8 May 2013

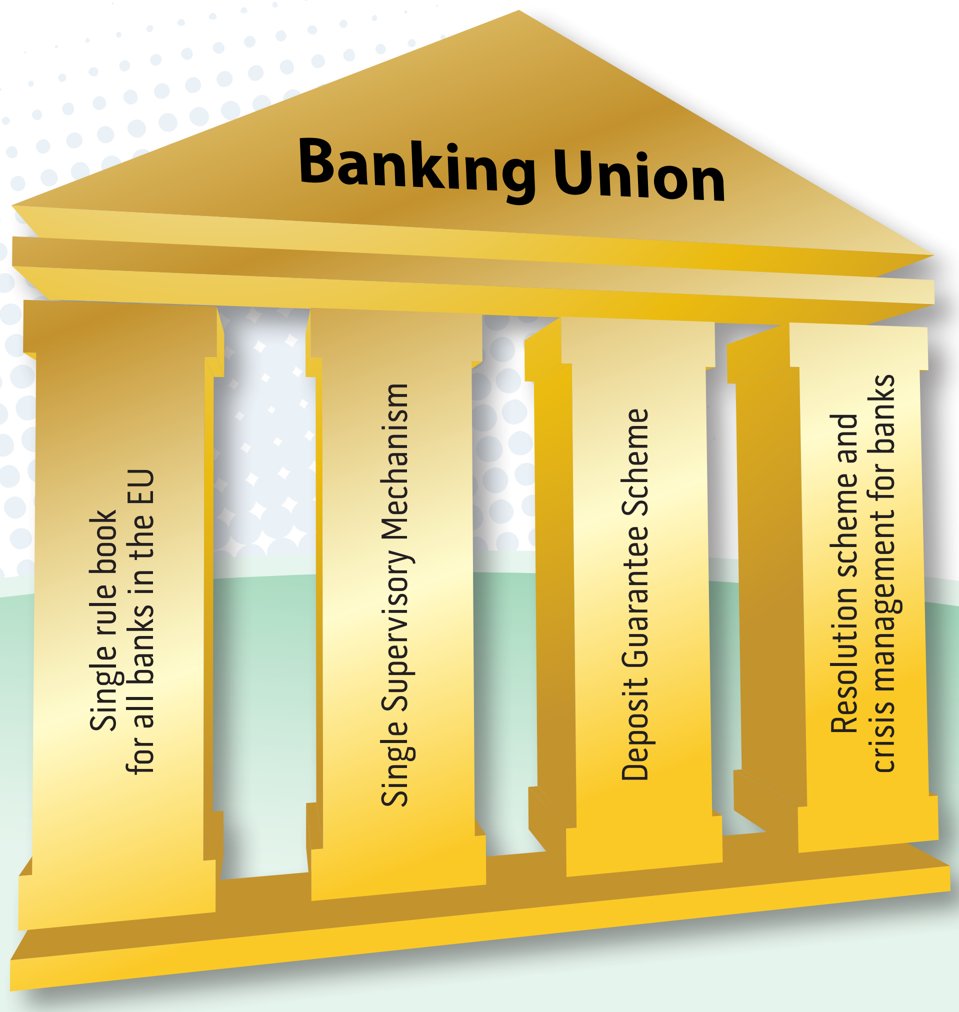
The Banking Union: what is missing and what should be added?

Introduction

Last September, the European Parliament adopted a Resolution entitled "Towards a Banking Union". The EPP Group pushed to end the vicious circle between banks in financial trouble and governments with budgetary difficulties, to move towards a **genuine economic and monetary union.**

Already back in July 2010 through its Resolution on Cross-Border Crisis Management in the Banking Sector and its Report on the proposal for a Regulation establishing a European Banking Authority, **Parliament identified solutions to cross-border crisis management** issues, namely an integrated supervisory mechanism, the reform of the Deposit Guarantee Schemes Mechanism and the creation of a European Stability Fund.

