



TEXTS ADOPTED

P8_TA(2018)0058

Banking Union – Annual Report 2017

European Parliament resolution of 1 March 2018 on Banking Union – Annual Report 2017 (2017/2072(INI))

The European Parliament,

- having regard to its resolution of 15 February 2017 on ‘Banking Union – Annual Report 2016’¹,
- having regard to the feedback of the Commission and the European Central Bank (ECB) on Parliament’s resolution of 15 February 2017 on ‘Banking Union – Annual Report 2016’,
- having regard to the Commission report of 11 October 2017 on the Single Supervisory Mechanism (SSM) established pursuant to Regulation (EU) No 1024/2013 (COM(2017)0591),
- having regard to the proposals to amend Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR), and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRDIV),
- having regard to the opinion of the European Central Bank of 8 November 2017 on amendments to the Union framework for capital requirements of credit institutions and investment firms²,
- having regard to the report of the European Systemic Risk Board (ESRB) of 9 July 2017 on Financial Stability Implications of IFRS,
- having regard to the Council conclusions of 17 July 2017 on the action plan to tackle non-performing loans in Europe,

¹ Texts adopted, P8_TA(2017)0041.

² OJ C 34, 31.1.2018, p. 5.

- having regard to the report of the Subgroup on Non-Performing Loans (NPLs) of the Council’s Financial Services Committee of 31 May 2017,
- having regard to the ECB’s guidance to banks on non-performing loans of 20 March 2017, and to the public consultation on its draft addendum to this guidance of 4 October 2017,
- having regard to the Commission’s consultation document of 10 November 2017 on statutory prudential backstops addressing insufficient provisioning for newly originated loans that turn non-performing,
- having regard to the report of the ESRB of 11 July 2017 on resolving non-performing loans in Europe,
- having regard to the Commission’s public consultation of 10 July 2017 on the development of secondary markets for non-performing loans and distressed assets and the protection of secured creditors from borrowers’ default,
- having regard to the ECB’s assessment of 6 June 2017 in which it determined that Banco Popular Español S.A. was failing or likely to fail,
- having regard to the statement of the Single Resolution Board (SRB) of 7 June 2017 on the adoption of a resolution decision for Banco Popular Español S.A.,
- having regard to the ECB’s assessment of 23 June 2017 in which it determined that Veneto Banca and Banca Popolare di Vicenza were failing or likely to fail,
- having regard to the SRB’s statement of 23 June 2017 on the decision not to take resolution action in relation to Banca Popolare di Vicenza and Veneto Banca,
- having regard to the Commission’s statement of 25 June 2017 on the approval of state aid for the market exit of Banca Popolare di Vicenza and Veneto Banca under Italian insolvency law, involving the sale of some parts to Intesa Sanpaolo,
- having regard to the Commission’s statement of 4 July 2017 on the approval of state aid to support a precautionary recapitalisation of Monte dei Paschi di Siena,
- having regard to the February 2017 version of the ECB’s guide to the targeted review of internal models (TRIM),
- having regard to the July 2017 draft version of the ECB’s guide to on-site inspections and internal model investigations,
- having regard to the opinion of the European Securities and Markets Authority (ESMA) of 31 May 2017 on general principles to support supervisory convergence in the context of the UK withdrawing from the EU, as well as to its three opinions of 13 July 2017 on supervisory convergence in the areas of investment management, investment firms and secondary markets in the context of the UK withdrawing from the EU,
- having regard to the opinion of the European Banking Authority (EBA) of 12 October 2017 on issues related to the departure of the UK from the EU,

