

6 European Parliament's report on Banking Union

Improvements welcomed but some issues pending

On March 10, the plenary session of the European Parliament approved the 2015 annual report on Banking Union (BU). The report, prepared by the Economic and Monetary Affairs Committee, assesses the current situation of the BU and the developments on its three pillars. In general, the report welcomes the improvements in these areas, arguing that the BU is important to guarantee financial stability.

Roberto Gualtieri (Rapporteur to the Parliament) presented the report, which revolves around the **three pillars of the BU**:

I) The Single Supervisory Mechanism (SSM). The report deems the implementation of the **SSM as successful** both in operational terms (recruitment process, IT infrastructure, etc.) and in supervisory quality. Nevertheless, it acknowledges that the SSM could improve its effectiveness by reducing the operational burden on its administrative structure (e.g. by delegating decisions on particular issues). Similarly, the report emphasises that administrative burdens on credit institutions (particularly the smaller ones) should be avoided.

The report calls for a **revision of the stress test methodology** applied to supervised banks. On this matter, the report **highlights the problem posed by NPLs**, which prevent banks from granting new loans to the economy, particularly to SMEs. Hence, the report advocates for a solution to this issue, for instance by establishing asset-management companies (as was the case of Spain or Ireland).

In a similar vein, the report notes that the **structural reform of the banking sector should be finally completed** by a "swift legislative agreement". Additionally, it argues that in the short run, **excessive capital requirements might lead to undesired consequences** in terms of banks' lending capacity. **Stabilizing the regulatory framework** should be a priority to restore investors' confidence.

With respect to the **Maximum Distributable Amount (MDA)**, the report calls for a **certain degree of flexibility** to prevent it from being "too rigid", undermining the AT1 market. In this regard, the report claims that further legal clarification on the MDA issue is needed.

Finally, regarding the **sovereign exposure treatment**, the report argues that medium-term changes **should be carefully analysed, to prevent unintended consequences** in terms of financial stability, market/competition distortions, or reducing available funding for Member States. It is stressed that this should be a globally coordinated effort.

II) The Single Resolution Mechanism (SRM). SRB's efficient organization is welcomed by the report, which calls for **further progress** on the set-up of **resolution plans, transposition of the BRRD, and the technical standard for MREL** (at least 8% and consistent with the TLAC). A bridge financing mechanism should be established as swiftly as possible to provide funds if necessary. Finally, it recalls the ECOFIN pledge to create a **common fiscal backstop to support the Single Resolution Fund** as a last resort.

III) European Deposit Insurance System (EDIS): the report acknowledges that the **ability to uniformly protect deposits, regardless of their location, is a key feature** of the BU that would contribute to breaking the bank-sovereign vicious circle. Hence, the **EDIS proposal is welcomed**. Risk sharing should be accompanied with risk reduction measures to prevent moral hazard. The report argues that the implementation of EDIS requires further steps to reduce risk besides the implementation of the BRRD and DGSD by all Member States. In this line, a **proper implementation of the bail-in tool would be an important mechanism for risk avoidance**.

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