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DRAFT REPORT

on Banking Union - annual report 2018
(2018/2100(INI))

Committee on Economic and Monetary Affairs

Rapporteur: Nils Torvalds

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The European Parliament,

- having regard to its resolution of 1 March 2018 on Banking Union – Annual Report 2017¹,
- having regard to the feedback of the Commission and the European Central Bank (ECB) on Parliament’s resolution of 1 March 2018 on Banking Union – Annual Report 2017,
- having regard to the statement agreed by the Euro Summit at its meeting of 29 June 2018,
- having regard to the European Court of Auditors (ECA) special report of 16 January 2018 on the operational efficiency of the ECB’s crisis management for banks²,
- having regard to the Commission proposal of 24 May 2018 for a regulation of the European Parliament and of the Council on sovereign bond-backed securities³,
- having regard to the determinations of 23 February 2018 by the ECB that ABLV Bank and ABLV Bank Luxembourg were failing or likely to fail, in accordance with the Single Resolution Mechanism Regulation⁴,
- having regard to the launch on 31 January 2018 by the European Banking Authority (EBA) of its 2018 EU-wide stress test exercise⁵,
- having regard to the ECB’s announcements of 15 March 2018 on supervisory expectations for new non-performing loans (NPLs)⁶ and of 11 July 2018 on further steps in its supervisory approach to the stock of NPLs⁷,
- having regard to the vacancy notice for the position of Chair of the ECB Supervisory Board from 1 January 2019⁸,
- having regard to Rule 52 of its Rules of Procedure,
- having regard to the report of the Committee on Economic and Monetary Affairs (A8-0000/2018),

A. whereas entrusting the ECB with the supervision of financial institutions has proven to

¹ Texts adopted, P8_TA(2018)0058.

² <https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=44556>

³ COM(2018)0339.

⁴ <https://www.bankingsupervision.europa.eu/press/pr/date/2018/html/ssm.pr180224.en.html>

⁵ <http://www.eba.europa.eu/-/eba-launches-2018-eu-wide-stress-test-exercise>

⁶ <https://www.bankingsupervision.europa.eu/press/pr/date/2018/html/ssm.pr180315.en.html>

⁷ <https://www.bankingsupervision.europa.eu/press/pr/date/2018/html/ssm.pr180711.en.html>

⁸ OJ C 248A , 16.7.2018, p. 1.

be successful;

- B. whereas the role of the EBA needs to be significantly strengthened in order to effectively implement anti-money laundering measures;
- C. whereas it is important to clarify the treatment of State aid in actions by deposit guarantee schemes¹;
 - 1. Takes note of the achievements of the Banking Union in fostering a truly single market, a level playing field and predictability for market actors; considers that a fully completed Banking Union will further strengthen financial stability and growth prospects in the EU;
 - 2. Stresses the importance of completing the capital markets union, which will help to channel credit into the real economy, further enable private risk sharing and complement funding through banks;
 - 3. Considers that one of the aims of the Banking Union should be to preserve the diversity of EU banking models, as this enables the requirements of citizens and of their projects to be met, as well as acting as a diversification tool, a key feature to cope with potential shocks;
 - 4. Recalls the need for a coherent set of rules for the proper functioning of the Banking Union; calls on the Commission to prioritise regulations over directives as the legislative tool for the Banking Union and to make it a priority to fully ensure that all relevant legislation is fully implemented in all Member States; calls on the Commission, in cooperation with the European supervisory authorities, to identify and remove obstacles to the internal market;
 - 5. Believes that decisions by the supervisory and resolution authorities must be properly explained, transparent and made public; urges the supervisory and resolution authorities to be as restrictive as possible in applying the provisions that allow them to refuse access to documents;

Supervision

- 6. Takes note of the ECB's recent 'failing or likely to fail' assessments, carried out in 2018; is deeply concerned that some of these cases raised issues concerning the enforcement of anti-money laundering rules in the Banking Union; underlines the urgent need for a common EU approach in this regard with clearly assigned powers;
- 7. Notes the results of the EBA's EU-wide stress test; believes that stress tests should be interpreted in combination with other on-going supervisory monitoring activities;
- 8. Highlights that sovereign debt is not risk-free; takes note of the on-going work of the Basel Committee on Banking Supervision (BCBS) on sovereign risk; is concerned by the fact that some financial institutions are heavily invested in their own sovereign debt; calls on the Commission to assess whether to introduce risk weighting on sovereign

