Banking Union: Council endorses package of measures to reduce risk

Press contacts

Maria Tomasik
Press officer
+32 2 281 24 63
+32 470 88 23 83

The Council took today a significant step towards strengthening the banking union.

It endorsed the agreement achieved between the presidency and the Parliament on **key measures of a comprehensive legislative package aimed at reducing risks in the EU banking sector**.

> Today we have taken a very important step towards completing the Banking Union. We are delivering measures to make European banks stronger, more stable, more resilient. The measures will create the conditions to take ambitious decisions on reforming the euro-area.
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> *Hartwig Löger, minister for finance of Austria, which currently holds the Council presidency*

The proposals are intended to implement reforms agreed at **international level** following the 2007-2008 financial crisis to strengthen the banking sector and address outstanding challenges to financial stability. Presented in November 2016, they include elements agreed by the **Basel Committee** on Banking Supervision and by the **Financial Stability Board** (FSB).

The agreed measures deliver on three of the key objectives set out by the Council roadmap on **completing the banking union** agreed in June 2016:

- enhancing the **framework for bank resolution**, in particular the necessary level and quality of the subordination of liabilities (MREL) to ensure an effective and orderly "bail-in" process.
- introducing the possibility for resolution authorities to suspend a bank's payments and/or contractual obligations when it is under resolution – the so-called "**moratorium tool**" -, so as to help stabilise the bank's situation.
- strengthening **bank capital requirements** to reduce incentives for excessive risk taking, by including a binding leverage ratio, a binding net stable funding ratio and setting risk sensitive rules for trading in securities and derivatives.

In addition, the banking package contains measures **to improve banks' lending capacity and to facilitate a greater role for banks in the capital markets**, such as:

- reducing the administrative burden for smaller and less complex banks, linked in particular to reporting and disclosure requirements;
- enhancing the capacity of banks to lend to SMEs and to fund infrastructure projects;
- reducing the costs of issuing/holding certain instruments, such as high quality securitisation instruments or covered bonds;

The banking package also contains a framework for the cooperation and information sharing among the various authorities involved in the **supervision and resolution of cross-border banking groups**. The agreed measures preserve the balance achieved by the Council position between the powers of home and host supervisors in order to facilitate cross-border flows of capital and liquidity, while ensuring an adequate level of protection for depositors, creditors and financial stability in all member states. The agreement also introduces amendments to improve cooperation between competent authorities on matters related to the **supervision of anti-money laundering activities**.

Risk sharing and banking union

This agreement paves the way to making further progress in the sharing of risk within the EU's banking union. The Euro-summit is due to review the progress achieved in reducing risk in the EU banking industry in December 2018, and to decide on specific steps to be taken in the framework of a broad reform of the Economic and Monetary Union.

In June 2016, the Council agreed in particular that in line with risk reduction measures, it may be decided to set up a **common backstop** to the EU's **single resolution fund** for failing banks ahead of the 2024 agreed start date.

Next steps

Work on remaining outstanding issues will continue both at technical and political level, in view of finalising negotiations on the banking package by the end of the year.

Parliament and Council will then be called on to adopt the proposed regulation at first reading.

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