- having regard to the Commission communication of 20 September 2017 on reinforcing integrated supervision to strengthen Capital Markets Union and financial integration in a changing environment (COM(2017)0542) and the Commission proposals of 20 September 2017 on the review of the European System of Financial Supervision (ESFS), including the ‘omnibus’ proposal amending the governance, funding and powers of the European Supervisory Authorities (ESAs),
- having regard to the ECB’s public consultations of 21 September 2017 on the draft guides to assessments of credit institution licence applications and of FinTech credit institution licence applications,
- having regard to the Financial Stability Board’s total loss-absorbing capacity (TLAC) term sheet of November 2015,
- having regard to Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (Bank Recovery and Resolution Directive – BRRD),
- having regard to 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 and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (SRM Regulation),
- having regard to the Commission proposals of 23 November 2016 for a directive of the European Parliament and of the Council amending Directive 2014/59/EU on loss-absorbing and recapitalisation capacity of credit institutions and investment firms and amending Directive 98/26/EC, Directive 2002/47/EC, Directive 2012/30/EU, Directive 2011/35/EU, Directive 2005/56/EC, Directive 2004/25/EC and Directive 2007/36/EC (COM(2016)0852), and for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 806/2014 as regards loss-absorbing and recapitalisation capacity for credit institutions and investment firms (COM(2016)0851),
- having regard to the opinion of the European Central Bank of 8 November 2017 on revisions to the Union crisis management framework¹,
- having regard to the European Court of Auditors’ Special Report of 19 December 2017 entitled ‘Single Resolution Board: Work on a challenging Banking Union task started, but still a long way to go’,
- having regard to the Commission’s withdrawal of the proposal on structural measures improving the resilience of EU credit institutions (COM(2014)0043),
- having regard to the Commission document of 27 April 2017 entitled ‘April infringements package: key decisions’ (MEMO/17/1045),

¹ OJ C 34, 31.1.2018, p. 17.

- having regard to the EBA Risk Dashboard, the ESMA Report on Trends, Risks and Vulnerabilities No 2 (2017), the ESRB Risk Dashboard, the ESRB Annual Report 2016, the ESRB Review of Macro-prudential Policy in the EU of April 2017, ,
- having regard to Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy,
- having regard to Article 107(3) of the Treaty on the Functioning of the European Union (TFEU),
- having regard to its resolution of 19 January 2016 on stocktaking and challenges of the EU Financial Services Regulation: impact and the way forward towards a more efficient and effective EU framework for Financial Regulation and a Capital Markets Union¹,
- having regard to the Commission communication on the application, from 1 August 2013, of state aid rules to support measures in favour of banks in the context of the financial crisis (‘Banking Communication’)²,
- having regard to Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (DGSD),
- having regard to the Five Presidents’ Report of 22 June 2015 on completing Europe’s Economic and Monetary Union,
- having regard to the Commission proposal of 24 November 2015 for a regulation of the European Parliament and of the Council amending Regulation (EU) No 806/2014 in order to establish a European Deposit Insurance Scheme (‘EDIS’) (COM(2015)0586),
- having regard to the Commission communication of 24 November 2015 entitled ‘Towards the completion of the Banking Union’ (COM(2015)0587),
- having regard to the ECOFIN Council conclusions of 17 June 2016 on a roadmap to complete the Banking Union,
- having regard to the Commission communication of 11 October 2017 on completing the Banking Union (COM(2017)0592),
- having regard to the ESRB EU Shadow Banking Monitor No 2 from May 2017,
- having regard to the ESRB report of March 2015 on the regulatory treatment of sovereign exposures,
- having regard to Rule 52 of its Rules of Procedure,
- having regard to the report of the Committee on Economic and Monetary Affairs (A8-0019/2018),

A. whereas on an unconsolidated basis, the total number of credit institutions in the euro

¹ OJ C 11, 12.1.2018, p. 24.

² OJ C 216, 30.7.2013, p. 1.

area stood at 5 073 at the end of 2016, down from 5 474 at the end of 2015 and from 6 768 at the end 2008, amounting to a 25 % decrease over the period from 2008 to 2016; whereas on a consolidated basis, the total number of credit institutions in the euro area stood at 2 290 at the end of 2016, down from 2 904 in 2008 and 2 379 at the end of 2015¹; whereas, however, it is desirable to include a reference to how the proportion of too-big-to-fail banks has changed over the same period;

