European banking union

The euro countries are working on a European banking union. Participation to the banking union is open to non-euro countries. Banks and countries in Europe are strongly intertwined with each other. Many banks have cross-border activities. A bank that finds itself in difficulties can thus form a big risk to other banks and economies in Europe. This can also impact the government finances of Member States. The banking union is a response to these challenges. It will ensure that bank supervision takes place at European level on the basis of harmonised rules. In the future, decisions about banks that run into problems will also be taken at a European level. A banking union will contribute to breaking the link between banks and sovereigns. The banking union consists of several elements.

Elements of a banking union

Harmonised rules

A well-functioning banking union requires common rules that apply to all banks. This set of rules, harmonised throughout the European Union, is called the Single Rulebook. The revised Capital Requirements Directive (CRD IV/CRR) contains important rules that make it mandatory for banks to hold more capital. This will prevent banks from getting into trouble too easily. The Bank Recovery and Resolution Directive (BRRD) contains rules to ensure that if a bank does get into trouble, it can be resolved in an orderly fashion (resolution and recovery framework).

The Deposit Guarantee Scheme guarantees deposits of private individuals and small businesses (such as balances in savings accounts and current accounts) up to an amount of € 100,000 per person per bank. The revision of the Deposit Guarantee Schemes Directive (DGSD) will mean that rules for national deposit guarantee schemes will largely be harmonised. At present, a European DGS is not part of the European plans for a banking union.

European Stability Mechanism

(ESM)

The European Stability Mechanism (ESM) is one of the measures to address the challenges posed by the debt crisis. Subject to strict conditionality, this publicly financed permanent emergency fund lends money to euro countries in financial difficulties in order to guarantee European financial stability.

Work is also being done in a European context on an ESM instrument that would make it possible for banks to receive support directly from the ESM instead of through their national governments. This support will be subject to stringent conditions. This instrument would prevent that support to banks would have a direct impact on national government debt. This way, the link between vulnerable governments and vulnerable banks will be weakened.

Single Supervisory Mechanism

(SSM)

The European Central Bank (ECB) will be the central supervisor in the banking union. Together with the national supervisors, the ECB will carry out the European supervision of the banks in the countries that participate in the banking union. The ECB will directly supervise the major European banks which often have cross-border operations and are important for financial stability in Europe. National supervisors will continue to supervise the medium-sized and smaller banks.

Single Resolution Mechanism

(SRM)

The common resolution mechanism at a European level is meant to ensure an effective European response in case – despite close supervision – a bank finds itself in serious difficulties. The key principle is that costs of resolution will be borne by the private sector instead of the taxpayer. This may mean that a bank will be declared insolvent, or that the shareholders and creditors will bear the losses.