



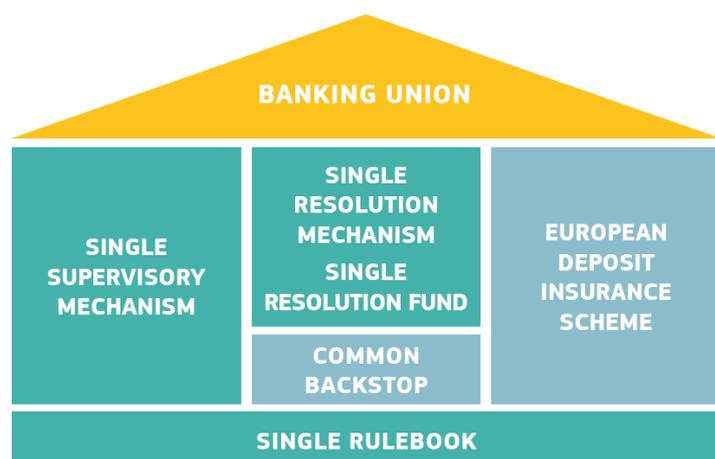
## Banking Union Essential Terms: Technical Abbreviations & Glossary

### BACKGROUND

The Banking Union was established in 2013 as a response to the financial crisis in the years before. The aim was to create a safer financial sector in the European Union by aligning supervision, resolution and funding at European level. The concept is based on a single rulebook, which is made up by the key pieces of legislation, such as stronger prudential and capital requirements, rules for failing banks and improved protection for depositors that govern banking business in Europe.

The Banking Union comprises all euro area countries and those Member States of the European Union that choose to participate. As initially planned, it consists of three pillars: (1) the Single Supervisory Mechanism (SSM) which places the most significant banks in the European Union under the supervision of the European Central Bank (ECB); (2) the Single Resolution Mechanism (SRM) which provides for procedures to either restructure or resolve troubled banks in an orderly manner and which is supported by the Single Resolution Fund - if needed; and (3) the European Deposit Insurance Scheme (EDIS) which aims to protect retail deposits. The first two pillars, SSM and SRM became operational in 2015. The third pillar is still under discussion. As can be seen from the illustration below, another instrument called the *Common Backstop* has been proposed to complement the SRM.

Figure: The Banking Union Framework



Source: European Commission.

Monetary Affairs (ECON). In order to be adequately informed, to prepare for those hearings, and to assess the measures taken, the Committee Members have access to the relevant documents relating to the ongoing supervision and restructuring or resolution activities. As these documents contain strictly confidential information, they have to be treated with utmost discretion and can thus only be made accessible to Committee Members under very restrictive conditions, which do not allow for the presence of any personal, electronic or technological assistance to ease understanding of the complex matters laid out.

As the Banking Union involves a significant transfer of powers from national supervisory and resolution authorities to the European level, the legislation establishing the SSM and the SRM counterbalances this by ensuring transparency and democratic accountability. **The European Parliament is hence entrusted with a role of scrutiny of the newly established institutions.** The ECB in performing its supervisory tasks and the Single Resolution Board are each accountable to the European Parliament. As a consequence, the Parliament receives far-reaching access to information and could for instance launch investigations into potential mistakes.

In practice, the Parliament fulfils its scrutiny assignment by holding regular public hearings of the Chairs of both, the SSM and the SRM, in its Committee on Economic and



With the aim to support Committee Members to fulfil thoroughly their scrutiny task and to provide them with a non-electronic and handy offline reference tool that explains the most frequently used technical abbreviations and terminology in the fields of capital requirements, supervision and the prevention and management of bank failures in a clear and concise manner, Policy Department A developed the present publication.

## FOCUS OF THE STUDY

The 'Banking Union: Essential Terms' study focuses exclusively on technical terms with regard to supervision, restructuring and resolution of banks on a European level in the context of the first two pillars of the Banking Union.

The publication consists of two main parts (1) an **abbreviation list** in alphabetical order, which lists the most frequently used abbreviations and acronyms in their short and full version; and (2) a **tri-lingual glossary** of the most important terms used in documents related to the Banking Union and more specifically to the SSM, the SRM and the application of the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR). A certain, visually identifiable number of abbreviated terms mentioned in the abbreviations list is also explained in more detail in the glossary part.

In order to facilitate and raise the understandability of the glossary, **the explanations are provided in the three languages English, French and German**. While the text of each language is of equal validity, it should be noted that the translations are not always identical as the aim is to provide optimal information.

The glossary part contains first an alphabetical overview of explained terms with hyperlinks usable in the electronic version of the study which is followed by an **introduction on financial intermediation and regulatory approaches** and a structured presentation of technical terms and their explanations along the following seven chapters:

- the **Basel Committee of Banking Supervision** international regulatory framework, called *Basel III* (Chapter 2)
- the **Quality of Capital**, starting with the a comparative table on the components of capital in a bank's balance sheet (Chapter 3)
- **Accounting Methods**, including an overview of the levels of prudential consolidation (Chapter 4)
- **Risk Measurement**, starting with a brief description of the risk measurement under *Basel III* (Chapter 5)
- **Prudential Tools and Ratios**, presenting a rough outline of the five tools of prudential standards at the beginning (Chapter 6)
- **Supervision**, including explanations on the methodology of the *Supervisory and Review Process* and the functioning of a *Joint Supervisory Team* at the ECB (Chapter 8)
- **Recovery and Resolution**, presenting an overview of the sequence of procedural steps when resolving a failing bank and the *EU Resolution Cost Waterfall* (Chapter 9).

The glossary is accompanied by five tables and 29 figures to further visualise the explanations. At the end of most of the explanatory sections reference is made to the respective articles in the legislative acts. Moreover, selected sources for further reading are listed.

The current glossary of 2018 ([http://www.europarl.europa.eu/RegData/etudes/STUD/2018/619028/IPOL\\_STU\(2018\)619028\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2018/619028/IPOL_STU(2018)619028_EN.pdf)) extends significantly a previous list of abbreviations that was first published in 2016 ([http://www.europarl.europa.eu/RegData/etudes/STUD/2016/587295/IPOL\\_STU\(2016\)587295\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2016/587295/IPOL_STU(2016)587295_EN.pdf)). As explained above and shown in the figure, the Banking Union has started its work but has not been completed yet and is still subject to improvements and additions. Following essential changes in legislation and terminology, the glossary and the list of abbreviations may thus be further updated and extended in order to take account of those new developments or needs.

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