 575/2013, \(EU\) No 600/2014 and \(EU\) No 1093/2010](#) (Europa, 4 Jan 2019)

- [Investment Firm Directive to Amend Directives 2013/36/EU and 2014/65/EU](#) (Europa, 4 Jan 2019)
- [Press Release](#) (European Council, 7 Jan 2019)

Mercer Law & Policy Resources

- [EU Agrees to New Remuneration Rules for Financial Sector – CRDV](#) (20 Mar 2019)

Other Mercer Resources

- [European Council Agrees Position on New Regulatory and Supervision Framework for Investment Firms](#) (March 2019)

Note: Mercer is not engaged in the practice of law, accounting or medicine. Any commentary in this article does not constitute and is not a substitute for legal, tax or medical advice. Readers of this article should consult a legal, tax or medical expert for advice on those matters.