[Commission calls for the completion of all parts of the Banking Union by 2018]

The Banking Union must be completed if it is to deliver its full potential in making the Economic and Monetary Union (EMU) more stable and resilient to shocks, while limiting the need for public risk sharing. This is beneficial for the entire Single Market. Building on the significant progress already achieved, the Commission is today publishing a Communication that sets out an ambitious yet realistic path to ensure agreement on all the outstanding elements of the Banking Union, based on existing commitments by the Council. This comes ahead of the December Euro Summit, in an inclusive format, where completion of the Banking Union will be part of discussions on further deepening the EMU. Together with the Capital Markets Union (CMU), a complete Banking Union will promote a stable and integrated financial system in the EU.

In his [State of the Union address,] President **Juncker** reiterated that the Banking Union can only function if risk reduction and risk sharing go hand in hand. The Commission has already proposed measures to further reduce risk and improve risk management in banks.Last November, the Commission already presented a comprehensive risk-reduction package with changes to the banking legislation. The Commission now urges the European Parliament and the Member States to progress quickly. While recognising the current trend of declining levels of non-performing loans (NPLs), the Commission is suggesting new measures to reduce non-performing loans and to help banks diversify their investments in sovereign bonds. On the risk-sharing side, the Commission is setting out some suggestions to facilitate progress in the European Parliament and the Council on steps towards a European Deposit Insurance Scheme (EDIS), guaranteeing citizens' deposits in the Banking Union at a central level, a vital missing element of the Banking Union. The Communication also maps out rapid steps towards a last resort common fiscal backstop, committed to by Member States already in 2013, ensuring the solidity of the system and making sure that the Single Resolution Fund (SRF) has sufficient resources even in case of several simultaneous major bank resolutions.

Valdis **Dombrovskis**, Vice-President for Financial Stability, Financial Services and Capital Markets Union said: *"A complete Banking Union is essential for the future of the Economic and Monetary Union and for a financial system that supports jobs and growth. We want a banking sector that absorbs crises and shares risks via private channels, thus ensuring that taxpayers are not first in line to pay. Today we are presenting pragmatic ideas to move forward with risk sharing and risk reduction in parallel. We hope that these will be useful food for thought for EU co-legislators to reach consensus on the remaining measures by 2018."*

Key features of the Communication

Quick agreement on the Banking Package

The Commission is today calling on the European Parliament and the Member States to adopt as quickly as possible its proposals to reduce risks and strengthen the resilience of EU banks. The Commission presented this comprehensive package of reforms in November 2016. The proposals incorporate the remaining elements of the rules agreed within the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB). They aim to complete the post-crisis regulatory agenda by making sure the rules address remaining challenges to financial stability. At the same time, the reform will enable banks to continue to fund the real economy.

Progress on the European Deposit Insurance Scheme

All depositors within the Banking Union should enjoy the same level of protection, independent of their geographical location. To facilitate the creation of a single European Deposit Insurance Scheme (EDIS) and encourage progress in the ongoing negotiations, the Commission is now suggesting some possible steps with regard to the phases and the timeline of EDIS. The proposed ideas try to address diverging views and concerns raised in the European Parliament and the Council. In particular, today's Communication is suggesting for discussion the introduction of EDIS more gradually compared with the original proposal of November 2015. There would be only two phases: a more limited reinsurance phase and then coinsurance. However moving to this second phase would be conditional on progress achieved in reducing risks. In the reinsurance phase, EDIS would only provide liquidity coverage to national Deposit Guarantee Schemes (DGS). This means that it would temporarily provide the means to ensure full payouts in case a bank is in crisis, while national DGSs would need to pay back this support, ensuring that any losses would continue to be covered at national level. In the coinsurance phase EDIS would also progressively cover losses.

A fiscal backstop to the Banking Union

When the Single Resolution Mechanism (SRM) was set up, Member States agreed on the importance of a common backstop for the Single Resolution Fund (SRF) to protect financial stability. This is to ensure that, if needed, after private investors have borne losses via bail-in, if needed the fund has sufficient resources to deal with a major bank resolution, or several bank resolutions occurring in rapid succession. Any costs will be recouped from the banking sector so that fiscal neutrality in the medium term is ensured. The Commission's Reflection Paper on Deepening the Economic and Monetary Union identified a credit line from the European Stability Mechanism (ESM) as the most effective option. This work stream will need to be articulated with the Commission's forthcoming package of proposals for the deepening of Europe's EMU, which will include a proposal to transform the ESM into a European Monetary Fund, within the framework of Union law. In this context, it will also be important to ensure an efficient decision-making process that will allow for a swift deployment of the backstop, in last-resortsituations.

Reducing non-performing loans

The Commission is already working on a comprehensive package of measures to reduce the level of existing NPLs and prevent the build-up of NPLs in the future, as agreed in the Council of 11 July 2017. The package, which is due to be adopted in the spring 2018, will include:

- a blueprint for national asset management companies;
- legislative measures to further develop secondary markets for NPLs and enhance the ability of creditors to recover value from secured loans;
- a report exploring the possibility of a legislative proposal introducing statutory prudential backstops against under-provisioning of new NPLs; and
- a way forward to foster the transparency on NPLs in Europe.

Moreover, in the review report of the SSM also published today, which makes an overall positive assessment of the first years of operation of the SSM, the Commission is clarifying the powers of supervisorsto adjust banks' provisioning levels with regard to non-performing loans (NPLs) for supervisory purposes.

Possible measures for Sovereign Bond-Backed Securities

In order to find pragmatic solutions to reduce the bank-sovereign loop, the Commission recalls the ongoing work of the European Systemic Risk Board on sovereign bond-backed securities (SBBS). The Commission will consider the outcome of this work with a view to putting forward in 2018 a proposal to enable the development of SBBS. SBBS could help banks diversify their holdings of sovereign bonds. They could also be a new source of high-quality collateral for use in cross-border financial transactions.

Continuing to ensure high quality supervision

As mentioned in the Capital Markets Union Mid-term Review, the Commission will also propose in December 2017 that large investment firms carrying out bank-like activities be considered credit institutions and be subject to bank supervision. In the Banking Union they would be supervised in the framework of the Single Supervisory Mechanism (SSM), including by the European Central Bank. This will ensure that prudential rules are applied consistently and that both large investment firms and credit institutions are subject to the same high level standards of supervision.

Background

In 2012 the Commission proposed a Banking Union that would place the banking sector on a sounder footing and restore confidence in the euro. The Banking Union is based on stronger prudential requirements for banks. It consists of bank supervision, rules for managing failing banks as well as improved protection for depositors. The first two pillars were achieved with the establishment of the Single Supervisory Mechanism (SSM) and of the Single Resolution Mechanism (SRM). However, a common system for deposit protection has not yet been established. The Commission put forward a proposal for a European Deposit Insurance Scheme (EDIS) in November 2015.

The Banking Union can only deliver its full potential and provide all the tools needed to deal with future crises if all its elements are fully in place. The 2015 Five Presidents Report and the Reflection paper on the deepening of the Economic and Monetary Union (EMU) already called for the completion of the Banking Union before the end of 2019. The Letter of Intent that followed President Juncker's State of the Union Address calls for the completion of all aspects of the Banking Union by 2018.

For More Information

Q&A on today's Communication

Factsheet

Communication on Completing the Banking Union

Banking union website