AT A GLANCE

Main Institutional Elements of the Banking Union

The turbulences caused by the financial, sovereign, and euro crises demonstrated that the EU's deeply interlinked economies and established cross-border activities called for a more harmonized system of bank supervision and resolution. Those tasks were previously carried out only at national level, leading to differing practices across countries and a fragmentation of the internal market.

To correct for that, the Euro Area countries decided to set up a **Banking Union** which is currently based on two pillars, the **Single Supervisory Mechanism** (SSM) and **the Single Resolution Mechanism** (SRM). The SSM became fully operational in November 2014, the SRM on 1 January 2016.

The SSM was established by the Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning the prudential supervision of credit institutions, the SRM by Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions.

In November 2015, the Commission proposed to complement the Banking Union with **a European Deposit Insurance Scheme** (EDIS) that shall protect bank deposits progressively at the EU-level based on the existing national system. The proposal is curently discussed in the Parliament and the Council.

SINGLE SUPERVISORY MECHANISM

The **European Central Bank** (ECB) became a **main institution for banking supervision** in the Euro area when it was entrusted with specific supervisory tasks as part of the SSM. In its new supervisory role, the ECB's core task is to perform day-to-day supervision of the banks under its direct responsibility and ensure that they comply with all applicable regulatory standards, rules, and regulations.

The ECB is directly in charge of the largest, most significant banks in the Euro area, while the **national competent authorities** (NCAs) continue to monitor the smaller financial institutions. However, the ECB may at any time decide to take over direct supervision of any bank, as it carries the ultimately responsibility for the proper functioning of the SSM.

SINGLE RESOLUTION MECHANISM

The SRM is the European framework for the **orderly resolution of failing banks,** a complementary feature to the SSM. A resolution can either lead to the restructuring of a bank or the orderly wind-down of its activities.

In good times, resolution authorities examine whether banks can be resolved in an orderly fashion, and deal with any obstacles in that regard. Upon failure, resolution authorities decide on the most suitable and least costly resolution approach.

Responsibilities for the orderly resolution of failing banks are shared between the **Single Resolution Board** (SRB) at European level **and national resolution authorities**. Banks that fall under the direct responsibility of the SRB are those that are also directly supervised by the ECB, as well as some other cross-border banking groups.

For more detailed information see the specific EGOV briefings on the SSM, the SRM, and on Completing the Banking Union with EDIS.

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Accountability of the ECB and SRB towards the European Parliament

Article 20 of the SSM Regulation lays down that the ECB shall be accountable to the European Parliament for the implementation of the Regulation, and the same principle applies to the SRB according to Article 45 of the SRM Regulation.

In general, **accountability means** that an institution is able to provide to the citizens or their representatives an explanation or justification for its own actions, and accepts responsibility for them. It must be able to demonstrate that it has exercised power and control, mediated rights and used its discretions in the public interest. With the Banking Union, key responsibilities have been transferred from the national to the European level and entrusted to independent European authorities. Accountability vis-à-vis the European Parliament is hence essential to ensure that powers and responsibilities given to the ECB and the SRB are exercised in the public interest and according to EU law. It is crucial for the transparency and legitimacy of supervisory and resolution decisions and guarantees a certain degree of democratic control.

The EP entered into an **Interinstitutional Agreement with the ECB** and an **Interinstitutional Agreement with the SRB** to clarify how those accountability requirements are to be fulfilled **in practice**.

The Interinstitutional Agreements specify the practical modalities as regards:

- participation in regular public hearings in the EP,
- participation in confidential meetings, if needed (reporting on certain issues behind closed doors),
- responses to questions posed by Members of the EP,
- access to information,
- and presentation of the annual reports.

The regular public hearings with the ECB and the SRB are organised by the parliament's competent committee, the Committee on Economic and Monetary Affairs (ECON).

Standing in line with Structured Dialogues, Monetary Dialogues, and Economic Dialogues held with other European Institutions, the EP's public hearings with the ECB/SSM and SRB form part of the **wider scrutiny role** assumed by the European Parliament in the area of monetary, economic, and financial affairs.

More information on specific scrutiny activities of the ECON committee can be found on the respective webpage.