At A Glance

Main Elements of the Banking Union

One of the key lessons for the Eurozone learned from the Financial Crisis and its aftermath was the need for a more harmonized system of bank supervision and resolution. Bank supervision was previously only carried out by national regulators, leading to differing practices across countries and incentives to minimize the fallout of bank failures on their own economies without regard to the costs to other states. The result was a fragmentation of the internal market. To correct for that, the Euro Area countries have decided to set up a Banking Union, with the two pillars being the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). The SSM became fully operational in November 2014, whereas some of the elements of the SRM are still being set up.

SINGLE SUPERVISORY MECHANISM

With the SSM, the ECB has become a main institution for banking supervision in the Eurozone. The core task of bank supervision is to make sure that financial institutions comply with all applicable prudential standards, rules and regulations. The task is shared with the national authorities: the ECB directly supervises the area's most significant banks while the national authorities continue monitoring the other financial institutions. However, as the ECB ultimately is responsible for all banks in the Eurozone, it may at any time decide to take over direct supervision for any other bank as well.

To ensure the transparency, legitimacy and independence of supervisory decisions, the SSM is accountable to the European Parliament in the following ways:
- by taking part in regular public hearings in the EP,
- by answering in writing to questions posed by MEPs,
- by presenting the annual reports,
- and - if that is strictly needed for reasons of confidentiality - by reporting behind closed doors.

SINGLE RESOLUTION MECHANISM

The SRM is the European framework for the orderly resolution of failed Eurozone banks, and is thus designed to complement the SSM. Responsibilities are shared between the common authority, the Single Resolution Board (SRB), and the national resolution authorities, with the SRB being in charge of the most significant banking groups while the national authorities oversee the other institutions.

In general, it is rare for a bank to be at imminent risk of failing. The core task of resolution authorities is hence of preventive nature, making sure that a bank's overall structure, activities and relations do not create an impediment to its resolvability.

Similarly to the SSM, the SRB is also accountable to the European Parliament in the following ways:
- by taking part in regular public hearings in the EP,
- by answering in writing to questions posed by MEPs,
- by presenting the annual reports,
- and - if that is strictly needed for reasons of confidentiality - by reporting behind closed doors.
WHICH ARE THE COMMON RULES THE SSM MONITORS THAT THE BANKS COMPLY WITH?
The SSM bears the responsibility for prudential supervision, i.e. ensuring that banks carry enough capital of sufficiently high quality. The most important EU legislation in this field is the CRD IV Package, consisting of the fourth Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR), which applies to all EU banks. Together, among other things, they set certain minimum standards regarding capital ratios, capital quality and liquidity management. The aim is to ensure a level playing field among banks within the Single Market.

WHAT HAPPENS IF A BANK IS FAILING OR LIKELY TO FAIL?
In the event of a bank failing, shareholders and creditors are the first in line for picking up losses. This principle is stipulated in the Bank Recovery and Resolution Directive (BRRD). Under that directive (fully applicable as of 1 January 2016), equity and debt representing at least 8% of the bank’s balance sheet will have to be bailed-in (meaning that some of the debt is written off and will no longer be repaid, or that debt is converted into equity) before any public money can be used to recapitalize a failing bank.

WHERE DOES THE MONEY COME FROM IF PUBLIC MONEY HAS TO BE USED FOR BANK RECAPITALISATIONS?
The money will come from the Single Resolution Fund (SRF), a pool of money which the SRB is in charge of, set up to ensure the availability of medium-term funding support for banks being restructured. The planned target level is 0.8% of deposits covered by the Deposit Insurance Scheme; this translates to roughly € 55 billion. The money will be raised through contributions from all banks in the Member States participating in the SSM over a period of eight years, with each bank’s contribution depending on its size and riskiness. To begin with the money will be in national compartments that gradually will be mutualised, starting with 40% of the resources in the first year. The SRF can also borrow money from the markets if the SRB so decides. Furthermore, the Eurozone’s permanent crisis resolution mechanism, the European Stability Mechanism (ESM), can also be used for recapitalising banks directly. This is meant to be a last resort option, meaning that beginning in 2016, ESM funds can only be used if a full bail-in has been applied and the SRB also contributes.

WHERE CAN I FIND MORE INFORMATION?
See for example the EGOV notes on the SSM, SRM and BRRD and state aid rules. Other sources include the Commission as well as the SSM’s and SRB’s own homepages.

WHAT IS THE TASK OF EBA IN THAT CONTEXT?
Neither the ECB/SSM nor the SRB will take over any tasks of EBA. The SSM will rather take over supervisory tasks which are currently carried out by national supervisors of the euro area Member States. The ECB/SSM will cooperate with the EBA within the framework of the European System of Financial Supervision. EBA will continue developing the single rulebook applicable to all 28 Member States and enhance convergence of supervisory practices across the entire EU.