



Communication on Completing the Banking Union

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The content of the BU Communication

Risk reduction measures proposed in 2016

EDIS

Backstop

Non-Performing Loans (NPLs)

Sovereign Bonds Back Securities (SBBSs)

=> To be completed by 2018



Risk reduction through the November 2016 Banking Package

The November 2016 Banking Package fulfils most of the objectives set out in the 2016 Council Roadmap in terms of further risk reduction in the banking sector.

In particular with the implementation of *Total Loss-Absorbing Capacity (TLAC) /MREL, creditor hierarchy, moratorium powers and remaining Basel reforms (including NSFR and leverage ratio)*.

What the BU Communication proposes:

=> With a view to swift progress and reach an as rapid adoption as possible, EP and Council are encouraged to maintain the clearly defined scope of the package.



Moving forward towards a European Deposit Guarantee Scheme (EDIS)

Increased resilience of the Banking Union through strong and uniform insurance coverage for all depositors in the Banking Union

Negotiations on the Commission's proposal have stalled

What the BU Communication proposes:

=> Sets out proposals to help facilitate a compromise on EDIS and allow political agreement in 2018

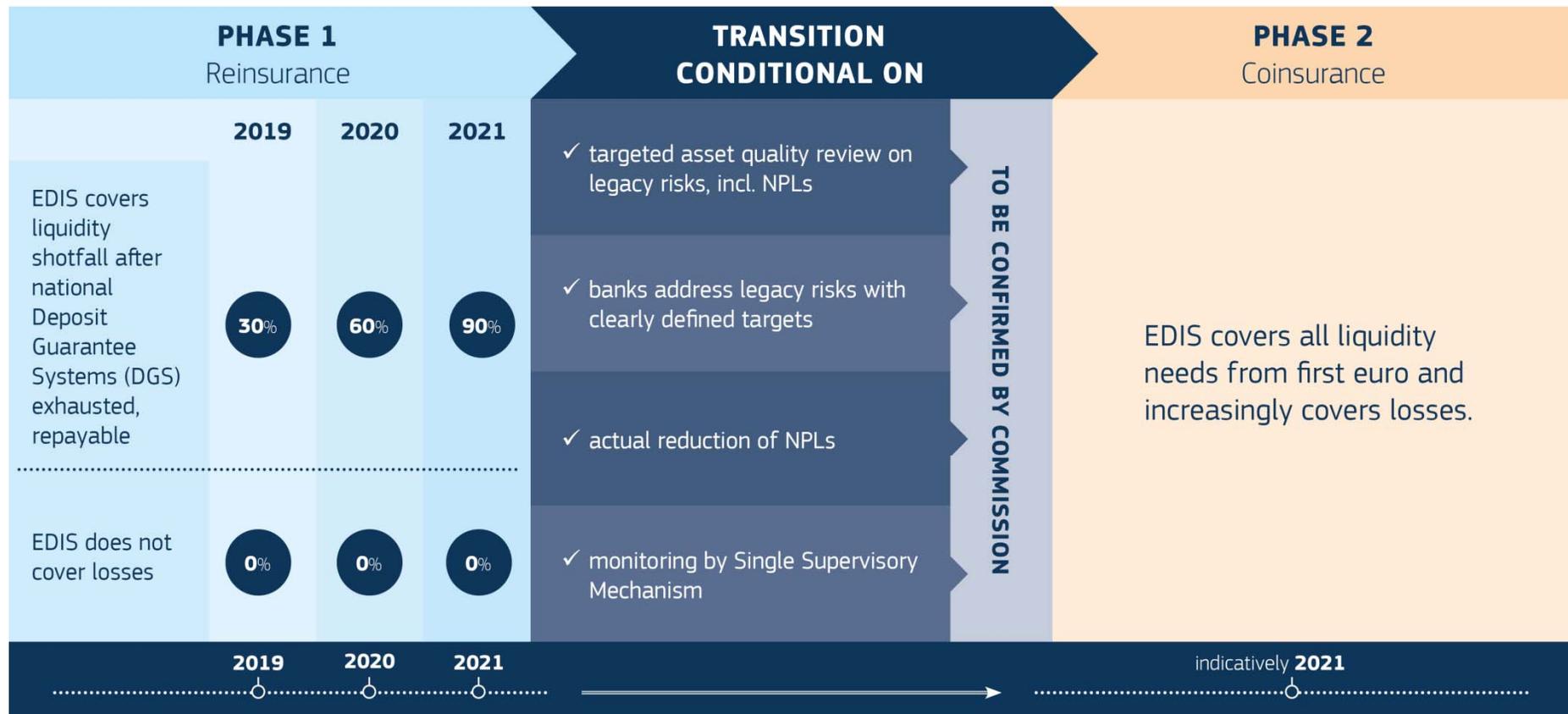
Main suggestions for EDIS

Only liquidity coverage up to 100% by 2022

Loss coverage subject to conditions starting at 30% in 2022

Such conditions could include a targeted AQR to address NPLs and Level III assets issues.

HOW WOULD THE REVISED EDIS PROPOSAL WORK?





Completing a Backstop to the Banking Union

A common fiscal backstop would reinforce the overall credibility of the bank resolution framework within the Banking Union and instil confidence in the Single Resolution Mechanism

MS agreed in 2013 on the development of a common backstop

Criteria for the backstop identified in 2017 EMU Reflection Paper

What the BU Communication urges:

=> to operationalize as rapidly as possible the credit line from the European Stability Mechanism (ESM) as a backstop. This will need to be articulated with the December proposal for transforming the ESM into an European Monetary Fund.



Actions announced to address NPLs

The aim is to further reduce the high levels of NPLs that hinder banks from providing new credit to the real economy, and limit economic growth.

Since mid-2014, The EU NPL ratio has decreased from 6.7% to 4.5%. But progress is slow where it is needed the most. Measures are also needed to prevent a future NPL build-up.

Therefore the Commission is currently working to implement and accelerate the Council's Action Plan on NPLs adopted in July.

The Commission will present a package of concrete measures in spring 2018.



Package of NPL measures in spring 2018

- 1) Clarification of supervisory powers on NPLs*
- 2) Blueprint for Asset Management Company (AMC)*
- 3) Measures to develop secondary markets for NPLs*
- 4) Measures to enhance the protection of secured creditors*
- 5) A Report, accompanied if appropriate with the necessary proposals to amend the CRR, to possibly introduce minimum levels of bank provisions for future NPLs arising from new loans*

The Commission is also undertaking a benchmarking exercise of loan enforcement regimes



An enabling framework for Sovereign Bond-Backed Securities (SBBS)

Need to reduce risks to financial stability through diversification of banks' sovereign portfolios and weakening banks' home bias in their sovereign exposures

SBBS could contribute to more geographical portfolio diversification

What the BU Communication proposes:

=> In light of the upcoming report of the European Systemic Risk Board (ESRB), the Commission would consider putting forward legislative proposal for an enabling framework for the development of SBBS (2018)



Thank you