- B. whereas there is great dispersion of the total amount and ratios of non-performing loans (NPLs) between Member States, and there are substantial differences across banks in those countries with the highest NPL ratios; whereas the stock of NPLs stood at EUR 1 trillion in total according to the ESRB report of July 2017 entitled ‘Resolving non-performing loans in Europe’; whereas, according to the EBA’s quarterly Risk Dashboard, Europe’s main banks reported a weighted average NPL Ratio (NPLs, gross of impairments, divided by total loans) of 4,47 % as of 30 June 2017; whereas this ratio has shown a declining trend for the last 30 months;
- C. whereas, according to a recent study by the European Securities and Markets Authority (ESMA), the derivatives market in the European Union has a total notional value of EUR 453 000 billion;
- D. whereas the Banking Union needs reinforcement as it is a fundamental objective for the euro area’s financial stability and an indispensable building block of a genuine Economic and Monetary Union; whereas further efforts are needed to complete the Banking Union, as it remains incomplete as long as it lacks a fiscal backstop for the SRF and a third pillar, this being a European approach to deposit re-/insurance; whereas the ECB’s president, Mario Draghi, has repeatedly stated that EDIS remains a fundamental pillar of the Banking Union; whereas a completed Banking Union is fundamental to break the sovereign-banks nexus; whereas efforts have to be enhanced to move from bail-out to bail-in; whereas risks in certain national banking systems remain insufficiently addressed; whereas current favourable economic conditions constitute a window of opportunity to push necessary reforms to complete the Banking Union;
- E. whereas a proper clean-up of bank balance sheets after the crisis has been delayed, still hampering economic growth; whereas overall the capital and liquidity ratios of EU banks have improved over the last years, while there are still banks, including large ones, that remain undercapitalised; whereas risks to financial stability remain but have already been substantially reduced since the start of the establishment of the Banking Union; whereas the institutional and regulatory framework of European banks has been fundamentally reinforced;
- F. whereas participation in the Banking Union is open to Member States that have not yet adopted the euro; whereas no EU Member State has so far decided to participate on that basis; whereas several Member States are discussing the possibility of joining the Banking Union; whereas different financial institutions see advantages in being situated within the Banking Union;
- G. whereas our work on the capital markets union should not move away pressure from the completion of our work on the banking union, which is still a prerequisite for financial

¹ European Central Bank, Report on financial structures, October 2017, pp. 23-24.

stability in the bank-reliant landscape of the European Union;

- H. whereas the primary responsibility of banks is to provide finance to the real economy;
- I. whereas the ECB needs some flexibility in carrying out its supervisory activities, but far-reaching decisions of principle must ultimately be left to the European legislator;
- 1. Calls on the Commission to use regulation as the legislative tool when proposing banking legislation;

Supervision

- 2. Takes note of the ECB's 'failing or likely to fail' assessments in the 2017 banking cases; notes also that the supervisory and single resolution mechanisms have overall been working in this context, and agrees with the Commission that the procedures leading to decisions as to whether or not a bank is 'failing or likely to fail' need to be improved;
- 3. Notes the upcoming EBA stress tests in 2018; calls on EBA, the ESRB, the ECB and the Commission to use consistent methodologies, scenarios and assumptions when defining the stress tests in order to avoid as much as possible potential distortions of the results and mismatch, as seen, between stress tests results and resolution decisions taken soon after the presentation of these results; underlines, however, that the soundness of a bank cannot be captured by a point-in-time assessment of its balance sheet alone, as it is ensured through dynamic interactions between the bank and the markets, and is affected by various elements in the economy as a whole; considers, furthermore, that the ECB's own stress test for additional banks under its supervision could benefit from more transparency;
- 4. Stresses the importance of the cooperation between the EBA as a regulatory authority and the SSM as a supervisory authority; draws attention, in this respect, to the division of responsibilities between the ECB and the EBA and to the difference in the geographical scope of activities of each institution; recommends, in this regard, that concrete coordination of the initiatives to be taken by both institutions be improved wherever practicable in order to ensure the consistency of the single rulebook, while acknowledging that the SSM should play a leading role when Banking Union-specific issues or regulatory gaps are identified;
- 5. Welcomes the fact that the Banking Union has improved the exchange of relevant information between supervisory authorities and has improved the collection and exchange of data on the European banking system, contributing for example to better benchmarking and enabling a more holistic supervision of cross-border banking groups; welcomes the excellent work of the JSTs; notes that the Commission has identified areas for improvement concerning exchange of information and coordination between the ECB's banking supervision and the SRB, in particular as regards the crucial issues of whether an institution is eligible for precautionary recapitalisation and whether it is failing or likely to fail; notes that the current memorandum of understanding between the ECB and the SRB is not comprehensive enough to ensure that the SRB has all the information it requires from the ECB to perform its tasks in a timely and efficient manner; invites the ECB and the SRB to use the opportunity offered by the current discussions on the update of the memorandum of understanding between them in order

