The Banking Union was created as a response to the financial crisis and currently has two elements, the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). The SSM supervises the largest and most important banks in the euro area directly at European level, while the purpose of the SRM is to resolve failing banks in an orderly manner with minimal costs for taxpayers and for the real economy. A third element, a European Deposit Insurance Scheme (EDIS), is currently under discussion.

LEGAL BASIS

Articles 114 and 127(6) of the Treaty on the Functioning of the European Union (TFEU).

OBJECTIVES

The Banking Union is an essential complement to the Economic and Monetary Union (EMU) and the internal market, which aligns responsibility for supervision, resolution and funding at EU level and forces banks across the euro area to abide by the same rules. In particular, these rules ensure that banks take measured risks and that a bank that errs pays for its losses and faces the possibility of closure while minimising the cost to the taxpayer.

ACHIEVEMENTS

A. Roadmap for Banking Union

In December 2012, the President of the European Council, in close collaboration with the Presidents of the European Commission, the European Central Bank (ECB) and the Eurogroup, drew up a specific and time-bound roadmap for the achievement of a genuine EMU. One of the vital parts of this roadmap was the creation of a more integrated financial framework, i.e. the Banking Union.

B. Agreement on the SSM

In March 2013, a political agreement was reached between Parliament and the Council on establishing the first pillar of the Banking Union, the Single Supervisory Mechanism (SSM), covering all banks in the euro area. Non-euro area Member States may opt in if they so wish. The SSM, operational since 4 November 2014, has been placed within the ECB and is responsible for the direct supervision of the largest and most significant banking groups (127 entities as per November 2016), while national supervisors continue to supervise all other banks, under the ultimate responsibility of the ECB.
The criteria for determining whether banks are considered significant — and therefore fall under the ECB’s direct supervision — are set out in the SSM Regulation and the SSM Framework Regulation, and relate to a bank’s size, economic importance, cross-border activities and need for direct public support. In line with the development of these criteria, the actual number of banks directly supervised by the ECB can therefore change over time; the ECB can furthermore decide at any time to classify a bank as significant to ensure that high supervisory standards are consistently applied.

In order to avoid a potential conflict of interest, clear rules govern the organisational and operational separation of the ECB’s roles in the areas of supervision and of monetary policy.

C. Comprehensive assessments and stress tests

Prior to assuming its supervisory responsibilities, the ECB conducted a comprehensive assessment consisting of an asset quality review and stress tests. The aim was to achieve greater transparency in the banks’ balance sheets in order to ensure a reliable starting-point. The results, published on 27 October 2014, showed that 25 out of 130 participating banks experienced capital shortfalls. Although some shortfalls had already been covered by the time of publication, all banks had to submit capital plans to the ECB showing how they intended to plug the gaps over the course of 2015.

As mentioned, the actual number of banks directly supervised by the ECB changes over time. All banks that are added to the list of supervised entities undergo a similar kind of ‘financial health check’; in 2015, nine banks were subject to comprehensive assessments and, of these, five were found to have capital shortfalls of varying size. In 2016, the ECB conducted a comprehensive assessment of another four banks from Ireland, Italy, Latvia and Slovenia. Results were published for the Irish, Italian, and Slovene bank in November 2016; those three banks did not have capital shortfalls.

In 2018, the ECB will examine 37 euro area banks as part of the 2018 EU-wide stress test conducted with and coordinated by the European Banking Authority (EBA). The results of the stress test, to be published in early November, will provide stakeholders and the public with information about the resilience of banks and their ability to absorb shocks. The results of the same stress test for four Greek banks have already been published separately on 5 May 2018, making them available before the end of the third European Stability Mechanism Programme for Greece.

D. SRM

In March 2014, a political agreement was reached between Parliament and the Council on establishing the second pillar of the Banking Union, the Single Resolution Mechanism (SRM). The main objective of the SRM is to ensure that potential future bank failures in the Banking Union are managed efficiently, with minimal costs to taxpayers and the real economy. The scope of the SRM mirrors that of the SSM. This means that a central authority — the Single Resolution Board (SRB) — is ultimately in charge of the decision to initiate the resolution of a bank, while operationally the decision will be implemented in cooperation with national resolution authorities. The SRB started its work as an independent EU agency on 1 January 2015, and has been fully operational since January 2016.
On 7 June 2017, the SRB adopted its first resolution decision in the case of Banco Popular. On 23 June 2017, the SRB decided not to take resolution action in relation to Banca Popolare di Vicenza and Veneto Banca, and on 24 February 2018 it reached the same decision concerning ABLV Bank AS and its subsidiary ABLV Bank Luxembourg S.A.

