Banking union - 2015 annual report

2015/2221(INI) - 23/02/2016 - Committee report tabled for plenary, single reading

The Committee on Economic and Monetary Affairs adopted the own-initiative report by Roberto GUALTIERI (S&D, IT) on the Banking Union – Annual Report 2015.

Single Supervisory Mechanism (SSM)

Members welcomed the establishment of the SSM, which has been successful since its creation both from an operational point of view and in terms of supervisory quality.

In particular, in relation to the operational set-up, they welcomed:

- **the recruitment process,** which resulted in a good blend of competences, cultures and gender, even if ECB contracting practices leave room for improvement;
- the drafting, building on national best practices, of the **Supervisory Manual** laying down common processes, procedures and methods for conducting a euro-wide supervisory review process;
- the set-up of the **IT infrastructure** and of the supporting analytical tools;
- the setting up of **Joint Supervisory Teams (JSTs)** and the dialogue they have established with the supervised credit institutions.

Members noted that a very significant share of work is routinely devoted to **administrative procedures**, required by the SSM Regulation, which may not always be proportionate. They stood ready to consider proposals to **reduce the operational burden on structures at all levels** and to improve the effectiveness of the SSM supervision.

They also emphasised the need to avoid unnecessary administrative burden on credit institutions, in particular smaller banks, and to ensure that the **proportionality principle** is upheld.

Members also called for a **systematic review** of comprehensive assessments of ECB-supervised institutions, as well as for appropriate improvements of the methodology in the light of lessons learned. They emphasised the **limitations of the current stress test methodology** which evaluates third-country exposure on the basis of banks' internal assessment.

Members noted that:

- **banking structural reform**, which was conceived to reduce systemic risk and address the issue of 'too big to fail' institutions, has yet to be implemented and urged a swift legislative agreement;
- the **insurance sector** is becoming increasingly involved in financial services, and underlined the importance of a level playing field in order to avoid regulatory arbitrage of prudential and consumer protection rules;

- an **increase in capital requirements** beyond a certain threshold may in the short term create unintended consequences, limiting banks' lending capacity (i.e. this risk should therefore be considered when determining the level of capital).

Members considered that more appropriate attention should be paid to increased exposure in the form of **off-balance sheet items**, in particular for global systematically important banks (G-SIBs). They underlined the need to be vigilant over the development of the **shadow banking sector**.

As regards **sovereign exposures of banks and other financial intermediaries**, the report calls on the EU institutions to carefully and thoroughly assess possible changes in the medium term to the current regulatory framework, without reducing available funding for Member States, without creating unintended market or competition distortions and without affecting financial stability, and as part of a coordinated effort at the global level. Parallel measures should be taken among others to **reduce level 2 and level 3 assets exposure** and to ensure the full convergence of internal ratings-based systems for the measurement of credit risk.

The **Commission** is called upon to:

- put forward a proposal for a technical adaptation of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms and the Capital Requirements Directive (Directive 2013/36/EU) in order to align them with the Banking Union framework.

- **use regulations** (which are applicable directly and to all throughout the EU), rather than directives, as the legislative tool to ensure harmonised implementation across the EU and the Banking Union.

Members stressed that the **European Banking Authority**, with its explicit consumer protection mandate, must enforce and enhance the **consumer protection framework for banking services**, complementing the SSM's prudential supervision, and in the Union as a whole.

Single Resolution Mechanism (SRM)

Members welcomed the efficient setting-up of the Single Resolution Board (SRB) and the establishment of national resolution authorities (NRAs) in the Member States.

The committee highlighted the importance of **establishing efficient cooperation** between the SRB and the NRAs for the smooth functioning of the SRM.

The report:

- encouraged the conclusion of a **memorandum of understanding** on mutual cooperation and data sharing between the SRB and the ECB as a single supervisor;

- called for **specific arrangements** to be created within the Commission and between the SRB and the Commission in order **to define efficient procedures for decision-making in the event of resolution**;

- encourages the conclusion of cooperation agreements between the SRB and the NRAs of **non-participating Member States and third countries** for effective mutual cooperation and information exchange:

- called on the Commission to swiftly adopt the regulatory technical standard on MREL, with a high binding standard of at least 8 % MREL for all SRB banks, in line with the Bank Recovery and Resolution Directive (BRRD) (Directive 2014/59/EU);

- underlined that the Board should take due care to establish **the resolution plans of systemically important institutions**, assess their resolvability and take all action necessary to address or remove all of the impediments to their resolvability.

The report also stressed the need, as a consequence of the existence of the national compartments in the SRF, to **rapidly put in place an adequate bridge financing mechanism** in order to provide the fund, if necessary, with sufficient resources in the period before its completion and guarantee the effective separation between banks and sovereigns.

Lastly, Members regretted the decision to set up the SRF through an IGA rather than through Union law. They called on the Commission swiftly to take the necessary steps, as provided for in Article 16 of the Agreement, for a quick integration of the IGA into the framework of EU law.

Third pillar

Members recalled that, together with the SSM and the SRM, the capacity to afford **a uniform and high level of protection of deposits**, irrespective of their location, should be ensured in an effective Banking Union. Any system of protection of deposits must always avoid the introduction of any **moral hazard**, while ensuring that **risk takers remain liable for their risk taking**.

In this context, the report welcomed the Commission’s proposed **package on risk sharing and risk reduction** in the Banking Union of 24 November 2015. It noted that the creation of a European Deposit Insurance Scheme (EDIS) requires the **implementation of the single rulebook** as well as of the first and second pillars of the Banking Union, and of the **transposition** of the BRRD and the Deposit Guarantee Schemes Directive (Directive 2014/49/EU) by all the participating Member States.