Completing the Banking Union: Commission welcomes political agreement to further reduce risks in the EU banking sector

The Commission welcomes the provisional political agreement, which marks an important milestone in reducing risk in the Union banking sector and reinforcing the resilience of banks. Together with the encouraging data on risk reduction presented by the Commission last week, this prepares the path for further progress on the common backstop to the Single Resolution Fund and on the completion of the Banking Union at the December Euro Summit in inclusive format. This package contributes significantly to further reducing risks in EU banks and it is an essential element for the completion of Banking Union. It builds on existing banking rules, implements international standards, and aims to complete the post-crisis regulatory agenda, making sure that outstanding challenges to financial stability are addressed. At the same time it increases the ability of banks to finance the real economy.

Commission Vice-President Valdis **Dombrovskis**, responsible for Financial Stability, Financial Services and Capital Markets Union, said: "*I am delighted that the European Parliament and the Council found a political agreement on the banking package, after months of very complex and technical discussions. This very important risk-reducing package complements the progress that has already been achieved over the past years, and lays the basis for further progress on strengthening the Banking Union.*"

The November 2016 banking package is part of Commission's ongoing work to reduce risk in the banking sector, as set out in the Communication "*Towards the Completion of the Banking Union*".

The measures agreed will increase the resilience of EU institutions and enhance financial stability, and improve banks' lending capacity to support the EU economy. They amend the following pieces of legislation:

Next Steps

The political agreement will be followed by further technical talks to finalise the text. The final agreement should be given by the Permanent Representatives Committee (COREPER) of the Council of Ministers and the European Parliament.

Background

In November 2016 the European Commission adopted a comprehensive package of reforms ('EU banking reform package') to further strengthen the resilience of EU banks reforms (IP/16/3731 and MEMO/16/3840). The solution agreed by the European Parliament and the Council retains the key elements of the

Commission’s proposal.

Measures to increase the resilience of EU institutions and enhancing financial stability

The rules agreed incorporate the remaining elements of the regulatory framework agreed recently within the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB). They include:

- More risk-sensitive capital requirements, in particular in the areas of market risk, counterparty credit risk, and for exposures to central counterparties (CCPs);
- Implementing methodologies that are able to reflect more accurately the actual risks to which banks are exposed;
- A binding Leverage Ratio (LR) to prevent institutions from excessive leverage;
- A binding Net Stable Funding Ratio (NSFR) to address the excessive reliance on short-term wholesale funding and to reduce long-term funding risk.
- A requirement for Global Systemically Important Institutions (G-SIIs) to hold minimum levels of capital and other instruments which bear losses in resolution. This requirement, known as ‘Total Loss-Absorbing Capacity’ or TLAC), will be integrated into the existing MREL (Minimum Requirement for own funds and Eligible Liabilities) system, which is applicable to all banks, and will strengthen the EU’s ability to resolve failing G-SIIs while protecting financial stability and minimising risks for taxpayers.

Measures to improve banks’ lending capacity to support the EU economy

In particular, specific measures are proposed to:

- Enhance the capacity of banks to lend to SMEs and to fund infrastructure projects;
- Make CRD/CRR rules more proportionate and less burdensome for smaller and less complex institutions where some of the current disclosure, reporting and complex trading book-related requirements appear not to be justified by prudential considerations.
- For non-complex, small banks, reduce the administrative burden linked to some rules in the area of remuneration (namely those on deferral and remuneration using instruments, such as shares), which appear disproportionate for these banks;

The agreement complements previously-agreed risk-reduction measures, such as:

- the bank creditor hierarchy, which ensures a harmonised subordination – or ranking – for loss absorbing instruments;

- the Regulation on IFRS9 and large exposures which mitigates the impact of the introduction of IFRS9 on banks’ capital. It also gives banks with large holdings of government bonds denominated in a domestic currency of another Member State time to adjust to new large exposures limits.

For More Information

IP MEMO AND FACTSHEET FROM NOV 2016

CRR/CRD IV

BRRD

SRMR