E. SRF

While the rules governing the Banking Union aim to ensure that any resolution is financed first by a bank’s shareholders and, if necessary, also partly by a bank’s creditors, there is now another funding source available that can step in if the contributions of shareholders and creditors are insufficient, namely the Single Resolution Fund (SRF), which is administered by the SRB. Once the SRF reaches its target fund level, it will hold some EUR 55 billion, equivalent to around 1% of the covered deposits in the euro area. The contributions to the SRF will be paid in by the banks over the course of eight years. In December 2015, those Member States participating in the Banking Union agreed to put in place a system of bridge financing arrangements, providing national individual credit lines to back their own national compartments in the SRF should there be a funding shortfall. On 24 July 2018, the SRB announced that it had collected another EUR 7.5 billion in annual ex-ante contributions to the Single Resolution Fund, reaching EUR 24.9 billion in total.

F. BRRD

The new rules for burden-sharing that are applicable in the case of bank resolutions are set out in the Bank Recovery and Resolution Directive (BRRD), adopted by Parliament in April 2014. The BRRD provides for ways in which ailing banks can be resolved without requiring taxpayer bailouts, implementing the principle that losses have to be borne first by shareholders and creditors, rather than through recourse to state funds. Legislative procedures to amend the BRRD, in particular in order to incorporate international standards on loss-absorbing and recapitalisation capacities, are currently ongoing; on 19 June 2018 Parliament’s Committee on Economic Affairs (ECON) adopted its final report, which is now awaiting first reading in plenary.

G. CRD/CRR

Minimum capital requirements define how much capital a bank must hold to be considered safe to operate and able to deal with operational losses on its own. The financial crisis demonstrated that previous regulatory minimum capital requirements were actually too low in a major crisis. It was therefore agreed at international level to increase the respective minimum thresholds (Basel III principles). In April 2013, Parliament adopted two legal acts which transpose the prudential capital requirements for banks into European law, the fourth Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR). The CRD and CRR entered into force on 1 January 2014.

The level playing field inside the single market is strengthened by a Single Rule Book applicable to all banks in the EU. In the legal acts that were adopted by Parliament, some technical details still needed be finalised. The Commission was therefore empowered to draft complementing legislative acts (so-called level-2 measures) that
specify the missing technical details; those level-2 measures are an important piece of work in the present legislature (2014-2019).

On 23 November 2016, the Commission presented a comprehensive package of reforms to amend the rules set out in the CRD and the CRR. Within Parliament, the two legislative proposals amending the CRD and CRR have been negotiated in parallel. ECON adopted its full report on the amending proposals on 19 June 2018.

H. EDIS

On 23 November 2016, the Commission presented a legislative proposal that aims to add another element to the Banking Union, namely the European Deposit Insurance Scheme (EDIS). The Commission’s proposal builds on existing national deposit guarantee schemes and recommends a gradual introduction of EDIS. It has conceived the proposal as cost-neutral overall for the banking sector (though riskier banks will be asked to pay higher contributions than safer banks), and suggests complementary safeguards and measures to reduce banking risks.

The European Parliament has started its related internal process. The rapporteur published her draft report on EDIS on 4 November 2016.

ROLE OF THE EUROPEAN PARLIAMENT

As a response to the roadmap on a genuine EMU, Parliament adopted a resolution entitled ‘Towards a genuine Economic and Monetary Union’ on 20 November 2012, with recommendations to the Commission to establish a real Banking Union. By adopting legislative acts on the SSM, SRM, DGS, BRRD and CRD IV in 2013 and 2014, Parliament contributed significantly to establishing a real Banking Union.

These legislative acts give Parliament a role in the scrutiny of the newly established institutions. The ECB is, in its supervisory role (i.e. in the SSM), accountable to Parliament and to the Council. Details of its accountability towards Parliament are laid down in an Interinstitutional Agreement (IIA) between Parliament and the ECB.


The same procedure applies to the Single Resolution Board, whose Chair participates at least once every calendar year in a hearing of the competent committee of Parliament on the execution of the resolution tasks by the Board. So far, eleven public hearings of the SRB have taken place in the Committee on Economic and Monetary Affairs (16 June 2015, 28 January 2016, 13 July 2016, 5 December 2016, 22 March 2017, 11 July 2017, 4 December 2017, 20 March 2018, 11 July 2018, 6 December 2018, and 2 April 2019).

Details of the SRB’s accountability towards Parliament and related practical modalities are laid down in an Interinstitutional Agreement between Parliament and the SRB that was published on 24 December 2015.