IPOL | DIRECTORATE-GENERAL FOR INTERNAL POLICIES
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AT A GLANCE

Main Elements of the Banking Union

Single Supervisory Mechanism

The SSM is a new system of banking supervision which on **4 November 2014** became fully operational. The ECB is now responsible for the direct supervision of the 120 largest and most significant banks in the Eurozone. All other banks are supervised by national supervisors, in cooperation with the ECB.

Single Resolution Mechanism

The SRM comprises the Single Resolution Board, which is the EU authority that prepares for and carries out the resolution of a failing bank, operational as of **January 2015**, and the Single Resolution Fund (**in force January 2016**), which ensures that medium-term funding support is available while a credit institution is being restructured.

Funding

1. SRF: Single Resolution Fund (intergovernmental)
2. DGS: Revised Deposit Guarantee Scheme Directive
3. ESM: European Stability Mechanism *(Direct Recapitalisation of Banks) (intergovernmental)*

Accountability to the EP

Single Supervisory Mechanism

- ► Regular reporting to the EP and responding to questions
- ► SSM Chair presents the annual reports in public
- ► At the request of EP: in camera hearings
- ► Approval of the proposal for appointment of SSM Chair and Vice-Chair by vote (see also IIA EP-ECB)

Single Resolution Mechanism

- ► SRM Chair presents the annual reports in public
- ► SRM Chair participates in public hearings at least annually
- ► Reply, orally or in writing, to EP's questions
- ► At the request of EP: in camera hearings
- ► EP approves the Chair, Vice-Chair and the other 4 full time members of the Single Resolution Board

Funding

- ► No direct reporting to or oversight by the EP for the three instruments
- ► The Deposit Guarantee Directive, which assigns certain rulemaking tasks to EBA, is currently under review. EBA is accountable to the EP
- ► In the case of ESM, there is scrutiny of the "Troika" via "2-pack provisions"

HORIZONTAL ISSUES

Bank Recovery and Resolution Directive

The BRRD entered into force in January 2015 with some transitional periods (e.g. full bail-in regime in January 2016). BRRD shall streamline instruments for banks with difficulties across the EU, ensuring early intervention and participation of shareholders and creditors in sharing the financial burden of a failed bank.

CRD IV Package - fourth Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR)

The package entered into force in January 2014. It transposes into European law the prudential capital requirements for credit institutions and investment firms which are based on the internationally agreed principles (Basel III) and preserves the level playing field inside the single market by achieving a Single Rule Book for all banks in the EU.

Banking Structural Reform

On 29 January 2014, the COM adopted a proposal for a regulation in order to limit the biggest banks from engaging in potentially risky activity of proprietary trading. The proposed rules would give supervisors the power to require banks to separate some potentially risky trading activities from their deposit-taking business if such activities compromise financial stability.

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STATE-of-PLAY & SHORT DESCRIPTION

SSM: In preparation for the Single Supervisory Mechanism to become fully operational, the ECB carried out a comprehensive assessment - a financial health check - of 130 banks, consisting of an Asset Quality Review and a Stress Test. The ECB disclosed the results on 26 October 2014. On 4 November 2014 the ECB took over the full supervisory responsibility for banks in the euro area.

SRM: The SRM entered into force on 1st January 2015. The SRM will complement the SSM and will ensure that if a bank subject to the SSM faces serious difficulties, its resolution can be managed efficiently with minimal costs to taxpayers and the real economy. The SRM will apply to all banks in the Euro Area and other Member States that opt to participate. The division of powers of the Single Resolution Board and national resolution authorities broadly follows the division of supervisory powers between the ECB and national supervisors in the context of the SSM.

SRF: 26 Member States have signed the Inter-Governmental Agreement (IGA) on the transfer and mutualisation of contributions to the Single Resolution Fund (SRF) on 21 May 2014. All signatories shall complete its ratification before 1 January 2016. The SRF will be constituted from contributions from all banks in the participating Member States. It will be administrated by the Board. The SRF has a target level of €55 billion and can borrow from the markets if decided by the Board. It will reach the target level over 8 years. During the transition, the Fund will comprise national compartments, which will be progressively mutualised, starting with 40% of these resources in the first year. The SRF and the decision-making on its use is regulated by the SRM Regulation, while the transfer of contributions raised nationally and the mutualisation of the national compartments is set out in the IGA.

DGS: The DGS (recast) was published in the OJ on 12 June 2014. EU MS will then have to transpose it to national law. It ensures that depositors will continue to benefit from a guaranteed coverage of €100,000 in case of bankruptcy backed by funds to be collected in advance from the banking sector. The target level for ex ante funds of DGS is 0.8% of covered deposits (i.e. about € 55 billion) to be collected from banks over a 10-year period. In addition, access to the guaranteed amount will be easier and faster. Repayment deadlines will be gradually reduced from the current 20 working days to 7 working days in 2024.

ESM - Direct Recapitalisation of Banks: On 21 June 2013 the Eurogroup agreed on the main features of the ESM direct bank recapitalisation instrument. On 5 May 2014 its President proposed that in 2015 a bail-in of 8% of total liabilities and the use of the national resolution funds up to the 2015 target level will be preconditions to use direct recap. As of 2016 the full bail-in rules of the BRRD will apply. The ESM will be able to use the recapitalization instrument only when national parliamentary scrutiny procedures have been finalised, and the SSM is established and effective.

BRRD: Member States shall apply most of the BRRD from January 2015. It is streamlining instruments for banks with difficulties across the EU with measures on how to address a banking crisis at an early stage and, if the crisis develops further, how to resolve a failing bank in an orderly manner with participation of shareholders and creditors in sharing the financial burden without damaging the financial system and by extension, the real economy. While the previously adopted CRD IV package reduces the probability of banks failing, the BRRD framework manages a failure and reduces the societal impact of such failures.

CRD IV Package: it strengthens the bank capital and liquidity standards, and addresses the procyclical nature of Basel II rules, as well as disclosure requirements. The rules for compensation practices (e.g. bonuses) have also been reformed, as well as incentives for lending to the real economy, especially SMEs. During the legislature (2014-2019) the European Commission shall submit further legislative acts to review certain provisions of the CRD IV package as well as Level 2 measures.

ECB/SSM and the EBA: The ECB/SSM will not take over any tasks of EBA. It will rather take over supervisory tasks which are currently carried out by national supervisors of the euro area MS (and of those non-euro area MS which will choose to participate in the SSM). The ECB/SSM will cooperate with the EBA within the framework of the European System of Financial Supervision. EBA will continue developing the single rulebook applicable to all 28 Member States and enhance convergence of supervisory practices across the entire EU.