to close existing gaps and improve the effectiveness of resolution actions; calls for an improvement of the practical modalities of cooperation and exchange of information between supervisory and resolution authorities, which is crucial for the smooth and effective conduct of resolution actions, and between all European and national bodies involved in early intervention and resolution; calls on the ECB and the SRB to keep improving their day-to-day cooperation and strengthening their working relationship; would welcome, in this respect, change in the relevant SSM Regulation to allow a representative of the Single Resolution Board to be a permanent observer at meetings of the Supervisory Board of the SSM; calls for an interinstitutional agreement between the ECB and the ECA to specify the exchange of information between both institutions in respect of their respective mandates as defined in the Treaties;

6. Notes that the BRRD provision on precautionary recapitalisation has been applied in 2017; notes that the use of asset quality reviews in order to determine whether the conditions for precautionary recapitalisation are met should be clarified; stresses that prior asset evaluations must be based on solid evidence, including evidence that shows that the bank is solvent and in compliance with EU state aid rules; calls on the Commission, the SSM and the SRB to reflect on ways to increase transparency when assessing the solvency of credit institutions and considering resolution decisions;
7. Reiterates its concern over the high level of non-performing loans (NPLs) in certain jurisdictions; welcomes the efforts by various Member States to reduce the level of NPLs; agrees with the Commission that ‘while Member States and banks themselves have a primary responsibility in tackling Non Performing Loans, integrating national and European Union level efforts is warranted to make an impact on Non Performing Loan stocks and prevent the future build-up of new Non Performing Loans on banks’ balance sheets’¹;
8. Welcomes, in general, the work done by different EU institutions and bodies on this issue; would, however, welcome better coordination between their efforts; calls on these actors and the Member States to duly and swiftly implement the Council conclusions of 11 July 2017 on the action plan to tackle NPLs in Europe; looks forward to the package of measures to accelerate the reduction of NPLs that will be proposed in the coming months; supports, in this respect, the Commission’s decision to explore the potential harmonisation in prudential terms at EU level of new loans that become non-performing; calls on the Commission to take legislative and non-legislative actions to encourage the provision of information to potential investors, the establishment of dedicated asset management companies (‘bad banks’) and the development of secondary markets for NPLs in order to deal with the overwhelming problem of non-performing loans; recalls the need for the Member States to improve and harmonise where necessary the insolvency framework, including through work on the Commission’s proposal on early restructuring and second chance, and with a view to safeguarding the most vulnerable debtors such as SMEs and households;
9. Welcomes the intention to accelerate the clean-up of bank balance sheets, while stressing that the mandatory disposal of NPLs in an illiquid and opaque market can result in unjustified balance-sheet losses for banks; reiterates its concern regarding the draft addendum to the ECB guidance on NPLs; stresses that, in this process of

¹ Commission communication on completing the Banking Union, 11 October 2017 (COM(2017)0592), p. 15.

monitoring and assessment under the banking supervision arrangements, the ECB may not impinge in any way upon the prerogatives of the EU legislature; recalls that the general principles of lawmaking in the Union which require impact assessments and consultation, as well as the assessment of proportionality and subsidiarity, are also relevant for level 3 legislation;

