FINANCIAL UNION:
Commission launches risk reduction proposal to enable sovereign bond-backed securities

#BankingUnion | #StrongBanks | #EMUdeepening

WHAT IS THE COMMISSION PROPOSING

- A new class of low-risk securities backed by a diversified pool of national government bonds, so-called Sovereign Bond-Backed Securities (SBBS)
- Common criteria to label a product SBBS
- Market-led solution to help investors diversify their balance sheets and further weaken the link with their governments

WHAT THE COMMISSION IS **NOT** PROPOSING

- SBBS are NOT Eurobonds, and would not mutualise public debt between Member States
- NO change of regulatory treatment of sovereign exposures

HOW CAN SBBS HELP COMPLETE BANKING UNION AND DEEPEN EMU?

✓ Reduces concentration risk in banks due to more diversified portfolios of government bonds

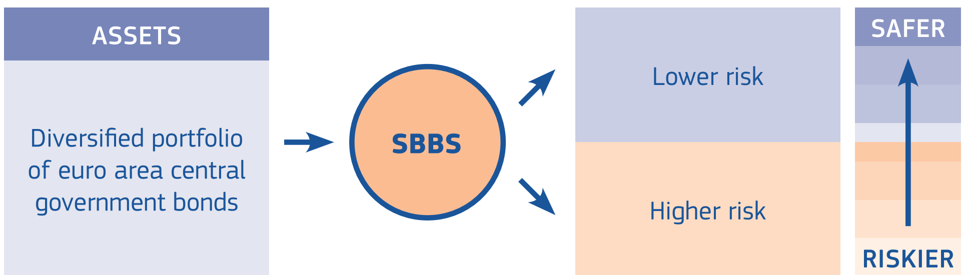
✓ Makes investors stability less dependent on creditworthiness of their 'home countries'

✓ Sovereign risks more diversified => EMU more resilient against shocks

HOW WILL SBBS WORK?

SBBS ISSUERS
(private entity created solely to issue and manage SBBS)

Balance sheet of the issuer



SBBS BUYERS
(e.g. banks, insurance companies, hedge funds)

"The market-led development of SBBS will help investors diversify their sovereign exposures and promote financial integration. This is a pragmatic proposal that will strengthen private risk absorption through integrated financial markets and reduce risk in the banking sector, without the need for a mutualisation of risks."

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

HOW WILL SBBS COMPLEMENT OTHER MEASURES?

SBBS will complement existing measures to integrate markets and make firms more stable...

- European labels and products (personal pensions, covered bonds)
- Banks supervised by the European Central Bank thanks to the Single Supervisory Mechanism
- Reporting rules improve transparency and governance
- Capital, liquidity and leverage requirements make banks more stable
- Strategy to further reduce non-performing loans

PROPOSED
SBBS= new tool for diversifying risks in banks' balance sheet and enhance resilience of Economic and Monetary Union

...and EMU more resilient against shocks

- Stability and Growth Pact
- European Stability Mechanism
- Stronger Single Market
- European Semester
- Structural reforms in the Member States

DELIVERING ON THE ROADMAP TO COMPLETE THE BANKING UNION

MEASURE	DESCRIPTION	European Commission	European Parliament	Council of the European Union
Single Supervisory Mechanism (SSM)	*The SSM supervises all banks in the Banking Union. In place* ***since November 2014****.*	🟢	🟢	🟢
Single Resolution Mechanism (SRM)	*The SRM can restructure banks that are failing or likely to fail in the Banking Union. In place* ***since January 2016****.*	🟢	🟢	🟢
Single Resolution Fund (SRF)	*The SRF, made up of banks' contributions, can support the smooth resolution of a bank. It will amount to about €55 billion* ***in 2023****.*	🟢	🟢	🟢
European Deposit Insurance Scheme (EDIS)	*The Commission's EDIS proposal would strengthen the protection of bank depositors across the Banking Union. The co-legislators have so far not been able to agree on this proposal. The Commission suggested a way forward in* ***October 2017****.*	🟢	🟡	🟡
November 2016 Banking Package	*The Commission proposed reinforcing the banking Single Rulebook with further risk-reducing measures. First key measures (creditors' hierarchy and IFRS 9) became applicable in* ***January 2018****.*	🟢	🟡	🟡
Legislative proposal on **business insolvency**	*The Commission presented a legislative proposal on preventive restructuring and second chance in* ***November 2016****. The proposal is currently under negotiation in the Council.*	🟢	🟡	🟡
A backstop for the Banking Union	*The creation of a backstop for the Single Resolution Fund was agreed by Member States in 2013. On* ***6 December 2017****, the Commission proposed to make the backstop part of the future European Monetary Fund.*	🟢	🟡	🟡
Further **reduction of non-performing loans** *on EU banks' balance sheets*	*The Council agreed an Action Plan to further reduce non-performing loans in July 2017. The Commission delivered its part - a package of initiatives complementing its previous action -* ***in March 2018****.*	🟢	🟡	🟡

🟢 *Presented/agreed* 🟡 *Agreement possible in 2018 if strong political commitment from all EU institutions*