Towards a Fully Fledged Banking Union
The views of organised civil society

Summary of relevant EESC opinions

ECO Section for Economic and Monetary Union and Economic and Social Cohesion
Table of Contents

Preface 3
Banking Union Package 4
Completing the Banking Union 5
Single Resolution Mechanism 6
European System of Financial Supervision (ESFS) - review 7
European Deposit Insurance Scheme 8
Banking reform – Capital requirements and resolution framework amendments 9
EU Regulatory Framework for Financial Services 10
Non-performing loans package 11
Appendix 12
Preface

The recent financial crisis clearly showed that when many European banks get into trouble, that is no longer a problem solely for their relevant Member States, but a risk for the entire European financial system and for our shared European economy. This experience demonstrated the incontestable need for creating a more deeply integrated banking system in the euro area that is able to complement the common monetary policy and makes it possible to break the link between national banking sectors and their sovereigns – the so-called doom-loop.

Thus, as a response to the structural defects in the incomplete design of the European Monetary Union, the Banking Union was set up in 2012 to create a unified and integrated financial system in Europe, enabling adequate risk spreading across the Member States and restoring trust and confidence in the euro area banking system. Two important milestones, the establishment of the regulatory, control and sanctioning tasks of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM), were since put in place and made operational. However, there are crucial missing elements. The most notable being the establishment of the European Deposit Insurance Scheme (EDIS), a project that should urgently move forward. In parallel to risk sharing, risk reduction has an equally important role to play in the stability of the banking system, therefore the efforts aimed at reducing the level of non-performing loans (NPLs) across all Member States and preventing their build-up in the future has to be continued.

The European Economic and Social Committee (EESC) – a consultative body of the European Union that gives representatives of Europe's organised civil society a formal platform to express their points of view on EU issues and policies – has continuously supported endeavors aimed at advancing the reforms to the EU banking sector. Creating a sound and stable financial system for Europe is of paramount importance for a stable and sustainable economic growth.

The way forward

The European financial system may be in a much better shape than at the end of the global financial crisis but the completion of the Banking Union is long overdue. Only fully implemented Banking Union and a deeper Capital Markets Union, can create a degree of fiscal, social and political union that will enable the European Union to fight imbalances and inequalities and to speed up upward convergence.

In this brochure, we collected a series of opinions in which the EESC reflected on the various policies that constitute the building blocks of the Banking Union as well as the remaining issues towards its completion. We call on the European decision makers not to lose momentum in finalising this ambitious project, laying down the foundations for a European financial system that is strong enough to withstand a potential future crisis and is sufficiently equipped to support the green and the digital transition of the European economy.

Stefano Palmieri
President
Section for Economic and Monetary Union and Economic and Social Cohesion (ECO)
European Economic and Social Committee
Establishing the Banking Union is a defining step for the EU in completing the architecture of the EMU and restoring stability and confidence in the European financial system. Member State governments have to strive to create more and better Europe by handing over some powers and ensuring that they can be applied by means of high quality supervision and more integration, with a view to achieving an effective European governance that is socially useful and economically efficient.

Carlos Trias Pintó

The EESC

- considers the package of measures set out in the Commission’s Roadmap towards Banking Union, and in the two legislative acts presented at the same time to be appropriate;
- supports the call for the measures to be adopted before the end of 2012 and to be drawn up with careful attention to the effects on banking and national economies;
- specifically, urges rapid agreement on the entry into force of the Single Supervisory Mechanism (SSM). The basic initial objective is to save the euro while minimising the costs for taxpayers of possible restructuring measures or closures, by ensuring that sufficient funds are in place in advance and that the costs of resolution are borne by shareholders and creditors;
- supports the ECB taking on responsibility for supervising all banks in the banking union, however small;
- welcomes the fact that the ECB will from the beginning have a supervisory board to avoid potential conflicts of interest with its monetary functions;
- advocates a stronger role for the European Systemic Risk Board (ESRB) and the ECB as part of a more integrated financial system, and urges the Commission to provide more practical details on how the national authorities and the ECB are to interact;
- welcomes the idea of promoting the involvement of non-euro area countries using the “opt-in” clause, with the same rights as euro area countries;
- considers close connections between the European Banking Authority (EBA) and the ECB to be crucial;
- where decision-making is concerned, further analysis and consideration is needed to balance the internal market banking interests of Member States not belonging to the SSM, while avoiding the risk of Eurozone integration being paralysed by minority blocking votes. It is important to avoid a two-tier market in financial services;
- considers that the Commission should draw up a green or white paper on how to finance the banking union in a harmonised manner so it will be in a position to decide on the taxes or levies on financial and banking transactions.

