



Informal Meeting of Economic and Financial Affairs Ministers **27-28 April 2018**

PRESIDENCY ISSUES NOTE

Working lunch on 27.04.2018: ECOFIN Council Roadmap on completing the Banking Union

I. Context

1. Since the launch of the Banking Union project, **substantial progress has been achieved**. However, some important elements still need to be completed. A comprehensive assessment of all significant credit institutions in the Banking Union has been carried out, followed by the establishment in 2014 of the Single Supervisory Mechanism. The Single Resolution Mechanism also became operational in 2016 with a transitional period until 1 January 2024 for the completion of the Single Resolution Fund. The Single Rulebook provides harmonised prudential rules. Efforts are still necessary both towards further risk reductions and risk sharing. At the same time, it is important to use the current economic momentum and advance now, before the next crisis strikes.
2. An integrated and well-functioning Financial Union is a prerequisite for the smooth functioning of the **Economic and Monetary Union** and the EU. This requires completing the Banking Union as well as delivering on the Capital Markets Union, including the pending proposal on business insolvency and restructuring.
3. The measures to develop the Banking Union are part of all **strategic papers** related to the completion of the Economic and Monetary Union – the 2012 Four Presidents' Reports, the June 2015 Five Presidents' Report, the May 2017 Reflection Paper from the European Commission on the Deepening of the Economic and Monetary Union that is part of the White Paper initiative to discuss the future of Europe until 2025, etc. Some strategic papers and communications were targeted only on the need for completing the Banking Union.
4. When the second pillar of the Banking Union – namely the Single Resolution Mechanism supported by a Single Resolution Fund (SRF), was established, it was agreed to set up a common backstop to the SRF at the latest by the end of the transitional period. A common backstop is necessary in order to ensure that the Single Resolution Board has at all times a credible capacity to back up its

resolution action with the necessary resources. Many already then saw the European Stability Mechanism (ESM) as the logical provider of the backstop. This view was confirmed since the beginning of 2017 at the meetings of the Task Force on Coordinated Action (TFCA), which was mandated by the Economic and Financial Committee to start technical work on the common backstop.

5. As part of the Roadmap for deepening Europe's Economic and Monetary Union (EMU), in December 2017 the European Commission made a formal proposal according to which the ESM would be transformed into a European Monetary Fund and serve as a provider of the backstop to the SRF. The ECOFIN Council in January 2018 mandated the Eurogroup to explore the topic within the limits of the current intergovernmental legal regime.
6. The European Commission presented on 24 November 2015 a proposal to establish a **European Deposit Insurance Scheme** accompanied by the communication "Towards the completion of the Banking Union" that sets out further measures to strengthen the Banking Union through risk sharing and risk reduction.
7. On 13 January 2016, the Committee of Permanent Representatives agreed to establish within the Council the **Ad Hoc Working Party** on the Strengthening of the Banking Union (AHWP) with a mandate to develop positions of the Council on the EDIS proposal and the Commission's communication.
8. The ECOFIN Council adopted in June 2016 a **Council Roadmap on completing the Banking Union**. The Roadmap outlined some of the most important steps that were already taken, recognised the need to further develop measures and underlined the key steps that shall be completed. The Council also agreed that it shall assess annually the progress made on the implementation of these steps to complete the Banking Union.
9. On 23 November 2016 the European Commission presented a comprehensive package of legislative measures (Banking package) in line with the recommendations of the Council Roadmap of June 2016. The Maltese, Estonian and Bulgarian Presidencies have substantially advanced the discussions on the Banking package. Three elements regarding the ranking of unsecured debt instruments in insolvency hierarchy and the arrangements for IFRS 9 and large exposures have been fast tracked and have already been adopted and published in the EU Official Journal.
10. However, the Council **has yet to agree on the Banking package**. The Banking package is a key element of the measures to complete the Banking Union. The Bulgarian Presidency is of the view that reaching an agreement on this package during its mandate is possible and necessary. This will send a positive signal to the markets that the post-crisis regulatory reform has been completed. It is also an important step towards further risk reduction and strengthening of the Banking Union.

