Banking union. Annual report 2017

2017/2072(INI) - 01/03/2018 - Text adopted by Parliament, single reading

The European Parliament adopted by 476 votes to 116, with 25 abstentions, a resolution on the banking union - 2017 annual report.

Members considered that the **banking union**, as a fundamental objective to guarantee the financial stability of the euro area and indispensable foundation of a genuine economic and monetary union, **should be strengthened**. Further efforts are needed, however, as the banking union remains incomplete until it has a single budget back-stop for the Single Resolution Fund and a third pillar for deposit re/insurance.

The **risks to financial stability** remain but have already been substantially reduced since the start of the establishment of the banking union. Members stated that the current favourable economic conditions constitute a window of opportunity to push necessary reforms to complete the banking union.

Resistance tests: Parliament noted the upcoming EBA stress tests in 2018. It called on the EBA, the ESRB, the ECB and the Commission to use consistent **methodologies, scenarios and assumptions** when defining the stress tests.

It stressed however that the soundness of a bank cannot be captured by a point-in-time assessment of its balance sheet alone. Furthermore, that the ECB's own stress test for additional banks under its supervision could benefit from more transparency.

Supervision: Members welcomed the fact that the Banking Union has improved the **exchange of relevant information** between supervisory authorities and has improved the collection and exchange of data on the European banking system, contributing for example to better benchmarking and enabling a more holistic supervision of cross-border banking groups.

The exchange of information and coordination between the ECB's banking supervision and the SRB should be improved, in particular as regards the crucial issues of **whether an institution is eligible for precautionary recapitalisation and whether it is failing or likely to fail**.

The resolution stressed the need to: (i) clarify the use of asset quality reviews in order to determine whether the conditions for precautionary recapitalisation are met; (ii) increase transparency when assessing the solvency of credit institutions and considering resolution decisions.

Non-performing loans: the stock of non-performing loans (NPLs) stood at **EUR 1 trillion** in total according to the ESRB report of July 2017. Concerned about the presence of the high-level of non-performing loans in some countries, Members supported the Commission's decision to explore the potential harmonisation in prudential terms at EU level of new loans that become non-performing. Members also called on the Commission to propose **legislative and non-legislative actions** to encourage the provision of information to potential investors, the establishment of dedicated asset management companies ('bad banks') and the development of secondary markets for NPLs in order to deal with the overwhelming problem of non-performing loans.

Sovereign debt risks: Parliament noted that in some Member States financial institutions have over invested in bonds issued by their own governments, constituting excessive 'home bias'. They also noted that, with a view to limiting financial stability risks, it would be better if **banks' sovereign bond portfolios were more diverse**.

Members also stressed the need to **address the flaws identified in internal models** in order to re-establish their credibility and achieve a level playing field across institutions.

Noting, in this context, the BCBS endorsement of the amendments for the finalisation of Basel III, Members considered that the agreement should not result in a significant increase in capital requirements at Union level or harm the ability of banks to finance the real economy, in particular SMEs.

IFRS 9: Parliament stressed the importance of the fast-track procedure that led to the agreement on the phasing-in of International Financial Reporting Standard (IFRS) 9, as well as the transitional arrangements for the exemption from the large exposure limit available to exposures to certain public sector debt of Member States denominated in currencies of any Member States.

Members considered, however, that a transition **should not unduly delay the application of IFRS**. In addition, the impact IFRS 9 and the nature and allocation of loans by banks should be monitored. The ESRB and the MSU are invited to discuss these issues.

Proportionality: Members pointed out that the high costs associated with the implementation of supervisory arrangements may be particularly difficult for smaller institutions to manage. They called for the principle of proportionality to be better taken into account in certain supervisory arrangements by the ECB in the context of its supervisory activities.

Brexit: Parliament welcomed the work done in promoting supervisory convergence in the context of the UK's withdrawal from the EU in order to limit the development of regulatory and supervisory arbitrage risks. It stated that **any supervisory cooperation model to be developed between the EU and the UK should respect the financial stability of the EU** and its regulatory and supervisory regime and standards and their application.

Resolution: welcoming the work done by the SRB to intensify its bank resolution capacity at Union level, Parliament noted that resolution planning is currently still very much a work in progress. It called on the SRB to intensify its **recruitment** efforts and on national authorities to make seconded experts easily available to the SRB. It also called for greater transparency, in particular as regards the European Parliament's access to key documents supporting resolution decisions.

Members pointed out that one of the causes of the arbitration opportunities revealed by recent resolution cases is the divergence between the state aid rules, applied under the current resolution regime, and the **national insolvency law**. They therefore invited the Commission to review the bank insolvency frameworks in the Union in order to draw lessons from the 2017 banking cases.

Recalling the objectives of the directive establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD), Parliament stated that **extraordinary public financial support measures** may only be used to remedy 'a serious disturbance in the economy' and to 'preserve financial stability' and that they 'shall not be used to offset losses that an institution has incurred or is likely to incur in the near future'. It considered that extraordinary public financial support should also be accompanied, where appropriate, by remedial actions.

While welcoming the improvement in the resolvability of credit institutions, Parliament stressed the importance of operational and credible resolution plans and that the minimum requirement for own funds and eligible liabilities should take account of the institutions' business models to ensure the resolvability of these institutions. It called on the SRB to provide a comprehensive list of obstacles to resolvability encountered in national or European legislation; stresses that the revision of the BRRD should in no way lag behind internationally agreed standards.

Deposit insurance: Parliament recalled that the deposit protection is a common concern of all EU citizens and that the banking union remains incomplete without a third pillar. It stressed that **further harmonisation** of the rules applying to deposit guarantee schemes is necessary in order to achieve a level playing field within the Banking Union.