Danuta Hübner
Member of the Committee on Economic and Monetary Affairs, European Parliament

"Banking Union: what still needs to be completed?"

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It is difficult to find an agreement on EDIS in the European Parliament because of the famous issue of the balance between risk sharing and risk reduction.
There is no common view in Parliament on whether we have achieved a right balance between risk sharing and risk reduction at this stage.
We agree on the principle that risk sharing should be accompanied by risk reduction, as sharing risk without reducing it would open the door to moral hazard.
Of course, the assumption may also be challenged as it can also be said that sharing risk may be a way of reducing it in particular through increased confidence.
There should in principle be progress on both risk sharing and risk reduction in parallel, but there is a fear of moral hazard. Some Member States are opposed to any sharing of debt.

However, we have gone a long towards risk reduction and harmonisation of supervision. We have a Single Supervisory Mechanism, we have proceeded to an Asset Quality Review before setting it up, EBA has done a lot of work to establish a common rule book. We have transposed Basel III with the CRDIV and the CCR, which meant significant capital increases, and the Basel III ratios will apply in full starting from next year.
There is also ongoing work to reduce risk. The current amendments to the CRD, CRR, BRD and SRMR, transposing the TLAC and other international standards, are referred to as the risk-reduction package because they aim to reduce the remaining risks in the banking sector. The CRD/CRR review will transpose into EU law all the Basel III rules that have yet to be finalised when the first CRR was adopted, in particular he leverage ratio and the net stable funding ratio. The BRRD review will implement into EU law the TLAC standard, which is another risk-reducing element as it ensures that banks will have large enough bail-inable debt buffers to successfully be bailed in and reduce the likelihood of calling on public money. All those files are now at trilogue stage and they are a priority for the European Parliament. We hope for agreement on that package in December.
There is also an ongoing effort of the EBA, the SSM and the Commission on Non-Performing Loans (NPLs).
So, clearly the risk in the banking sector has been reduced and will be even more.
In the European Parliament, there are two groups: those who think there has been enough risk reduction and those who think there has not been enough risk reduction. In addition, some consider that risk reduction is a pre-condition for risk sharing and others consider that efforts should be made on both aspects in parallel.
We have two outstanding risks today.

One is NPLs. It is an important risk, so it is good we have legislative proposals on this issue now. This risk should be under control soon.
Then, there is sovereign risk. Sovereign bonds are not risk free, and in addition some banks have heavily invested in debt issued by their own sovereign. So, some think of changing the capital treatment of sovereign debt, which is a systemic issue.

The challenge is that, as discussions show, there is no objective benchmark that would indicate whether risk reduction is sufficient. It is not possible to tick a box, look at the level of NPLs in a Member State and say that it is low enough.
Also, we are no longer in a crisis situation. As usual, economic recovery takes away some of the momentum for the completion of the Banking Union, including EDIS.
As regards specifically EDIS, there is also the fact that deposit insurance is perceived as being public money, which is odd since technically it is private money. There is a wide diversity of the models of deposit insurance in the Union, which are only partially harmonised through the DGSD.
Finally, and quite in a similar vein, when discussing EDIS, we touch on national preferences. There is a diversity of models for deposit insurance within the Union, and there are diverging preferences with the existence of Institutional Protection Schemes (IPSs) in some countries, which are a model of their own and which would feel threatened by an uniformisation of deposit protection. There also some national options in the DGSD with the possibility to use DGS money to finance alternative measures to insolvency in some countries. So there is a big fear in some Member States that the EU institutions would be coming up with a one-size-fits-all system that would not suit them.

What are then the topics related to the Banking Union that should have the highest priority in the next legislature?

There are two obvious priorities, on which we had agreed in 2012 and which are not yet completed.

One is the fiscal backstop to be provided by the ESM to the SRF. The Eurogroup is lively discussing the issue and should submit a proposal by December. It is needed to create a credible resolution regime, which would be able to operate whatever the size of the banks to be resolved and losses to be absorbed.

Then there is EDIS, on which France and Germany in the Meseberg declaration agreed to move on. I hope the Council will resuscitate soon the file. In the European Parliament, a draft report has been issued and 700 amendments have been tabled. The ongoing discussions are slow.
There is a lot of agreement on the need to have this third pillar in place. ECB president Mario Draghi is regularly highlighting this need, and last September the central bank governors of Finland, Spain and Lithuania and the deputy governor of the French central bank have called for a common EU deposit insurance. EDIS is crucial for confidence and for depositors to benefit from the same level of protection all over the Banking Union. Confidence has in turn the potential to facilitate financial integration. Finally, a common deposit insurance would de-dramatise insolvency: it would be easier to let inefficient banks fail if deposits are protected.
So, we would definitely need to focus on EDIS during the next legislature.

Maybe a way forward is what the European Parliament rapporteur, Esther de Lange, proposed two years ago in her draft report, which is that some part of the funding would stay at the national level.

Furthermore, we need to move forward on the NPL-related files in order to further reduce risks.
There is also some room for improvement regarding the cooperation and communication between the SSM and the SRB, especially when a bank experiences a distress event.

There is also some work to be done on options and national discretions. The single rulebook in banking is not so single and we should use the opportunity offered by the current and future reviews of the CRD and of the CRR to further reduce options and national discretions. Further work should also be done by the EBA and the SSM on the issue.
Another big issue is the divergence between insolvency legislations, in particular bank insolvency legislations, across the Union and with the resolution regime. Those divergences are a big obstacle for the SRB and we need a more equal treatment for debtors and creditors all over the Banking Union.
We also have to keep in mind that it can be expected that there will many situations where resolution action will not be in the public interest and therefore most failing banks would be subject to national insolvency legislation.
So, harmonising insolvency legislation, in particular as regards the classes of creditors and their priority ranking, is a priority.
Last but not least, and in connection with the insolvency reform, there is a need to correct the asymmetry between State aid rules applying in, respectively, insolvency and resolution.
We have come a long way towards the creation of a Banking Union, but we originally expected more.
We have now clear evidence that a single supervisor can push forward risk-reduction efforts, as it was the case of the SSM which started the work by issuing its guidance on NPLs and the addendum to this guidance. Then, because of a legal issue with the NPL prudential backstop, the Commission took action.
The main remaining issue of banking supervision is the lack of harmonised banking legislation, with a persistence of options and national discretions, which the SSM cannot fully address on its own.
On resolution, the SRB has done a very good job in a completely new area, Its first resolution case was successful and went according to the expectations.
There a few things we did not expect, and we did not get positive surprises.
The main discovery is the level of detail at which one needs to harmonise legislation to have the Banking Union work successfully. There are common institutions, but they will face their limits as long as there is a lack of harmonisation of the legislation that they apply or deal with. There is a common rulebook, but there are still options and national discretions in banking legislation and national insolvency legislations are divergent. We have to move forward on all those issues and this will take years.
Also, the work on EDIS and on the fiscal backstop has been lagging behind.