10. Reiterates its concern over the risks stemming from the holding of level III assets including derivatives, and in particular from the difficulty of their valuation; welcomes in this regard the inclusion by the EBA in the 2018 stress test procedures of specific risk management measures relating to level 2 and level 3 instruments; reaffirms its appeal to the SSM to make the issue a single supervision priority for 2018;
11. Recalls that there are risks associated with sovereign debt; notes that in some Member States financial institutions have overly invested in bonds issued by their own governments, constituting excessive ‘home bias’, while one of the main objectives of the BU is to break the bank-sovereign risk nexus; notes that, with a view to limiting financial stability risks, it would be better if banks’ sovereign bond portfolios were more diverse; considers that the EU regulatory framework on prudential treatment of sovereign debt should be consistent with the international standard; points to the ongoing work of the Basel Committee on Banking Supervision (BCBS) on sovereign risk, and more specifically to its recently published discussion paper ‘The regulatory treatment of sovereign exposures’; awaits with great interest, therefore, the results of the FSB’s work on sovereign debt in order to guide future decisions; stresses the crucial role of government bonds in providing high-quality liquid assets for investors and stable funding sources for governments; takes note, in this respect, of the Commission’s ongoing work on the idea of so-called sovereign bond-backed securities (SBBSs) as a possible way to contribute to addressing the issue; recalls that SBBSs would not constitute a form of debt mutualisation; considers that input from market participants might help to ensure market interest in SBBSs;
12. Stresses the importance of addressing the flaws identified in internal models in order to re-establish their credibility and achieve a level playing field across institutions; points, in this regard, to the external research paper ‘What conclusions can be drawn from the EBA 2016 Market Risk Benchmarking Exercise?’ commissioned by the Economic Governance Support Unit of the European Parliament, which inter alia states that ‘if the results of the EBA benchmarking study are correct, and as far as the test portfolio instruments are representative, the internal market risk models currently used by European banks would strongly violate the Level Playing Field Principle (“If different banks hold the same portfolio, they should be required to hold the same amount of regulatory capital.”)’; notes in this context the BCBS endorsement of the amendments for the finalisation of Basel III as well as the EBA’s assessment of its impact on the EU banking sector; recalls that the agreement should not result in a significant increase in capital requirements at Union level or harm the ability of banks to finance the real economy, in particular SMEs; welcomes the work done by the ECB to assess the adequacy of internal models, including its new guide to the TRIM, with a view to addressing the variability in risk-weights applied to risk-weighted assets of the same class across credit institutions; welcomes, finally, the work done by the EBA in the framework of its benchmarking exercises; considers that the capital position of banks can be strengthened, inter alia, by reducing dividend payments and raising fresh equity, and that strengthening the overall financial position of European banks should remain a priority;

13. Stresses that the proposals made by international bodies should be translated into European law in such a way as to take due account of the specific characteristics of the European banking sector;
14. Stresses that the BCBS standards in particular should not be enacted wholesale into European law without taking proper account of the specific characteristics of the European banking system and of the proportionality principle;
15. Recalls the principle of separation between the monetary policy function and the supervisory function of the SSM and considers its respect crucial in order to avoid conflicts of interest; takes the view that this principle has been in general well complied with; believes that the test to be used in order to determine the suitability of shared services should be the policy relevance of the tasks they perform; considers, therefore, that shared services are unproblematic when they deal with issues that are non-critical in terms of policymaking, but could be a cause for concern and could warrant additional safeguards where and when this is not the case;
16. Takes the view that the involvement of more ECB staff in on-site inspections could contribute to further enhancing the independence of banking supervision from national considerations;
17. Notes the banking reform package proposed by the Commission in November 2016; underlines the importance of the fast-track procedure that led to the agreement on the phasing-in of International Financial Reporting Standard (IFRS) 9, as well as the transitional arrangements for the exemption from the large exposure limit available to exposures to certain public sector debt of Member States denominated in currencies of any Member States (Regulation (EU) 2017/2395) in order to avoid cliff effects on the regulatory capital of credit institutions; notes, however, the opinions of the ECB and the EBA that the existence of a transitional arrangement should not lead to unduly delaying IFRS 9 implementation; stresses the need to monitor the impact of IFRS 9 on the nature and allocation of loans by banks as well as on the potential pro-cyclical effects derived from the cyclical sensitivity of credit risk parameters; calls on the ESRB and the SSM to examine these issues; asks the EBA and the BIS to provide the appropriate guidance in this regard;
18. Points out that institutions are required, under the rules on supervision, to make numerous similar reports, in various formats, to a range of authorities and that this represents a substantial additional burden; calls, therefore, for the introduction of a uniform reporting system, whereby the questions from all the authorities responsible for supervision would be collated by a central contact point which would forward them to the institutions under supervision and would then transmit the data collected to the competent authorities; emphasises that this could be a means of preventing duplicated questions and requests for identical data, thus considerably reducing the administrative burden on the banks and competent authorities, and that it would also make for more efficient supervision;
19. Acknowledges that the high costs of implementing supervision requirements can be especially difficult to handle for smaller banks; considers that the proportionality principle could be better taken into account in certain supervision arrangements by the ECB when carrying out its supervisory activities; stresses, therefore, the urgent need for further efforts to make banking supervision arrangements more proportionate for small,

low-risk institutions; emphasises that improving proportionality by no means implies lowering supervisory standards, and that, rather, it simply means that the administrative burden, in terms of compliance and disclosure requirements, for example, will be lessened; welcomes, therefore, the Commission's reply to the Banking Union Annual Report 2016, which shares Parliament's view that reporting requirements should be streamlined, as well as the efforts of the Commission to introduce more proportionality in supervision;

