

## AT A GLANCE

### Main Elements of the Banking Union

Single Supervisory Mechanism	Single Resolution Mechanism	Funding
The SSM covers all (c. 6000) banks in the euro area. The ECB will be responsible for direct supervision of c. 128 largest banks and national supervisors for the rest.	The SRM shall establish a single EU authority and resolution fund to wind down banks. It shall apply the new rules of the BRRD.	<ol style="list-style-type: none"> <li>1. SRF: Single Resolution Fund (intergovernmental)</li> <li>2. DGS: Revised Deposit Guarantee Scheme Directive</li> <li>3. ESM: European Stability Mechanism (<i>Direct Recapitalisation of Banks</i>) (intergovernmental)</li> </ol>
<i>Accountability to the EP</i>		
<ul style="list-style-type: none"> <li>▶ Regular reporting to the EP and responding to questions.</li> <li>▶ SSM Chair presenting annual report.</li> <li>▶ In-camera hearings.</li> <li>▶ Approval of the proposal for appointment of SSM Chair and Vice-Chair by vote (see also <a href="#">IIA EP-ECB</a>).</li> </ul>	<ul style="list-style-type: none"> <li>▶ Annual report by the Single Resolution Board (SRB) to the EP with public presentation.</li> <li>▶ Hearing(s) by the competent committees of the Executive Director at least once per calendar year.</li> <li>▶ Approval by the EP of the Executive Director and her/his Deputy as well as the 4 full time SRB members.</li> <li>▶ Responding to questions orally or in writing.</li> <li>▶ In camera hearings.</li> </ul>	<ul style="list-style-type: none"> <li>▶ No direct reporting or oversight by the EP for the three instruments. They report to the competent authorities at the national level, including national parliaments.</li> <li>▶ However, in the case of DGS, EBA - in charge of related rulemaking - is <a href="#">accountable to the EP</a>, as is the COM, which is taking stock of DGS data. <a href="#">accountable to the EP</a>.</li> <li>▶ In the case of ESM, there is scrutiny of the "Troika" via "<a href="#">2-pack provisions</a>".</li> </ul>

### HORIZONTAL RULES

#### **BRRD - Bank Recovery and Resolution Directive**

EP adopted BRRD in April 2014. It will come into force in January 2015 with transitional rules and in January 2016 with full-bail in. BRRD shall streamline instruments for banks with difficulties across the EU, ensuring early intervention and participation of shareholders and creditors in sharing the financial burden of a failed bank.

#### **CRD IV Package - fourth Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR)**

The package entered into force on 1 January 2014. It transposes into European law the prudential capital requirements for credit institutions and investment firms which are based on the internationally agreed principles (Basel III) and preserves the level playing field inside the single market by achieving a Single Rule Book for all EU 8 200 banks.

#### **Banking Structural Reform**

On [29 January 2014](#), the COM adopted a proposal for a regulation to stop the biggest banks from engaging in the risky activity of proprietary trading. The new rules would also give supervisors the power to require those banks to separate certain potentially risky trading activities from their deposit-taking business if the pursuit of such activities compromises financial stability.

## STATE-of-PLAY & SHORT DESCRIPTION

**SSM:** The ECB is currently undertaking comprehensive assessment (Asset Quality Review and Stress Test) of 128 banks, which will be finalised before the SSM becomes fully operational in November 2014. SSM will be working under harmonised EU law such as CRD IV and any guidance by the EBA (European Banking Authority).

**SRM:** The SRM was voted by the EP in April 2014 and shall enter into force 20 days after publication in the OJ. The SRM will complement the SSM and will ensure that if a bank subject to the SSM faces serious difficulties, its resolution can be managed efficiently with minimal costs to taxpayers and the real economy. The SRM will apply to all banks in the Euro Area and other Member States that opt to participate. The division of powers of the Single Resolution Board and national resolution authorities broadly follows the division of supervisory powers between the ECB and national supervisors in the context of the SSM.

**SRF:** The SRF will be constituted from contributions from all banks in the participating Member States. It will be administrated by the Board. The SRF has a target level of €55 billion and can borrow from the markets if decided by the Board. It will reach the target level over 8 years. During the transition, the Fund will comprise national compartments, which will be progressively mutualised, starting with 40% of these resources in the first year. The SRF and the decision-making on its use is regulated by the SRM Regulation, while the transfer of contributions raised nationally and the mutualisation of the national compartments is set out in an Inter-Governmental Agreement established among the participating Member States, which is to be signed on 21 May.

**DGS:** the EP adopted revised DGS in its second reading in April 2014. It is expected to enter into force with the publication in the OJ. EU MS will then have a year to transpose it to national law. Revised DGS ensures that depositors will continue to benefit from a guaranteed coverage of €100,000 in case of bankruptcy backed by funds to be collected in advance from the banking sector. The target level for ex ante funds of DGS is 0.8% of covered deposits (i.e. about € 55 billion) to be collected from banks over a 10-year period. In addition, access to the guaranteed amount will be easier and faster. Repayment deadlines will be gradually reduced from the current 20 working days to 7 working days in 2024.

**ESM - Direct Recapitalisation of Banks:** On [21 June 2013](#) the Eurogroup agreed on the main features of the ESM direct bank recapitalisation instrument. On [5 May 2014](#) its President proposed that in 2015 a bail-in of 8% of total liabilities and the use of the national resolution funds up to the 2015 target level will be preconditions to use direct recap. As of 2016 the full bail-in rules of the BRRD will apply. The ESM will be able to use the recapitalization instrument only when national parliamentary scrutiny procedures have been finalised, and the SSM is established and effective. The final agreement is expected by the Eurogroup on 19 June 2014.

**BRRD:** the EP adopted BRRD in April 2014. It shall enter into force with January 2015. It is streamlining instruments for banks with difficulties across the EU with measures on how to address a banking crisis at an early stage and, if the crisis develops further, how to resolve a failing bank in an orderly manner with participation of shareholders and creditors in sharing the financial burden without damaging the financial system and by extension, the real economy. While previously adopted CRD IV package reduces the probability of banks failing, the BRRD framework manages a failure and reduces the societal impact of such failures.

**CRD IV Package:** it strengthens the bank capital and liquidity standards, and addresses the procyclical nature of Basel II rules, as well as disclosure requirements. The rules for compensation practices (e.g. bonuses) have also been reformed, as well as incentives for lending to the real economy, especially SMEs. During the next legislature (2014-2019) the European Commission shall submit further legislative acts to review certain provisions of the CRD IV package as well as Level 2 measures.

**ECB/SSM and the EBA:** The ECB/SSM will not take over any tasks of EBA. It will rather take over supervisory tasks which are currently carried out by national supervisors of the euro area MS (and of those non-euro area MS which will choose to participate in the SSM). 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 27 Member States and enhance convergence of supervisory practices across the entire EU.

---

*DISCLAIMER: This document is drafted by the Economic Governance Support Unit (EGOV) of the European Parliament based on publicly available information and is provided for information purposes only. The opinions expressed in this document are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the publisher is given prior notice and sent a copy. © European Union, 2014*