Banking package: Parliament and Council ready for an agreement

- **Reduces risk in the EU banking system**
- **Clear roadmap for banks to deal with losses**
- **Taxpayers protected**

The Parliament and the Council's negotiators took a major step towards reducing risks in the banking system and building the Banking Union.

On Tuesday, the Parliament's and the Council's negotiators agreed on the way forward to reach a conclusion on the banking package. Two deals are set to be concluded: one on banks' resilience and one on a clear roadmap for banks to deal with losses.

A deal to amend the EU's prudential requirements (CRD-V/CRR-II) should help to boost the EU economy by increasing lending capacity and creating deeper and more liquid capital markets.

Proportionality

To ensure that banks are treated proportionately, according to their risk profiles and systemic importance, MEPs inserted a definition of a "small and non-complex institution" that should be subject to simplified requirements, in particular in the area of reporting.

Leverage ratio

The negotiators agreed to a binding 3% leverage ratio and an additional 50% buffer for global systemically important institutions (GSIIs).

Simplified Net Stable Funding Ratio (NSFR)

They also refined Net Stable Funding Ratio (NSFR), rules for ascertaining whether an institution holds sufficient stable funding to meet its funding needs during a one-year period under both normal and stressed conditions. In addition, small banks will see their administrative burden reduced thanks to fewer data points to be collected for reporting and calculation purposes.

SME supporting factor

As small and medium enterprises (SMEs) carry a lower systemic risk than larger corporates, capital requirements for SME exposures would be lower. The negotiators decided to extend reduced capital requirements to SME exposures beyond € 2,5 million, thus ensuring increased lending to SMEs.

Environmental, Social and Governance (ESG) Risks

The European Banking Authority will prepare a report on the introduction of environmental, social and governance risks in the risk management process. If appropriate, EBA might adopt guidelines for the inclusion of ESG risk in the supervisory review and evaluation process. Banks would also be subject to additional disclosures concerning these risks.

Peter Simon (S&D, DE) the rapporteur for the prudential requirements (CRD-V/CRR-II), said: "This is a big step towards global financial stability. The EU is drawing further lessons from the financial crisis and delivering on its promise to protect taxpayers' money by further regulating the financial sector. In the future, banks will be subject to stricter leverage and long-term liquidity rules. Furthermore, we made sure that systemically important banks must have significantly more own funds to cover their losses in order to strengthen the principle of bail-in in the EU."

"Parliament was also successful in enshrining the principle of sustainability in the financial sector. This is important, as banks have to adapt their risk management to risks that stem from climate change and the energy transition. In the future, banks will have to assess risks that are related to the environment and social issues and take appropriate measures to address environmental, social and governance (ESG) risks", Mr Simon added.

"The proposal also establishes strict prudential rules on money laundering. Supervisory authorities and anti-money laundering authorities are obliged to cooperate closely and exchange information in the future. We immediately draw conclusions from the various money laundering scandals that European banks have been involved in and take regulatory action. Simply looking the other way will no longer be an option in the future", he concluded.

A separate deal, on a clear roadmap for banks to deal with losses, should ensure that they hold enough capital and debt not to resort to taxpayer bailouts and define conditions for early remedial measures.

The deal amends the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (SRMR), in order to incorporate international standards on loss absorption and recapitalisation.

The total loss-absorbing capacity (TLAC) set by the Financial Stability Board (FSB), an international standard-setter, will be integrated into the EU's "minimum requirement for own funds and eligible liabilities" (MREL) rules. In the EU, global systemically important banks (GSIIs) will be required to comply with TLAC, while non-GSIIs will remain subject to MREL rules.

Eligibility criteria and subordinated debt

The deal amends eligibility criteria for the instruments and items that could count towards compliance with MREL rules, aligning them closely with the eligibility criteria provided in the TLAC standard for the TLAC minimum requirement.

They also defined the level of liabilities that could be required to be met by subordinated debt to be “bailed in” before other liabilities and also approved provisions to ensure that a bank that holds more capital is not punished in the calculation methodology.

Moratorium

The deal also includes rules for applying a “moratorium power” to suspend payments by banks that are getting into difficulty. The provision says that this power may be activated when it has been determined that the bank is failing or likely to fail (FOLTF) and if there is no private sector measure to prevent the failure. It allows the resolution authority to establish whether it is in the public interest to put the bank into resolution rather than insolvency. The scope of the moratorium would be proportionate and tailored to a concrete case.

Insolvency

The negotiators agreed that the lessons learned from recent resolution cases should be introduced in the BRRD. If the resolution of FOLTF bank is not in the public interest, it should be wound up in an orderly manner according to the national law.

Protection

The EP negotiators managed to insert provisions to protect retail investors from holding bail-inable bank debt when it is not a suitable retail instrument for them. The negotiators also agreed that any financial contract governed by a third country in the EU would be subject to the resolution rules.

Gunnar Hökmark (EPP, SE), the rapporteur for the BRRD/SRMR package, said: “This is a very important step in the completion of the Banking Union and in reducing risks in the financial system. The agreement is balanced, as it sets requirements on banks but at the same time also ensures that banks can play an active role in financing investments and growth".

Roberto Gualtieri (S&D, IT), the Chair of the Economic and monetary affairs committee, said:"The European Parliament has contributed significantly to delivering a comprehensive and balanced package which reduces risks in the EU banking sector and protects taxpayers, while providing the necessary incentives to sound lending to the real economy and to the reduction of NPLs. We now call on the next European Council to take the necessary steps and to be sufficiently ambitious on completing the Banking Union and deepening the Economic and Monetary Union.I would also like to thank the Austrian Presidency for the excellent cooperation"

Further information

Committee on Economic and Monetary Affairs

Contacts

Dorota KOLINSKA
Press Officer
(+32) 2 28 32787 (BXL)
(+33) 3 881 76725 (STR)
(+32) 498 98 32 80
@EP_SocialAffairs
dorota.kolinska@europarl.europa.eu