20. Recalls that the options and discretionary powers set out in EU law concerning banking supervision must be harmonised as far as possible; considers that they must as far as possible be transitory, and must be withdrawn when there is no further need for them, to avoid over-complicating the everyday work of European and national supervisors;
21. Stresses that the regulatory framework should accommodate the particular operating principles and respect the specific mission of the cooperative and mutual banks, and that supervisory authorities should keep these in regard and reflect them in their practices and approaches;
22. Recalls its resolution of 17 May 2017¹ on FinTech; considers that FinTechs, which carry out the same kinds of activities as other players in the financial system, should therefore be subject to the same rules concerning their operations; calls, in this regard, for an approach to FinTechs which strikes the right balance between protecting consumers, maintaining financial stability and encouraging innovation; notes, in this respect, the work of the Commission, the proposed inclusion of technological innovation in the mandates of the ESAs, and the public consultation on the ECB's draft guidance to assessments of FinTech bank licence applications;
23. Acknowledges that the increased digitalisation of all aspects of banking has left banks significantly more vulnerable to cyber security risks; stresses that managing cybersecurity is first and foremost banks' own responsibility; stresses the crucial role of cybersecurity for banking services and the need to incentivise financial institutions to be very ambitious in protecting consumer data and guaranteeing cybersecurity; calls on the supervisory authorities to closely monitor and assess cybersecurity risks, as well as calling on financial institutions across the EU to be very ambitious in protecting consumer data and guaranteeing cybersecurity; welcomes the ECB initiative to oblige supervised banks to report significant cyberattacks under a real-time alert service, and also welcomes the SSM on-site inspections to supervise cybersecurity; calls on the SSM to increase its efforts and to formally make cybersecurity one of its high-level priorities;
24. Welcomes the work done by the EBA, ESMA and the SSM on promoting supervisory convergence in the context of the UK's withdrawal from the EU, with a view to limiting the development of regulatory and supervisory arbitrage risks; believes that any supervisory cooperation model to be developed between the EU and the UK should respect the financial stability of the EU and its regulatory and supervisory regime and standards and their application; recalls the importance of preparedness and of adequate contingency planning by banks to mitigate the disruptive effect of Brexit; is concerned that some banks, in particular smaller ones, might be lagging behind in their preparations for Brexit, and calls on them to intensify their work; recalls that the process for obtaining banking licences and having internal models approved takes several years

¹ Texts adopted, P8_TA(2017)0211.

and that this should be factored in;

25. Takes note of the proposals on the review of the European system of financial supervision (ESFS), including the ‘omnibus’ proposal amending the ESA’s governance, funding and powers;
26. Is concerned by developments showing trends for banking groups to use increasingly complex structures and entities that undertake largely the same activities as banks but escape bank supervision; notes, in this respect, the Commission’s proposal on investment firms, which should contribute to establishing a level playing field between investment firms and credit institutions and closing loopholes that might allow the use of large investment firms in order to avoid banking regulatory requirements;
27. Is concerned by the spread of shadow banking in the EU; takes note of the 2017 EU Shadow Banking Monitor by the ESRB that underlines several risks and vulnerabilities which need to be monitored in the EU shadow banking system; calls, therefore, for coordinated action to address these risks in order to ensure fair competition and financial stability; recognises, however, that since the financial crisis policies have been introduced to address financial instability risks resulting from shadow banking; encourages authorities to continue to vigilantly monitor and address emerging financial stability risks and to accompany any action on the regulation of the banking sector by appropriate regulation of the shadow banking sector; regrets that the Commission failed to address the latter issue in its replies to last year’s report¹;
28. Considers that, even though improvements are desirable, notably in terms of communication and transparency, the Banking Union remains a positive and fundamental change for the Member States using the euro; recalls that the Banking Union is open to all Member States; encourages all non-euro area Member States to take the necessary steps to join the Banking Union, in order to progressively align it with the entire internal market;
29. Welcomes the progress made in allowing some delegation in the area of fit and proper decisions by the ECB’s decision of June 2017; reiterates its assessment that a change in the regulations is needed to allow more and easier delegation of decision-making on certain routine issues, from the Supervisory Board to relevant officials; reiterates its favourable view of such a change, which would contribute to making the ECB’s banking supervision more efficient and effective; calls on the ECB to specify tasks for the delegation of decision-making;

