European Parliament

Banking union – Annual report 2017

The European Parliament's own-initiative report on the banking union in 2017 is due to be voted during the February II plenary. It touches on cooperation between authorities, risks inherent in bank balance sheets, prudential rules and emerging challenges. It also notes that the banking union remains incomplete, in as far as it lacks a fiscal backstop and a European deposit insurance scheme.

Background

The banking union (BU) currently builds on two pillars: the single supervisory mechanism (SSM), in charge of supervising euro-area banks, and the single resolution mechanism (SRM), whose aim is to ensure that failing banks are resolved in an orderly manner. The third pillar, a European deposit insurance scheme (EDIS), is under discussion. The BU is backed by a set of harmonised rules applicable in all EU Member States.

Main contents

On 24 January 2018, Parliament's Committee on Economic and Monetary Affairs (ECON) adopted its own-initiative report. It acknowledges that the BU plays a key role for the financial stability of the euro area and is an indispensable component of a genuine economic and monetary union; therefore, it needs to be reinforced and completed. Regulation is recommended as the appropriate legislative tool the Commission should use when proposing banking legislation. The report is divided into three sections reflecting the BU architecture.

Supervision. The report underlines the importance of cooperation, recommending better coordination between the European Banking Authority (EBA), as regulatory authority, and SSM, as supervisory authority, but recognises the SSM's primary role in BU-related issues. It calls for improved cooperation between supervisory and resolution authorities – including the European Central Bank (ECB) and Single Resolution Board (SRB) – and between European and national bodies involved in early intervention and resolution. The report addresses risks inherent in bank balance sheets. In this regard, it appreciates the efforts made to reduce the levels of non-performing loans (NPLs) in EU banks, and asks the Commission to act to speed up the process, for example encouraging the creation of 'bad banks' and secondary markets for NPLs. The need to improve and harmonise the early restructuring and insolvency framework is also noted. Since mandatory offloading of NPLs in illiquid and opaque markets can cause losses in banks' balance sheets, concern is reiterated on the draft addendum to the ECB guidance on NPLs and the prerogatives of the EU legislators reasserted. Concerns are also reiterated over the risks from banks' holdings of certain assets whose value is difficult to estimate (level III), and the report calls again on the SSM to make this a supervisory priority for 2018. Attention is paid to sovereign bonds held in banks' portfolios, the prudential treatment of which should be consistent with international standards. The report restates that new prudential rules should not lead to a significant increase in capital requirements. It also addresses the challenges of the FinTech sector, emerging cyber-risks and the increase in shadow banking.

Resolution. The report points out the impact that discrepancies between state aid rules and EU rules on the participation of deposit guarantee schemes (DGSs) in resolution, and between state aid rules and national insolvency laws, could have on the effective implementation of the new resolution regime. It calls on the Commission to undertake a review of the EU frameworks for bank insolvency. It also recalls that a fiscal backstop to the single resolution fund is key to ensuring a credible and efficient resolution framework and the ability to tackle systemic crises.

Deposit insurance. The report takes the view that rules applying to DGSs should be further harmonised in order to achieve a level playing field within the BU. It also recalls that the BU remains incomplete, lacking a European deposit insurance scheme, the proposal thereof is currently under discussion. In this respect, the Commission's communication of 11 October 2017 on completing the banking union is noted.

Own-initiative report: 2017/2072(INI); Committee responsible: ECON; Rapporteur: Sander Loones (ECR, Belgium).

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