It took two years for the European Council to reach the same conclusions. In June 2012, the Council agreed to the need for a more integrated supervision system, and **now both EU co-legislators are working on the establishment of the four pillars of the Banking Union** through:



Where are we on these four pillars of the Banking Union?

1. Single Rule Book for Banks (CRD IV/Basel III)

Othmar Karas MEP

Timetable:

16 April 2013 European Parliament adopted the most comprehensive banking regulation in the history of the EU; the broad cross-party agreement was engineered by Othmar Karas MEP.

1 January 2014 the new rule book will enter into force.

Key elements:

A new rule book applies to all European banks. These are the rules to be enforced by the new single supervision. Banks must hold more and better capital in the future. This makes banks more resilient in crisis situations and avoids taxpayers' money being used to prop banks up. Member States cannot simply add additional, stricter rules for their banks, but must get additional rules approved at EU level. European banks have to publish, country by country, what their profit is, how much tax they pay and how much they receive in subsidies.

What the EPP Group has achieved:

Banks must focus on their core business which is financing the real economy. Loans to SMEs and business start-ups will be made easier. Bankers' bonuses will be capped. The new rules take the specifics of the European banking sector better into account. Continental European banks, often more oriented towards retail banking, will not be disadvantaged compared to Anglo-American competitors, who are often more oriented towards investment banking.

2. Single Supervisory Mechanism (SSM)

Marianne Thyssen MEP

Timetable:

21 May 2013 EP plenary vote on the Thyssen Report

The final vote will be postponed until ratification of the SSM by the German Bundestag and Bundesrat.

Key elements:

The European Central Bank (ECB) has the power to intervene in any credit institution in any Member State taking part in the Single Supervisory Mechanism (SSM), including Eurozone countries and non-Eurozone countries who participate in the mechanism. National supervisors are responsible for banks that cannot create a systemic risk. The 17 Eurozone Member States will participate in the mechanism. Non-Eurozone Member States can opt in. To encourage non-Eurozone Member States to participate, Marianne Thyssen has ensured they have been given equal rights in the Supervisory Board. They can also opt out under strict conditions.

The ECB will be subject to strict transparency rules and accountability to the European Parliament when exercising its supervisory tasks. Its supervisory tasks will be strictly separated from its monetary tasks. Marianne Thyssen introduced several amendments to ensure this strict separation.

What is the EPP Group aiming for?

On 19 March 2013, Marianne Thyssen and the Member States reached an agreement on new EU banking supervision legislation in trilogue negotiations. The legislative package consists of a Regulation that puts the ECB at the heart of the SSM and a Regulation that aligns the work of the European Banking Authority (EBA) with the new supervisory structure.

The EPP Group underlines the importance of the establishment of an SSM for banks led by the ECB as a crucial step towards an integrated "banking union" because the SSM will make it possible to directly capitalise banks from the European stability mechanism. This puts an end to the vicious circle between banks in financial trouble and governments with budgetary difficulties.

3. Deposit Guarantee Scheme

Burkhard Balz MEP

Timetable:
12 February 2013 voted in the EP
On-going trilogue negotiations; negotiations are blocked due to lack of agreement within the Council.

Key elements:
The coverage of national Deposit Guarantee Schemes (DGS) has already been raised to a harmonised level of €100,000 per depositor, per institution, effective as of 31 December 2010. Now, a simplification and European harmonisation, in particular as to the scope of coverage and the arrangements for pay-out, is planned. From the depositors' point of view, this protects a part of their wealth from bank failures under the same conditions in the internal market. From a financial stability perspective, this prevents depositors from making panic withdrawals from their bank.

What is the EPP Group aiming for?
The EPP Group wants to go further, with the harmonisation and simplification of protected deposits, faster pay-outs and improved financing, notably through the ex-ante funding of Deposit Guarantee Schemes paid for by contributions from banks and a mandatory borrowing facility between national schemes within certain fixed limits. Good practice and proven existing systems must be preserved.