Resolution

30. Welcomes the first application of the new resolution regime in 2017; takes note of the high number of legal applications lodged before the General Court of the EU in relation to this case; asks the Commission to assess whether and how this could endanger the effectiveness of the new resolution regime and render the resolution framework in effect inapplicable; calls on the SRB and the Commission to jointly publish a summary of the issues most criticised by the legal applications; considers that the 2017 banking cases raise questions in terms of transparency and communication, and asks for more

¹ European Parliament resolution of 15 February 2017 on ‘Banking Union – Annual Report 2016’, paragraph 9.

transparency in future resolution decisions, including access for the European Parliament, under clear and appropriate conditions, to key documents informing resolution decisions, such as the valuation reports by independent valuers, in order to better understand ex ante the resolution regime; calls on the co-legislators to take the 2017 banking cases into account as lessons learnt when co-deciding on the Commission proposals on TLAC/MREL and the moratorium tool;

31. Is concerned at the mismatch between state aid rules and Union legislation related to the ability of deposit guarantee schemes (DGSs) to participate in resolution as provided for in the BRRD and DGSD, as expressed in the previous report¹; calls on the Commission to reconsider its interpretation of the State aid rules with reference to Articles 11(3) and 11(6) of the DGSD in order to guarantee that preventive and alternative measures provided for by the European legislator can be actually implemented; considers that in the 2017 banking cases it was confirmed as the BRRD stipulates that Member States may proceed with normal insolvency proceedings, which may, under certain conditions, be accompanied by ‘liquidation aid’; believes that a cause of the arbitrage opportunities revealed by the recent resolution cases is the discrepancy between the rules on State aid applying under, respectively, the resolution regime and national insolvency law; calls, therefore, on the Commission to undertake a review of the frameworks for bank insolvency in the Union, including the 2013 Banking Communication, in order to draw lessons from the 2017 banking cases;
32. Recalls that the BRRD was designed to ensure the continuity of critical functions, to avoid adverse effects on financial stability, to protect public funds by minimising reliance on extraordinary public financial support to failing institutions, and to protect covered depositors, investors, client funds and client assets; recalls that extraordinary public financial support measures may only be used to remedy ‘a serious disturbance in the economy’ and to ‘preserve financial stability’ and that they ‘shall not be used to offset losses that an institution has incurred or is likely to incur in the near future’; considers that extraordinary public financial support should also be accompanied, where appropriate, by remedial actions; calls on the Commission to undertake as soon as possible the review referred to in the last subparagraph of Article 32(4) of the BRRD, overdue since 2015; notes that precautionary recapitalisation is an instrument for bank crisis management;
33. Calls on the Commission to re-examine on a yearly basis whether the requirements for the application of Article 107(3)(b) TFEU regarding the possibility of State aid in the financial sector continue to be fulfilled;
34. Calls on the Commission to assess whether the banking sector has benefited since the beginning of the crisis from implicit subsidies and state aid by means of the provision of unconventional liquidity support;
35. Welcomes the SRB’s stated prioritisation of enhancing resolvability of credit institutions, as well as the progress made towards setting binding targets regarding individual minimum requirement for own funds and eligible liabilities (MREL) targets at consolidated level; emphasises the importance of operational and credible resolution plans, and in that context acknowledges the problems that single point of entry

¹ European Parliament resolution of 15 February 2017 on ‘Banking Union – Annual Report 2016’, paragraph 38.

