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Plenary debate on the Banking Union Annual Report 2016

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The Banking Union has been one of the most significant steps taken to respond to the financial crises of 2008-2009. It is a precious achievement.

Since mid-2012 when it was initiated, we have come a long way towards addressing the negative feedback loop and other damaging procyclical ties between banks and sovereigns.

However, like the economic governance, which we have been intensely discussing during this session, the Banking Union is halfway through.

We have unfinished businesses with the European Deposit Insurance Scheme (EDIS), with the fiscal backstop, with possible changes in the prudential treatment of sovereign debt to further de-link banks and sovereign and with possible transfer of the full responsibility for emergency liquidity assistance to the central level. We also have legacy issues to deal with, such as this of non-performing loans.

What I have intended to do with this report is to give a critical overview of the challenges we are facing, while not pre-empting the outcome of the legislative discussions on EDIS as well as on the new banking package that amends CRR, CRD, BRRD and the single resolution mechanism regulation.

The recommendations in the report concern all the pillars of the Banking Union: supervision, resolution and deposit insurance.

Through indeed an excellent cooperation with other colleagues, we have built broad consensus on this comprehensive report and we look with much detail into all areas where recommendations can be made. The report has become a very helpful stocktaking exercise before handing over to the colleagues leading the legislative discussions. I hope the messages will be taken into account and will feed into legislative debates.

However, there are broader issues in this report, which will not be dealt with in the current Commission banking package.

I am especially thinking of the fiscal backstop.

It needs to be done and actually, there is agreement to establish it.

The current solution, credit lines between national governments and the ESM, is not sufficient to overcome the bank-sovereign vicious circle and do away with the bailouts. Ultimate liability for the financing of the backstop should rest with the

banking sector and not with taxpayers. The backstop should be fiscally neutral over the medium term.

There is another set of issues which will not be part of the current negotiations on the banking package, because global guidance is needed there. I am thinking here of internal models to calculate capital requirements and of the prudential treatment of sovereign debt.

In the case of internal models, work is being done at the level of the Basel Committee and also, in the EU, at the level of the EBA and of the ECB as regards the harmonisation of definitions and the testing of models. We need to balance the creation of a level playing field between small and large banks and the transparency and comparability of capital requirements with a need for risk-sensitivity and a possibility to use specific information from the banks that can bring useful refinement to the model.

In the case of the prudential treatment of sovereign debt, we would like to better reflect the risks involved with it and we also hope, with a differentiated capital treatment, to incentivise diversification of exposures across sovereigns. This has to be balanced with a need to keep some kind of safe asset, to retain a benchmark for price formation on our financial markets and not to pro-cyclically penalise financially fragile governments.

To conclude, let us not forget that with the UK out of the Union, all member States except Denmark are committed to joining the euro in the future. So, we should encourage these countries to see the benefits of joining the Banking Union and of benefitting through Banking Union membership from participation in the decision-sharing mechanisms between home and host countries that we have established for the resolution of banks.