COMPLETING EUROPE'S ECONOMIC AND MONETARY UNION

#deepeningEMU

COMPLETING THE BANKING UNION

"A single banking system is the mirror image of a single money. As the vast majority of money is bank deposits, money can only be truly single if confidence in the safety of bank deposits is the same irrespective of the Member State in which a bank operates. This requires single bank supervision, single bank resolution and single deposit insurance."

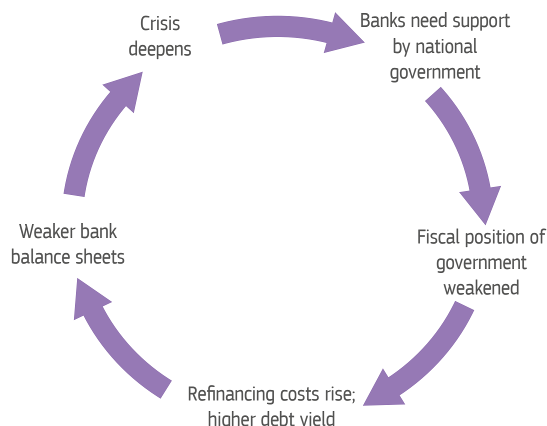
Five Presidents' Report "Completing Europe's Economic and Monetary Union", 22 June 2015

WHY DO WE NEED TO COMPLETE THE BANKING UNION?

The Banking Union is a key element of our Economic and Monetary Union (EMU). It is also a fundamental part of the objective to move towards a Financial Union in order to guarantee the integrity of the euro and increase risk-sharing with the private sector. The Banking Union should be completed by mid-2017.

The financial and the euro area debt crises made clear that more had to be done for the countries sharing a currency and as they were very interdependent, in particular to break the vicious circle between banks and national finances. That is why, in June 2012, Heads of State and Government agreed to create a Banking Union, completing the Economic and Monetary Union, and allowing for centralised application of EU-wide rules for banks in the euro area (and any non-euro Member States that would want to join).

The vicious circle of the financial crisis



WHO BENEFITS FROM THE BANKING UNION?

- Savers' deposits are guaranteed, raising consumer confidence that their money is safe. Deposit protection is ensured everywhere in the European Union.
- Banks are better supervised, more resilient to shocks and better protected from bank runs.
- Member States' fiscal positions are stronger because they don't have to bail out banks – bailouts are financed by banks' shareholders and creditors, and by a resolution fund financed by the banking industry.
- Taxpayers no longer have to pay to save banks.

WHAT ARE THE PARTS OF THE BANKING UNION?

Banking Union is based on the Single Rule Book for bank supervision and resolution across the EU.

The Single Supervisory Mechanism (SSM) gives the European Central Bank responsibility for supervision of all banks (approximately 6000) in the euro area and other SSM-participating Member States. So far, no non-Euro Member State has joined the SSM.

If a bank fails despite stronger supervision, the Single Resolution Mechanism allows bank resolution to be managed more effectively through a Single Resolution Board backed by a Single Resolution Fund.

The Single Resolution Board administers a Single Resolution Fund with a target level of at least 1% of covered deposits of banks in the Banking Union (estimated at €55 billion). It could be used to contribute to resolution where necessary, under strict conditions. The Single Resolution Fund will be progressively built up by 2024.

The Deposit Guarantee Scheme Directive provides that bank deposits in all Member States are guaranteed up to €100 000 per depositor per bank, even if a bank fails.

WHERE IS FURTHER WORK NEEDED?

- Two pillars of the Banking Union are in place: single supervision and single resolution.
- Member States now need to fully implement the Bank Recovery and Resolution Directive (BRRD) into national law. The deadline was 31 December 2014. In order to fulfil its duties as guardian of the Treaties and of EU legislation, the Commission started infringement procedures in January 2015 against those countries which had not transposed the BRRD in time. As of 21 October 2015, 16 Member States have communicated to the Commission full transposition measures (Austria, Germany, Finland, UK, Ireland, Greece, Latvia, Estonia, Hungary, Croatia, Slovakia, Portugal, Denmark, Bulgaria, France and Malta), and two more Member States (Italy and Lithuania) are expected to communicate full transposition by the end of October. Five Member States have communicated partial transposition measures (Belgium, Cyprus, Netherlands, Spain, and Slovenia). The Commission will take further steps against the five remaining Member States that have not transposed the BRRD or that are not expected to transpose before the end of October (Czech Republic, Luxembourg, Poland, Romania and Sweden), and against one country whose partial transposition measure is very limited in nature (Netherlands).
- Also, all Member States need to implement into national law the Deposit Guarantee Scheme (DGS) Directive. Here the deadline law was 3 July 2015. The Commission started infringement procedures in September 2015 against those countries which had not transposed the new DGS Directive in time. As of mid-October, ten Member States have communicated to the Commission full transposition measures (Bulgaria, Denmark, Germany, Croatia, Latvia, Hungary, Austria, Portugal, Finland, United Kingdom) and another four have communicated partial transposition measures (Czech Republic, Spain, France, Slovakia). The Commission will take further steps against the 14 remaining Member States that have not transposed the DGS Directive (Belgium, Estonia, Ireland, Greece, Italy, Cyprus, Lithuania, Luxemburg, Malta, The Netherlands, Poland, Romania, Slovenia, Sweden).
- Member States have to agree on a common backstop (that is a common financing facility) backing the Single Resolution Fund in case of sudden need, exceeding the available means of the fund. In the short term, while the Single Resolution Fund is progressively built up through contributions from the banking sector, Member States also need to provide appropriate a bridge financing mechanism for the Single Resolution Fund. Work on this is currently ongoing.
- The third pillar of the Banking Union is a common European Deposit Insurance Scheme, supplementing national deposit guarantee schemes. The Commission will make a proposal on this, based on a reinsurance approach, before the end of 2015. The proposal will take into account legacy issues and the differences in Member States' current, national schemes, and contain safeguards to deal with potential moral hazard at the level of the national scheme.
- In parallel with its proposal on the European Deposit Insurance Scheme, the Commission is committed to continuing the reduction of risks and ensuring a level playing field in the banking sector, limiting further the link between banks and the public purse.

WHY DO WE NEED A EUROPEAN DEPOSIT INSURANCE SCHEME?

- To provide additional financial resources in case Member State Deposit Guarantee Schemes are not sufficiently funded to handle larger, local shocks.
- To ensure that national Deposit Guarantee Schemes rely less and less on the financial support of their respective national governments. This would cut further the vicious link between banks and public finances.
- To provide a level playing field for all banks throughout the Banking Union, increase depositor confidence and be economically more efficient.