4. Resolution Scheme/Crisis Management

Gunnar Hökmark MEP

Timetable:

20 May 2013	vote in the Economic and Monetary Affairs Committee of the EP on the Hokmark Report
End of May	trilogue with the Council

Key elements:
The purpose of the bank recovery and resolution Directive is to set up an alternative to the standard insolvency proceeding as that process is generally considered to be too slow for an interlinked institution such as a big bank. By taking the bank into resolution instead, the idea is that its critical operations and functions can be maintained whilst the bank is restructured to a viable form through a number of resolution tools, such as separating bad and good assets or setting up a temporary bridge bank.
Another main component of the proposal is the so-called "bail-in tool", which means that those who have lent money to a bank could have their claims written down or converted into equity if the bank faces a large amount of losses.

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What is the EPP Group aiming for?
From EPP Group's perspective, a recovery and resolution framework is to be warmly welcomed. Designed properly, it will improve the functioning of financial markets and reinstate fundamental market economy rules of the game in the banking sector, i.e. that bank-owners and creditors should not only be entitled to the profits from their investments but also be the ones to bear the losses when things go wrong. Among the changes Gunnar Hökmark has sought to ensure are a more clear division between the recovery and resolution phases, where a blurred line would risk creating the perception that authorities have taken over the bank when in fact the owners should still be those held responsible, a more balanced distribution of influence between home and host countries, and a deletion of the original proposal for mandatory lending between the resolution funds of different Member States (lending is now to be strictly voluntary).

What the EPP Group wants to achieve on other forthcoming parts of the Banking Union:

Title	Date	
Bank accounts legislative package	Legislative proposal 8 May 2013	The EPP Group wants to increase the transparency and comparability of bank account fees, as well as render bank account switching easier for consumers. Any person legally residing in the EU should have access to a payment account offering basic services, e.g. the ability to deposit and withdraw cash and execute payments, including online.
Fight against tax fraud, tax evasion and tax havens	EP Resolution adopted on 22 May 2013	The banking union should be set up in a way that tax evasion becomes impossible. Information exchange is an important part of this. The EPP Group urges to step up the fight against tax fraud and tax havens.
Proposal for a European Framework for Money Market Funds	Legislative proposal mid-May 2013	Recent international work on shadow banking has identified certain types of investment funds that require scrutiny. Money market funds were singled out because they offer deposit-like characteristics while not having the same safeguards as banks. The EPP Group wants to make money market funds safer while preserving this source of funding for the European economy.
Follow-up to the Green Paper on Shadow Banking	Communication mid-May	While the banking sector gets more and more regulated, the shadow banking sector is growing. The EPP Group wants to fill existing regulatory gaps and improve transparency and data collection tools for certain financial activities, e.g. securities lending and re-hypothecation.
European System of Financial Supervision (ESFS) Review	Commission review as of May	The European System of Financial Supervision (ESFS) was established in 2010. The Regulations establishing the European Supervisory Authorities (ESAs) and the European Systemic Risk Board (ESRB) include provisions for the Commission to review their structure and performance. The EPP Group wants to review the European System of Financial Supervision in the light of the progress made in building a banking union.
Regulation of benchmarks and indices	Legislative proposal mid-June 2013	The integrity of benchmarks is critical to the pricing of many financial instruments, such as interest rate swaps and commercial and non-commercial contracts, loans and mortgages, and risk management. Any doubts about the integrity and accuracy of indices undermine market confidence. The EPP Group wants to improve the functioning and governance of benchmarks. Issues likely to be addressed include: how benchmarks are calculated; the governance and transparency of benchmarks; the use of benchmarks; public provision of benchmarks; and transition issues.
Single Resolution Mechanism	Legislative proposal before the summer break	The EPP Group argues that the Single Resolution Mechanism (SRM) is a vital factor for successfully operating the Single Supervisory Mechanism (SSM) for European banks.