#BankingUnion

COMPLETING THE BANKING UNION

The Banking Union protects financial stability and deepens financial integration in the EU. It is now time to complete it by the end of 2018.

SINGLE SUPERVISORY MECHANISM	SINGLE RESOLUTION MECHANISM	
BANKING UNION		Open to all member states
OUTSTANDING COMPONENTS: European Deposit Insurance Scheme; Common backstop for the Single Resolution Fund		

A SINGLE RULEBOOK APPLIES TO BANKS IN ALL EU MEMBER STATES

A completed Banking Union is part of the effort to deepen the Economic and Monetary Union and is complementary to the Capital Markets Union.

"If we want banks to operate under the same rules and under the same supervision across our continent, then we should encourage all Member States to join the Banking Union. We need to reduce the remaining risks in the banking systems of some of our Member States. Banking Union can only function if risk-reduction and risk-sharing go hand in hand."

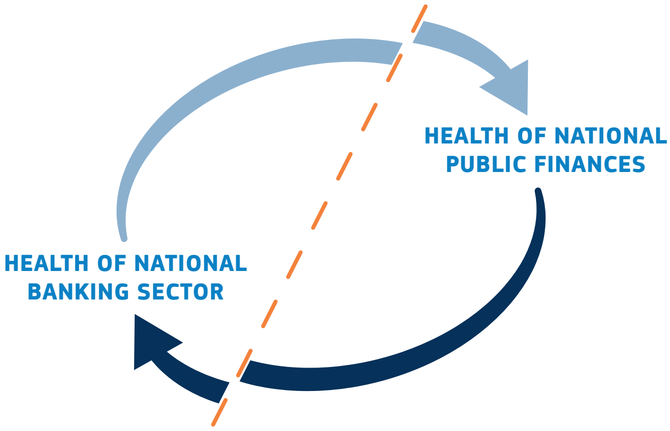
JEAN-CLAUDE JUNCKER
President of the European Commission,
State of the Union Address 2017

"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 a useful food for thought for EU co-legislators to reach consensus on the remaining measures by 2018."

VALDIS DOMBROVSKIS
Vice-President in charge of Financial Stability,
Financial Services and Capital Markets Union

THE BANKING UNION - BREAKING THE LINK BETWEEN BANKS AND GOVERNMENTS

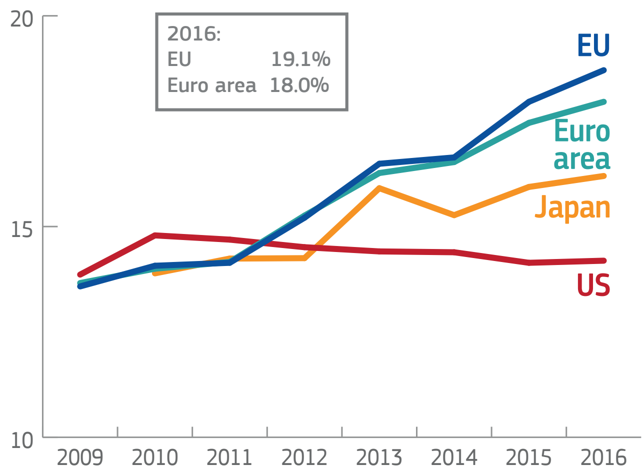
Stopping the pattern that has emerged in the past: breaking the "doom loop" between European banks and governments to avoid that taxpayers are the first in line to pay.



RISKS IN THE BANKING SYSTEM HAVE DECLINED SINCE THE FINANCIAL CRISIS

Banks' capital ratios

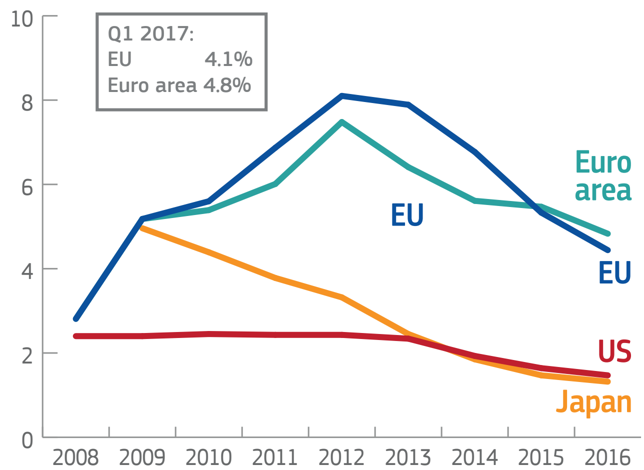
% of total risk-weighted assets



Source: IMF and European Commission calculations

Non-performing loans

% of total loans



Source: World Bank

Further steps are now needed to complete the Banking Union, in addition to the significant progress achieved and the proposals already on the table.

WHAT IS TODAY'S COMMUNICATION ABOUT?

- ✓ Seeks to increase private risk-sharing to reduce the risk carried by the public sector in times of crisis.
- ✓ Sets out a path for completing the Banking Union with further risk reduction and risk sharing.
- ✓ Suggests a way forward to break the impasse between the European Parliament and the Council on the European Deposit Insurance Scheme.
- ✓ Review of the Single Supervisory Mechanism (SSM) showing overall positive results.
- ✓ Advancing on commitments made concerning the reduction of non-performing loans, the European Deposit Insurance Scheme, the banking package and the fiscal backstop.

HOW CAN THE LEGISLATIVE PROCESS OF THE EUROPEAN DEPOSIT INSURANCE SCHEME (EDIS) BE ADVANCED?

- ✓ More gradual introduction of EDIS.
- ✓ Reinsurance would only provide liquidity to national deposit guarantee systems, while national deposit guarantee systems have to cover losses.
- ✓ The transition from reinsurance to co-insurance would be conditional on sufficient reduction in banks' non-performing loans.
- ✓ Under co-insurance, EDIS coverage of losses would gradually increase.

WHY IS THE EU TARGETING NON-PERFORMING LOANS (NPLs)?

- ✓ The Commission will continue to be committed to action as endorsed by European Council (NPL Action Plan).
- ✓ While the overall level of NPLs has gone down, NPLs continue to weigh on the ability of banks to lend, especially in some EU countries.
- ✓ Further reducing NPLs will reduce risks in the financial system.
- ✓ To support banks and Member States in tackling existing NPLs and preventing NPLs in the future.

COMPLETING THE BANKING UNION BY 2018

Already in place

SINGLE RULEBOOK FOR EU28

- Capital and liquidity requirements make banks more stable
- Governance rules (incl. on remuneration) set the right incentives
- Strong supervision of banks
- Disclosure rules to improve transparency
- Improved protection for depositors through national deposit insurance systems
- Common rules for managing failing banks

- Further enhancements of capital and liquidity requirements (legislative proposal to be agreed by European Parliament and Council)

Already in place

IN THE BANKING UNION

- Banks supervised by the Single Supervisory Mechanism at the European Central Bank
- Single Resolution Mechanism can resolve banks
- Banks pre-finance Single Resolution Fund to avoid costs for taxpayers

In progress:

- European Deposit Insurance Scheme (legislative proposal to be agreed by European Parliament and Council)
- Common backstop for the Single Resolution Fund

Under consideration:

- Private-sector risk sharing through sovereign bond-backed securities

Announced today

- Equipping banks better to reduce stock of non-performing loans
- Enabling banks to prevent accumulation of non-performing loans in the future
- Clarifying supervisors' powers to address non-performing loans
- More transparency on non-performing loans
- Large investment firms to be supervised by Single Supervisory Mechanism