11. On 11 October 2017 the Commission published its **Communication on Completing the Banking Union** that sets out an ambitious path to ensure agreement on all the outstanding elements of the Banking Union. On the risk reduction side, the Commission urged the European Parliament and the Council to progress quickly with the work on the Banking package. The Commission also put forward additional risk-reduction measures – not included so far in the Roadmap – to reduce non-performing loans, in line with the relevant Council Action Plan (these measures were proposed by the Commission in March 2018). The Communication also referred to new measures to help banks diversify their investments in sovereign bonds, with a proposal expected for May 2018. On the risk-sharing side, the Commission set out some suggestions to facilitate progress in the European Parliament and the Council on steps towards EDIS, in particular through exploring possibilities to introduce EDIS in a more gradual manner, commensurate to progress achieved with regard to risk reduction and the tackling of legacy issues. The Communication also maps out rapid steps towards a last resort common fiscal backstop for the Single Resolution Fund and underlines some other measures.
12. At the **Euro Summit** in inclusive format in December 2017 which focused on Euro area reform, leaders agreed to concentrate future work on those areas where the discussion at ministerial level was more advanced, including in particular the Banking Union. On that basis, President Tusk asked the Eurogroup to further develop the Roadmap with a view to preparing decisions by leaders in June 2018.
13. The **updated Roadmap** shall add precise details regarding the specific steps towards risk reduction and risk sharing. The June 2016 Roadmap outlines that it may be decided in line with the risk reduction measures included in the Banking Package that the backstop may become operational ahead of the transitional period (2024).
14. The June 2016 Roadmap also outlines that the negotiations on EDIS at political level will start as soon as sufficient further progress has been made on the risk reduction measures mentioned in the roadmap. Several working formats of the Council (FSC, EFC, EWG) have discussed different issues in relation to assess whether sufficient progress on risk reduction has been made.
15. The **main issues related to the measurement of risk reduction**, as reported to the EWG, are i) the definition of a possible list of criteria or indicators relevant to measure progress in reducing risks in the banking sector, ii) the type of reporting and iii) the use and interpretation of the agreed list of criteria/indicators. So far, the delegations expressed support for some of the proposed indicators (e.g. capital, liquidity, leverage, NPLs, Minimum Requirements for Own Funds and Eligible Liabilities (MREL)) and disagreement on other indicators (e.g. sovereign exposures, insolvency regimes) that were tabled for discussion. Regarding the type of reporting, most delegations agree that a joint reporting by the European Union institutions/bodies on a semi-annual basis is the best way forward. Regarding the use of the agreed list of criteria or indicators, some delegations argued in favour of

setting quantitative targets to measure progress in risk reduction that will lead directly to some policy decisions, while many other delegations advocated strongly that risk measurement shall be used as means to inform political-decision making and that such decisions are the prerogative of political leaders and cannot be taken in an automatic manner. The discussion on suitable quantitative criteria/indicators should under no circumstances lead to further delays towards completion of the Banking Union.

16. Some of the key principles of the Banking Union relate to the **inclusive format** of the discussions for its development and its openness for all EU Member States. The Council agreed that the discussions on measures relevant to all Member States shall continue to take place at the level of the entire European Union in order to ensure that the Banking Union remains open to all Member States and that the EU Single Market is also preserved.
17. In view to the above, the Bulgarian Presidency would like to discuss the **following questions** during the working lunch of the Informal ECOFIN:

II. Questions for discussion

- Q1: Do you agree with the objective to reach a General Approach on the Banking package at the May Ecofin, and more generally, in view of progress on the Banking Union work stream towards the June European Council?
- Q2: Do you agree that according to the 2016 Roadmap, agreement on the Banking Package should facilitate agreement on the backstop for the SRF, with a view to concrete decisions by Leaders at their meeting in June? Otherwise, how do you read the conditions laid down in the 2016 Roadmap and how progress will be achieved?
- Q3: What would be the conditions to start political negotiations on EDIS and for moving from one stage of EDIS to another?