Rapporteur-General: Carlos Trias Pintó
The EESC

- welcomes the new set of measures proposed by the European Commission to complete the Economic and Monetary Union (EMU) and move towards an optimal monetary zone;
- supports the various proposed goals for reinforcing the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM);
- welcomes that the present communication provides scope for a broader discussion and for a phased approach to implementing the European Deposit Insurance Scheme (EDIS) and underlines the importance not to lose momentum in implementing the Banking Union;
- supports the decision to provide only liquidity coverage in the first phase, increasing over the years;
- underlines that the national deposit guarantee schemes (DGSs) that are responsible for covering losses should still be given full attention and supports the right of national DGSs to run alternative measures, without being contrary to competition rules;
- highlights that the transition towards loss coverage in the second phase is not automatic and calls for a formal decision to be founded on the broadest possible basis to make the proposal more concrete so that a swift progress can be made, together with all stakeholders;
- underlines the importance of the immediate operability of the European Monetary Fund, in its function as a firewall for the SRM as a lender of last resort;
- emphasises that the improvement and consolidation of the pillars of the Banking Union and the application of the Single Rulebook must go hand-in-hand with implementation by the financial industry of the SDG 2030 and the Paris commitments on climate change;
- reiterates its commitment to a diverse financial ecosystem in which the large pan-European players coexist with small and medium-sized banks and other non-banking entities that focus reliably on the financing of the real economy on an equal footing, in an environment of much reduced systemic risk.

Rapporteur: Carlos Trias Pintó
Co-rapporteur: Daniel Mareels

The EESC is asking for more practical results and urgency with the establishment of the European Deposit Insurance Scheme to reinforce the Single Supervisory Mechanism and the Single Resolution Mechanism. The improvement and consolidation of the Single Rulebook must go hand-in-hand with implementation by the financial industry of the SDG 2030 and the Paris commitments on climate change.

Carlos Trias Pintó

As it is vital not to lose momentum in the completion of the Banking Union, the EESC welcomes the new Commission initiative that provides an opportunity for further discussion and the way to move forward. Further progress in the field of risk reduction and risk sharing should pave the way for the introduction of an EDIS with a re-insurance and co-insurance phase.

Daniel Mareels
The EESC strongly welcomes the proposals for establishing a Single Resolution Mechanism (SRM), which constitutes a new, important building block in developing the Banking Union and thus contributes to the further implementation of EMU. A European Single Resolution Mechanism and associated financing mechanism should allow for the swift and effective resolution of failing banks without compromising economic stability and without calling on public funds and taxpayers.

*Daniel Mareels*

The EESC

- welcomes the proposals to set up a Single Resolution Mechanism (SRM) and associated financing mechanism, which, forms an important new building block in developing the banking union;

- feels that work needs to be done on the various components (Single Supervisory Mechanism, European Stability Mechanism, the recovery and resolution of banks (BRRD), SRM) of banking union, and that the logical sequence and internal consistency of the proposals needs to be respected when implementing them;

- calls for the BRRD and the SRM to be geared to one another as closely as possible;

- feels that with regard to the Single Resolution Board, it is vitally important for its members to have the greatest possible independence and expertise and for democratic scrutiny of its decisions to be built in. Its powers should be clear and well defined;

- feels that with regard to the Single Resolution Board, it is vitally important for its members to have the greatest possible independence and expertise and for democratic scrutiny of its decisions to be built in. Its powers should be clear and well defined;

- welcomes the proposed Single Bank Resolution Fund. The Committee would like the legal basis of the fund to be clarified as soon as possible and all the challenges involved in setting up such a fund (e.g. moral hazard) to be dealt with in advance;

- considers it important to ensure that the resolution fund has the financial resources it needs to fulfil its role properly. When setting the target level for the fund, fed by contributions from the banks, the various financial sector recovery measures in different areas should be taken into account.

*Rapporteur: Daniel Mareels*
The EESC

- agrees on the need for corrective action to improve the operation of the European System of Financial Supervision (ESFS);

- calls for the promotion of measures to facilitate coordination between the ESFS, the new Single Supervisory Mechanism (SSM) arrangement and the Single Resolution Mechanism (SRM);

- demands the rationalisation of the regulatory functions of the ESFS institutions with a view to simplifying the regulatory framework and making procedures more transparent and effective;

- asks for a medium-term strategy designed to bring about a process of organisational and functional consolidation on the part of the supervisors (by considering the possibility of a single seat and the adoption of a twin peaks model);

- demands the promotion of mechanisms to support the priorities of the eurozone countries with particular reference to the banking market and Single Supervisory Mechanisms that make specific provision for membership of non-eurozone countries;

- calls on the European Systemic Risk Board (ESRB) Advisory Scientific Committee and relevant European Supervisory Authorities (ESA) committees or expert groups - having obtained the opinion of the stakeholder groups – to make specific proposals for improvement;

- calls on the European Commission to assess the feasibility of more structural measures regarding the organisation of the ESFS and the authorities’ funding mechanisms.

