

Completion of Banking Union on track, but important work still ahead, say MEPs. The ECB Supervisory Board must strike the right balance between financial stability and the ability of banks to fund the real economy.

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The European Commission and the European Supervisory Authorities should conduct an in-depth assessment of the effect of increasing capital requirements in current and future legislation on credit supply, especially to small and medium sized companies, Parliament says in a resolution on the state of the Banking Union which was adopted on Thursday.

MEPs support the necessity of a well-capitalised banking system, while noting that the risk of limiting banks' lending capacity should be carefully assessed when determining the level of capital.

In the first annual Banking Union resolution, adopted with 351 votes in favour, 112 against and 30 abstentions, members consider the establishment of the Single Supervisory Mechanism as a success, both from an operational point of view and in terms of supervisory quality, but identify a number of problems and significant margins of improvement. In particular, members underline the need for effective coordination between micro and macro-prudential policies, and the need for stabilisation of the supervisory and regulatory framework. The report provides the European Parliament's views about stress tests and SREP methodology, considers that further steps are necessary to reinforce supervisory scrutiny of level 3 assets and encourages measures to improve the understanding by banks of the common supervisory approach underlying the concrete individual micro-prudential measures.

The report supports the homogenisation of practices and standards while addressing specific points about the current revision of options and national discretions, and considers that the adaptation of CRR and CRDIV to the Banking Union Framework should be done through regulations.

In relation to Maximum Distributable Amount (MDA), the resolution criticises the ECB Supervisory Board and calls on the supervisors to consider the flexibility allowed by the legislation in order to avoid solutions which are too rigid and affect negatively the AT1 bond market and hence financial stability. The report calls for a legal clarification and a review of the MDA mechanism and the function of the pillar two, which is to address "bank-specific" risks.

Commissioner Hill announced in the Plenary debate that the Commission was going to undertake such review in line with Parliament's observations.

Deposit Insurance Scheme

The text by Roberto Gualtieri (S&D, IT) welcomes the Commission's package of 24 November 2015 on risk sharing and risk reduction in the Banking Union, including the legislative proposal on European Deposit Insurance Scheme (EDIS), which is considered the remaining pillar in the creation of a Banking Union. MEPs insist that it should be accompanied by risk reduction in the European Banking system through the transposition of legislation (Bank Recovery and Resolution Directive) by all participating Member states and other measures. As far as sovereign exposures of banks and other financial

Press release

institutions are concerned, however, MEPs argue that any possible change in the medium term of the current regulatory framework should be carefully and thoroughly assessed, and should be part of a coordinated effort at a global level, without reducing available funding for Member States, without creating unintended market or competition distortions and without affecting financial stability. In his intervention in the Plenary debate Commissioner Hill expressed his agreement with the prudent approach of the Parliament in this regard.

MEPs also argue that the application of the bail-in tool will introduce "a systemic mechanism of risk avoidance", therefore reducing the risks of moral hazard, but at the same time they invite the Single Resolution Board to assess carefully the transition period and to ensure that the new rules are implemented with the necessary proportionality and fairness, and that all options at the disposal of the Board are carefully assessed in order to safeguard financial stability and to maintain confidence in the banking system. Parliament asks Commission and ESMA to guarantee appropriate investor protection in this context.

Non-performing loans (NPL's) to be written off or sold-on

The resolution underlines that credit dynamics are still subdued in many jurisdictions and a large stock of non-performing loans weigh on many European banks' balance sheets limiting their capacity to finance the economy. MEPs believe that the ability to write off or sell-on non-performing loans is vital, as it frees up capital to fund new loans. They also support the setting up of asset management companies in those countries where this is deemed to be necessary, as was the case in Spain and in Ireland.

Further information

- Adopted text will be available here (click on 10.03.2016) : <http://www.europarl.europa.eu/plenary/en/texts-adopted.html>
- Press release after vote in ECON (16.02.2016): <http://www.europarl.europa.eu/news/en/news-room/20160215IPR14462/ECON-members'-stance-on-Banking-Union-Capital-requirements-vs-lending-capacity>
- Video recording of debate (click on 10.03.2016): <http://www.europarl.europa.eu/ep-live/en/plenary/search-by-date>
- EbS+ (10.03.2016) : <http://ec.europa.eu/avservices/ebs/schedule.cfm?sitelang=en&page=3&institution=0&date=03/10/2016>
- Banking Union – 2015 annual report (At a Glance, March 2016): [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_ATA\(2016\)577997](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_ATA(2016)577997)
- The European Council and Banking Union: European Council in Action (04-02-2016, Briefing): [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI\(2016\)573282](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2016)573282)
- Procedure file: [http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?lang=en&reference=2015/2221\(INI\)](http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?lang=en&reference=2015/2221(INI))

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