The European Banking Union

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Banking union: restoring financial stability in the Eurozone

- **As the financial crisis evolved and turned into the Eurozone debt crisis in 2010/11, it became clear that, for those countries which shared a currency, more had to be done, in particular to break the vicious circle between banks and public finances (national taxpayers money)**

Banking union: restoring financial stability in the Eurozone

- **Increasing debt levels of sovereigns that provided financial support to struggling banks**
- **Losses for banks from exposures to sovereigns under stress**
- **Break the correlation between the cost of funding of euro area banks and that of their respective sovereigns**
- **Need for a common resolution mechanism**

Banking union: restoring financial stability in the Eurozone

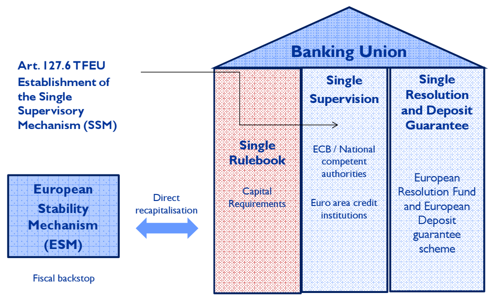
Two main advantages and goals of establishing the Bankig Union

- Try to resolve the so-called "financial trilemma"
  - Impossibility of achieving financial stability, financial integration and maintaining national financial policies in a globalised financial market
- Help to break the negative feedback loops between sovereign debts and banks

Banking union: restoring financial stability in the Eurozone

- Together with the new EU wide regulatory and supervisory framework for the financial market, the European Banking Union is a big step in the economic and monetary integration of the EU. It will put an end to the era of massive bailouts paid for by taxpayers and will help restore financial stability.
- The banking union is an important step towards a genuine Economic and Monetary Union. It allows for the consistent application of EU banking rules in the participating countries.

Banking Union: the three pillars



Legal framework of the European Banking Union; Single Regulation

- The new regulatory framework with common rules for banks in all 28 Member States, set out in a single rulebook, is the foundation of the banking union. Common rules will help to prevent bank crises in the first place.
- All European Banks have to comply with it across the Single Market. This is crucial to ensure that there is strong regulation everywhere, without loopholes, so it guarantees a level playing field for banks and a real Single Market for financial services.

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Single rulebook

- This set of rules provides legal and administrative standards to regulate, supervise and govern the financial sector in all EU countries more efficiently.
- It includes rules on capital requirements, recovery and resolution processes and a system of harmonised national Deposit Guarantee Schemes.
- The package on capital requirements for banks, the so called "CRD IV package" (consisting of the Capital Requirements Directive 2013/36/EU and the Capital Requirements Regulation (EU) No 575/2013 (CRR) transposes via a Regulation and a Directive the new global standards on bank capital (commonly known as the Basel III agreement) into the EU legal framework.

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Single Supervisory Mechanism; SSM

- The Single Supervisory Mechanism is based on the Council Regulation (EU) No 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions
- It comprises the ECB and the national supervisory authorities of the participating countries.
- All euro area countries participate automatically in the SSM.

Its main aims are to:

- ensure the safety and soundness of the European banking system
- increase financial integration and stability
- ensure consistent supervision

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Legal framework of the European Banking Union; Single Supervision

- Since 4 November 2014, the European Central Bank (ECB) has become the supervisor of all 6000 banks in the euro area in the framework of the Single Supervisory Mechanism.
- The ECB directly supervises of up to 130 significant groups, which represent almost 85% of all banking assets in the euro area.

Legal framework of the European Banking Union; Single Resolution

- Directive 2014/59/EU Bank Recovery and Resolution Directive; BRRD (deadline for transposition in the Member States 31.12.2014)
- Regulation (EU) No 806/2014 establishing a Single Resolution Mechanism (SRM) for the Banking Union
- network of national resolution authorities, a Single Resolution Mechanism with a strong central decision-making body and a Single Bank Resolution Fund
- Directive 2014/49/EU on deposit guarantee schemes
- Deposit Guarantee Schemes Directive; DGSD
- Deadline for transposition in the Member States 3.7.2015 and 31.5.2016

Single Resolution Mechanism

- The BRR Directive relies on a network of national resolution authorities and resolution funds to resolve banks. While this network is a major step forward to minimising different national approaches and fragmentation of the Single Market, it is not sufficient for Member States who share the common currency or are supervised by a single supervisor, the ECB in the Banking Union.
- The Single Resolution Mechanism (SRM) provides for an integrated decision-making structure aligning resolution under the SRM with supervision under the SSM and creates centralised system to deal with banks in distress.
- in the Banking Union, bank supervision and resolution needed to be exercised by the same level of authority.

Single Deposit Guarantee Scheme

- 24 November 2015: the Commission has proposed a euro-area wide insurance scheme for bank deposits
- The European Deposit Insurance Scheme (EDIS) will strengthen the Banking Union, buttress bank depositor protection, reinforce financial stability and further reduce the link between banks and their sovereigns.
- The European Deposit Insurance Scheme will be built on the existing system, composed of national deposit guarantee schemes set up in line with European rules; individual depositors will continue to enjoy the same level of protection (€100 000)

The European Deposit Insurance Scheme

- The scheme would develop over time and in three stages. It would consist of a re-insurance of national Deposit Guarantee Schemes (DGS), moving after three years to a co-insurance scheme, in which the contribution of EDIS will progressively increase over time (the key difference in this phase is that a national scheme would not be required to exhaust its own funds before accessing EDIS funds).
- As a final stage, a full European Deposit Insurance Scheme is envisaged in 2024.