**Rapporteur:** Carmelo Cedrone

When making improvements to the European System of Financial Supervision, it is indispensable to promote a medium-to-long term systemic approach. It is of the utmost importance that the new supervisory and regulatory set-up be equipped to secure the stability of the financial system and growth - the substance of this must be anticyclical - and halt asymmetric growth of the shadow banking economy.

*Krzysztof Pater, Study Group President*
Stable, secure and well protected deposits are in everyone’s interest, and first and foremost the interest of savers and depositors.

For the EESC

- it is apparent that the introduction of further risk sharing (EDIS proposal) is to be accompanied by further risk reduction in the Banking Union. As both have a number of fundamental and important objectives in common relating to the strengthening and completion of the Banking Union and necessary for offering a balanced solution, they have to be dealt with in parallel and without delay and actually put into effect;

- it is essential to use the EDIS to further strengthen the Banking Union (of which it forms the third pillar), to increase its resilience against potential financial crises and to boost economic and financial stability;

- an EDIS will have a positive impact on the situation of individual Member States and banks by being more able to cushion local shocks. This may discourage speculation against specific countries or banks, thus reducing the risk of bank runs. At the same time it will further weaken the link between the banks and their national governments;

- the measures announced to reduce risk in the Banking Union are essential. They help to strengthen the Banking Union by ensuring a more level playing field between banks and weakening their links with their national sovereign;

- it is imperative that the existing legislative framework of the Banking Union (BRRD and DGS Directive) is fully implemented by all Member States. Strenuous efforts must be made to prevent potential risks of moral hazard with respect to banks, government and savers when further developing this pillar of the Banking Union;

- the proviso that a Member State can make use of the EDIS only if it fulfils all the conditions is appropriate;

- it is important that the Commission carry out a comprehensive in-depth impact study in order to further strengthen the legitimacy of the proposal;

- it is important that sufficient attention be paid to the effects of the measures on the granting of credit - in particular, lending to SMEs, SMIs, start-ups and other young companies;

- it is welcome news that the new deposit insurance scheme is to be cost-neutral for the banking sector, but at the same time the EESC believes that it would be preferable for the proposed risk-based contribution arrangements to be directly incorporated into the EDIS proposal, rather than dealing with this issue in delegated acts.

**Rapporteur:** Daniel Mareels
The EESC

• very much welcomes the Commission’s package of proposals and hopes that it will contribute effectively to complementing the work done after the crisis to reform the financial sector;

• warmly welcomes the underlying holistic and integrated approach: several major objectives in various fields are unified and reconciled in these proposals, without disregarding the principles;

• believes that the proposed measures will undoubtedly help strengthen Europe’s prudential and resolution framework for banks. This is crucial to the objective of reducing risk in the financial sector and enhancing the resilience of the institutions;

• is convinced that the risk-reducing nature of these proposals will enable progress to be made in further realizing the Banking Union and its third pillar, the European Deposit Insurance Scheme. Doing so, these proposals will make a positive contribution to the continued restoration of client and consumer confidence in the financial sector;

• also strongly welcomes the attention paid to the financing of the economy. As the current level of investment remains insufficient, no opportunity should be missed to create new and additional opportunities for an economic recovery. Banks have an important role to play as intermediaries in capital markets and bank loans will undoubtedly remain in the future the main source of funding for households and SMEs. More efforts should be made in this field in favor of SMEs, who are the backbone of the European economy. The Committee calls for the confirmation and further expansion of the “SME supporting factor”;

• feels that the specific features and possibilities of small and non-complex banks are still not being sufficiently taken into account. This concerns in particular the proportionality principle. A more structured and comprehensive approach is crucial here, to the benefit of more institutions and in more fields. No excessively heavy obligations or burdens should be imposed on this kind of institutions;

• welcomes the fact that account has been taken of a number of specific features of the EU. This is the case, inter alia, with the adjustments to the international agreements in order to take care of European specificities;

• considers that it remains important for Europe to play a leading role in ongoing and future international work on the reform of the financial sector;

• feels that it is in the interest of all players and stakeholders that clarity and legal certainty be sought in the development of the new rules, for which, moreover, a sufficient implementation timeframe should be provided;

• considers it desirable that the legal transition measures concerning the new International Financial Reporting Standards - IFRS 9 - be finalised swiftly, in order to avoid potential negative effects on the financing of the economy.

