# Banking union - Annual report 2016

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The Committee on Economic and Monetary Affairs adopted the own-initiative report by Danuta Maria HÜBNER (EPP, PL) on Banking Union - Annual Report 2016.

The establishment of the Banking Union (BU) is an indispensable component of a monetary union and a fundamental building block of a genuine Economic and Monetary Union (EMU). However, further efforts are needed as the Banking Union remains incomplete as long as it lacks a fiscal backstop and a third pillar on deposit insurance.

**Supervision of non-performing loans**: Members expressed concern at the high level of non-performing loans (NPLs), as, according to ECB data, by April 2016 banks in the euro area held **EUR 1014 billion in such loans**. It is crucial to reduce this level. While welcoming the efforts already being made to reduce the level of NPLs in some Member States, the Commission is called upon to assist Member States in, among other things, the establishment of dedicated asset management companies (or “bad banks”) and enhanced supervision. They reiterated, in this context, the importance of the ability to **sell off NPLs in order to free up capital**, which is especially important for bank lending to SMEs. They welcomed the Commission’s proposal on insolvency and restructuring including early restructuring and second chance, in the framework of the CMU and called on Member States, pending its adoption and in order to complement it, to improve their relevant legislation, especially with regard to the length of recovery procedures, the functioning of judicial systems, and more generally their legal framework concerning the restructuring of debt, and to implement necessary sustainable structural reforms aimed at economic recovery in order to tackle NPLs.

**Access to finance**: Members stressed that reliable access to finance and the sound allocation of capital in Europe's bank-based financing model depend heavily on robust balance sheets and proper capitalisation, the restoration of which after the financial crises was not and is not uniformly assured across the Union, thus hampering economic growth. The report stated that the European banking sector plays a key role in financing the European economy and that this is supported by a strong supervision system. They welcomed, therefore, the intention of the Commission to maintain the SME Supporting Factor in the upcoming revision of CRD/CRR and to extend it beyond its current threshold.

**Representation in the BCBS**: Members stressed the importance of the role of the Commission, the ECB and the EBA in terms of engaging in the work of the Basel Committee on Banking Supervision (BCBS) and providing Parliament and the Council with transparent and comprehensive updates on the state of play of the BCBS discussions. According to Members, the EU should work on having an appropriate representation in the BCBS, notably for the euro area. The BCBS and other fora should help promote a level playing field at the global level by mitigating - rather than exacerbating - the differences between jurisdictions.

**Bank structural reform**: the report underlined the need to introduce a bank structural reform, including the reversal of the burden of proof, to **end the problem** of very large institutions being too big to fail.

**National Systemic Risk Boards**: while welcoming the establishment of National Systemic Risk Boards, Members stressed that the establishment of the Banking Union reinforces the need to strengthen macro-prudential policy at the European level in order to properly address potential cross-border spill-overs of systemic risk. The Commission is urged to propose a coherent and effective macro-prudential supervision in its overall review of the macro-prudential framework in 2017. Members highlighted the need to reduce the institutional complexity and lengthy process in the interaction between ESRB, ECB/ Single

Supervisory Mechanism (SSM) and national authorities, and between competent and designated national authorities, in the field of macro-prudential supervision.

They also highlighted that the outcome of the **referendum** on the UK's membership of the EU requires an **assessment of the whole European System of Financial Supervision** (ESFS), including the voting modalities inside the ESAs, in particular of the double majority mechanism provided under the EBA regulation. They stressed that possible negotiations following the referendum should not lead to an unlevel playing field between EU and non-EU financial institutions, and should **not be used to promote deregulation** in the financial sector.

**Minimum requirement for own funds and eligible liabilities (MREL)**: Members stressed that proper attention should be paid, in calibrating and/or phasing in new MREL requirements, to the need to create a market for MREL-eligible liabilities. They highlighted the importance of maintaining discretion for the resolution authority when setting MREL, and of making sure that banks hold sufficient subordinated and bail-inable debt.

Members suggested the adoption on legislation with the purpose of clarifying the responsibilities and powers of, respectively, resolution authorities and competent authorities, concerning early intervention measures to be taken in cases of breaches of MREL requirements.

**Deposit insurance**: Members reiterated their call for a **third pillar** in order to complete the Banking Union. They stated that the protection of deposits is a common concern for all EU citizens. The role of the Commission is to guarantee a level playing field in this area across the EU and that it should avoid any fragmentation within the internal market.