A single EU banking supervisory mechanism

Identified as a building block for a genuine economic and monetary union, EU leaders committed to establish a banking union, starting with a single supervisory mechanism (SSM).

Banking union

In the context of a negative feedback loop between banks' weaknesses and government debt, in September 2012, the Commission proposed an SSM – the first pillar, alongside strengthened deposit guarantee and resolution mechanisms, of a banking union. It should also help restore the ECB's monetary policy transmission channel, and reintegrate the EU banking system in which capital increasingly sticks to home markets and "safer" sovereign options.

Single supervisory mechanism

The ECB as principal supervisor

The tie-in between banking and monetary policy, and the possible use of Article 127(6) TFEU, are prime drivers for involving the ECB at the centre of the new supervisory authority. Under the first proposal, the ECB would supervise all banks in participating Member States (MS), whilst non-euro MS could opt in if they comply with ECB rulings. National supervisors are to remain responsible for day-to-day tasks and matters such as consumer protection and anti-money laundering. The ECB could gain authority to, *inter alia,* assess acquisitions of significant bank holdings, ensure compliance with the EU legal framework and withdraw banks' authorisations.

A strengthened role for the EBA

A second proposal strengthens the role of the European Banking Authority (EBA). Its responsibilities remain largely unchanged but the authority is to develop the binding "single supervisory handbook" for the ECB and other EU supervisors. EBA's voting structure would be reviewed to avoid non-SSM adherents being consistently outvoted by coordinated votes of participating MS.

Challenges

Political leaders and economists identify numerous challenges for the SSM, including its **scope**. Opinions on the inclusion of smaller banks differ, and some non-euro and smaller euro-area MS fear being "sidelined" on important decisions.

Looking at **responsibilities**, the ECB is expected to separate its monetary from its supervisory functions. However, some analysts are wary of conflicting effects of setting interest rates on price stability and on banks' capital. Sceptics also question the ECB's increased power, as well as procedures in case of disagreement between the ECB, the EBA or national authorities.

Recent ECB actions relieved pressure on markets but rating agencies and EU leaders warn SSM establishment remains pressing. Commissioner Michel Barnier shares this view as he urged compliance with the **timeline** set by the October European Council: to establish the SSM legal framework during 2013.

As for the proposals' **sufficiency**, Mario Draghi declared that pooling of deposit guarantee schemes might not be necessary, whilst some state a central resolution authority can only be put in place once EU treaties are revised. Yet, others believe the EU needs a full banking union and that an SSM without the two other pillars would result in conflicting incentives for MS and EU institutions.

Institutions' positions

President Martin Schulz declared the EP would do everything in its powers to establish a pan-EU supervisory system, corresponding to its 2010 proposal for such an authority. In two reports voted on 29 November, the ECON Committee called for an inclusive SSM with strong democratic accountability. The 13 December Council compromise includes ECB supervision for banks with assets of above €30 billion as of mid-2014, probably after a preliminary asset-quality review, EBA double-majority voting and a guiding steering committee. A trilogue agreement was reached on 19 March 2013, with the EP gaining a greater say in the appointment of the supervisory board's chair, a reinforced EBA and strict separation of the ECB's different hats.

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