Rapporteur: Daniel Mareels

These proposals will undoubtedly help strengthen Europe’s prudential and resolution framework for banks, which is crucial for reducing risk in the financial sector and enhancing the resilience of the institutions. The risk-reducing nature of the proposals will also facilitate the completion of the Banking Union and its third pillar, EDIS. We welcome the attention paid to the financing of the economy. No opportunity should be missed to create new and additional opportunities for a lasting and sustainable economic recovery of the real economy going hand-in-hand with growth, more investment and job creation.

Daniel Mareels
Opinion on a Commission document – see full details in Appendix

2017

EU Regulatory Framework for Financial Services

It is apparent that the new rules have enhanced the stability and resilience of the financial system following the recent financial crisis. Paying attention to the proportionality principle and carefully balancing financial stability and growth objectives is of paramount importance. We call on the Member States not to impose unnecessary burdens and restrictions when transposing EU rules. The key to this is a planned entry into force, informing stakeholders and allowing them to adapt to the changes. How the rules are transposed in the Member States should be strictly monitored to ensure a level playing field.

Milena Angelova

The EESC

• welcomes the call for evidence as an innovative, informative and useful instrument for assessing the impact of legislative initiatives at EU level and hopes that it will become common practice in the future;

• agrees that the fundamental principles of the recent financial reforms cannot be disputed and that the new rules have enhanced the stability and resilience of the financial system;

• underlines the importance of the EU Regulatory Framework for Financial Services in speeding up the completion of a Capital Markets Union (CMU);

• welcomes the approach of putting the reform in the context of the wider aim of better balancing financial stability and growth objectives;

• urges the Member States not to impose unnecessary burdens and restrictions when transposing EU rules;

• agrees that banks need to be the focus of special attention since they provide important services of general interest to the general public and are the main source of funding for SMEs;

• calls on European decision makers to accelerate the structural reform of the EU banking sector including by resolving the stalemate with the co-legislators of the Commission’s legislative proposal for a regulation on structural measures improving the resilience of EU credit institutions;

• reminds that legislation is not always the most appropriate policy response and invites the Commission to opt for non-legislative and market-based solutions whenever possible.

Rapporteur: Milena Angelova
The EESC welcomes the broad package presented by the Commission. We consider this proposal to represent a key piece in the EU’s offensive to fight against the persistent problem of non-performing loans, and that it is a fundamental measure to move towards the completion of the Banking Union. The EESC underlines considerations regarding consumer protection, the social effects of access to credit and the importance of labour guarantees.

Juan Mendoza Castro

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Juan Mendoza Castro
Appendix

Page 4
OJ C 11 of 15.1.2013, p. 34
Rapporteur-General: Carlos Trias Pintó
Adopted at the Plenary Session of 14 and 15 November 2012

Page 5
Opinion of the EESC on the Communication to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions on completing the Banking Union COM(2017) 592 final
OJ C 237 of 6.7.2018, p. 46
Rapporteur: Carlos Trias Pintó
Co-rapporteur: Daniel Mareels
Adopted at the Plenary Session of 14 and 15 March 2018

Page 6
OJ C 67 of 6.3.2014, p. 58
Rapporteur: Daniel Mareels
Adopted at the Plenary Session of 16 and 17 October 2013

Page 7
and on the Report from the Commission to the European Parliament and the Council on the mission and organisation of the European Systemic Risk Board (ESRB)

COM(2014) 509 final

OJ C 251 of 31.7.2015, p. 33

Rapporteur: Carmelo Cedrone

Adopted at the Plenary Session of 18 and 19 February 2015

Page 8

Opinion of the EESC on the Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 806/2014 in order to establish a European Deposit Insurance Scheme


OJ C 177 of 18.5.2016, p.21

Rapporteur: Daniel Mareels

Adopted at the Plenary Session of 16 and 17 March 2016

Page 9

Opinion of the EESC on the Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements and amending Regulation (EU) No 648/2012,

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on the Proposal 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,

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Rapporteur: Daniel Mareels

Adopted at the Plenary Session of 29 and 30 March 2017
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COM(2016) 855 final
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Rapporteur: Milena Angelova
Adopted at the Plenary Session of 29 and 30 March 2017

and on the Proposal for a Directive of the European Parliament and of the Council on credit servicers, credit purchasers and the recovery of collateral
OJ C 367 of 10.10.2018, p. 43
Rapporteur: Juan Mendoza Castro
Adopted at the Plenary Session of 11 and 12 July 2018