strategies could imply for the financial stability of host countries if not appropriately designed; underlines the need for an effective regime to address breaches of this requirement and that MREL should be mindful of institutions' business models for the purpose of ensuring the resolvability of these institutions; calls on the SRB to provide a comprehensive list of obstacles to resolvability encountered in national or European legislation; stresses that the revision of the BRRD should in no way lag behind internationally agreed standards;

36. Welcomes the agreement reached on the additional harmonisation of the priority ranking of unsecured debt instruments through Directive (EU) 2017/2399; calls for rapid implementation by Member States so that banks can issue debt in the new insolvency class and thereby build up the required buffers; reiterates its position, as expressed in the previous report¹, that bail-inable instruments should be sold to appropriate investors who can absorb potential losses without threatening their own financial standing; recommends, therefore, that resolution authorities should monitor the extent to which instruments susceptible to bail-in are held by non-professional investors and that the EBA should proceed to an annual disclosure of these amounts as well as, where appropriate, issuing warnings and recommendations for remedial action;
37. Notes the ongoing legislative proposals for implementing total loss-absorbing capacity (TLAC) in Union law, aimed at reducing risks in the European banking sector;
38. Recalls that the substance of the Intergovernmental Agreement on the Single Resolution Fund (SRF) is ultimately to be incorporated into the Union legal framework; recalls that a fiscal backstop is key to ensuring a credible and efficient resolution framework and the ability to cope with systemic crises in the Banking Union, as well as to avoiding recourse to publicly-funded bank bailouts; notes the Commission's proposal to transform the European Stability Mechanism into a European Monetary Fund, which would host the fiscal backstop function to the SRF;
39. Welcomes the work done by the SRB in building up its capacity for bank resolution at the Union level; notes, however, that resolution planning is currently still very much a work in progress; also notes that the SRB is significantly understaffed; calls on the SRB to intensify its recruitment efforts and on national authorities to make seconded experts easily available to the SRB; recalls, in this respect, the need, within the SRB, for an appropriate balance between staff from the central level and staff from national resolution authorities, as well as the need for a clear division of labour between the SRB and national resolution authorities; welcomes, in this regard, the steps taken by the SRB in allocating roles and tasks within the SRM; points out that in addition to banks directly supervised by the ECB, the SRB also has direct responsibility for significant cross-border institutions; calls on Member States, national competent authorities and the ECB to act in a way that would limit as much as possible the additional burden and complexity for the SRB arising from this difference in scope;
40. Calls for the ex-ante contributions to the Single Resolution Fund to be calculated in a transparent manner, through the provision of information on the calculation methodology, along with efforts to harmonise information on calculation outcomes;

¹ European Parliament resolution of 15 February 2017 on 'Banking Union – Annual Report 2016', paragraph 48.

41. Is concerned at the influence that resolution decisions can have on the structure of the banking system; calls on the Commission to closely monitor this issue, follow up on decisions taken and inform the European Parliament about its findings on a regular basis;

Deposit insurance

42. Welcomes the EBA's decision to publish on an annual basis data received by it in accordance with Article 10(10) of the DGSD; suggests that the presentation of the data be improved so as to allow a direct comparison of the adequacy of funding across deposit guarantee schemes (DGSs); notes, nonetheless, the need for several DGSs to accelerate the build-up of available financial means in order to achieve their target levels by 3 July 2024;
43. Invites the EBA to expand its analysis to, among other aspects, alternative funding arrangements put in place by Member States in accordance with Article 10(9) of the DGSD, and to publish this analysis in conjunction with the information received under Article 10(10) of the DGSD;
44. Draws attention to the high number of options and discretions under the DGSD; takes the view that further harmonisation of the rules applying to deposit guarantee schemes is necessary in order to achieve a level playing field within the Banking Union;
45. Recalls that deposit protection is a common concern of all EU citizens and that the Banking Union remains incomplete without a third pillar; is currently debating the proposal on an EDIS at committee level; notes, in this respect, the Commission's communication of 11 October 2017;
46. Points out that there are ongoing discussions regarding the appropriate legal basis for the establishment of the proposed European Deposit Insurance Fund;

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47. Instructs its President to forward this resolution to the Council, the Commission, the EBA, the ECB, the SRB, the national parliaments, and the competent authorities as defined in point (40) of Article 4(1) of Regulation (EU) No 575/2013.