¹ OJ C 145 25.4.2016, p. 34.

bonds or exposure limits in the EU;

9. Takes note of the ECB procedure for appointing the next Chair of its Supervisory Board; insists on the full and proper participation of Parliament in this process; recalls Parliament's position on the need to improve gender balance within the ECB's governing bodies as well as its staff;
10. Welcomes the Commission proposal to reinforce the role of the EBA in anti-money laundering supervision in the financial sector; calls on the co-legislators adopt the proposal without undue delay;
11. Underlines the fact that financial markets are strongly interrelated; stresses the importance of preparedness of banking supervisors for all possible outcomes in the Brexit negotiations between the EU-27 and the United Kingdom, bearing in mind that this is not a substitute for preparedness of private actors themselves;
12. Urges all negotiators to work towards the adoption of the legislative package to reduce risk in the banking system before the European elections in 2019;
13. Takes note of the on-going negotiations on the NPL package; welcomes the ECB addendum on NPLs and the work of the EBA on guidelines on management of non-performing and forborne exposures; welcomes the reduction in volume of NPLs over the past years; stresses that the risk to financial stability posed by NPLs is still significant; agrees with the Commission that the primary responsibility for reducing NPLs lies with the Member States, notably through efficient insolvency laws, and banks themselves;
14. Takes note of the on-going negotiations on the European System of Financial Supervision (ESFS); believes that a single market needs appropriate supervisory powers at EU level;
15. Welcomes the Commission communication on FinTech; recognises the great potential of FinTech and the need to encourage innovation; notes, however, the need for clear regulation and appropriate supervision that protects consumers and ensures financial stability as well as a level playing field for financial market actors; underlines the need to continuously strengthen the cyber resilience of the EU financial sector;
16. Remains concerned about the spread of shadow banking in the EU; recalls that the problem needs to be addressed at both EU and global level in order to ensure fair competition, transparency and financial stability; calls on the Commission to urgently identify remaining gaps in the current regulations;
17. Recalls the initial debate on the role of the ECB as both monetary and supervisory authority; considers that, overall, the ECB has succeeded in keeping the two roles separate; believes, however, that further debate is necessary to avoid the risk of a conflict of interests between the two tasks;

Resolution

18. Welcomes the agreement reached at the Euro Summit meeting of 29 June 2018 that the

European Stability Mechanism (ESM) will provide the common backstop to the Single Resolution Fund (SRF) and be turned into a true European Monetary Fund (EMF) based on strict conditions ensuring responsibility and the principle of avoiding moral hazard; stresses the need for proper democratic scrutiny; recalls Parliament's position that the EMF should be fully incorporated into the Union's institutional framework;

19. Reaffirms its position that the rules for precautionary recapitalisation need to be clarified; notes that precautionary recapitalisation can be an instrument for crisis management but believes that its use needs to be strictly limited to exceptional cases where the bank is solvent and where compliance with EU State aid rules is ensured; recalls that the objective of the EU resolution regime is to make sure that taxpayers are protected, the cost of bank management failures is borne by its shareholders and creditors, and that the stability of the financial system as a whole is preserved;
20. Calls on the Commission to regularly assess whether the banking sector has benefited from implicit subsidies and State aid; underlines the distortive effect State aid can have on the functioning of the internal market; recalls the strict requirements for the application of Article 107(3)(b) of the Treaty on the Functioning of the European Union (TFEU);
21. Welcomes the conclusion of the ECA, in its report on the operational efficiency of the ECB's crisis management for banks, that the organisational set-up of the ECB and its resourcing for the assessment of recovery plans and the supervision of banks in crisis are satisfactory, while noting that there are outstanding issues concerning information sharing and efficiency of coordination;
22. Welcomes the revised memorandum of understanding between the ECB and the Single Resolution Board (SRB); stresses that a streamlined and in some cases automated exchange of information increases efficiency and helps to ensure that the reporting burden on banks is kept to a minimum;

Deposit insurance

23. Takes note of the agreement reached at the Euro Summit meeting of 29 June 2018 on the European Deposit Insurance Scheme (EDIS); underlines the necessity of EDIS as the third pillar of the Banking Union; believes it should be fully implemented once significant risk reduction has taken place;
24. Instructs its President to forward this resolution to the Council, the Commission, the ECB and the EBA.