

New rules on capital requirements for banks and a cap on bonuses for bankers are the results of negotiations between Council and Parliament which were concluded. The European Parliament is confident that the agreement delivers tough and effective rules that will cover all bonuses awarded or paid from 2011 onwards. It will be the first cap on how bankers are paid worldwide.

Upfront cash bonuses will be capped at 30% of the total bonus and to 20% for particularly large bonuses. In place of upfront cash between 40 and 60% of any bonus must be deferred and can be recovered if investments do not perform as expected. Moreover at least 50% of the total bonus would be paid as "contingent capital" (funds to be called upon first in case of bank difficulties).

Bonuses will also have to be capped to salary. Each bank will have to establish limits on bonuses related to salaries, on the basis of EU wide guidelines, to help bring down the overall, disproportionate, role played by bonuses in the financial sector.

Finally, bonus-like pensions will also be covered. Exceptional pension payments must be held back in instruments such as contingent capital that link their final value to the underlying strength of the bank. This will avoid situations, similar to those experienced recently, in which some bankers retired with substantial pensions unaffected by the crisis.

Official agreement from Council, the text will now be submitted to the Parliament's July plenary. The vote will take place on Wednesday, 7 July. Once this is finalized, the rules are expected to take effect in January 2011 for the bonus provisions and not later than 31 December 2011 for the capital requirements provisions.

>>Council's position: <http://register.consilium.europa.eu/pdf/en/10/st11/st11527.en10.pdf>

>>Draft European Parliament legislative resolution :

<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A7-2010-0205+0+DOC+PDF+V0//EN>

>>Commission's proposal:

http://ec.europa.eu/internal_market/bank/docs/regcapital/com2009/Leg_Proposal_Adopted_1307.pdf