The European Banking Union explained

Eliminating uncertainty, creating confidence

The recent financial crisis demonstrated the need for better regulation and supervision of the EU financial sector, particularly in the euro area.

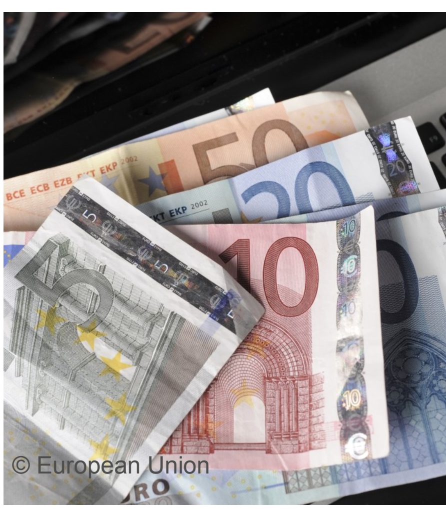
The crisis in the euro area and differing national responses to it highlighted the inter-dependency between banks and national governments. Moreover, different national solutions led to fragmentation of the single market in financial services, which in turn contributed to disruptions in lending to the real economy.

EU leaders therefore agreed that the Economic and Monetary Union (EMU) needed to be strengthened further and that part of that effort would involve the creation of an integrated financial framework, later renamed the banking union.

For this reason, the Greek Presidency highlighted as one of its key priorities to successfully complete the negotiations with the European Parliament to reach a political agreement on the last decisive step towards the completion of this ambitious project, the Regulation on the Single Resolution Mechanism.

After long and arduous negotiations, the Greek Presidency, representing the Council, has managed to reach a historic agreement for the conclusion of this important dossier.

This landmark legislation comes to complement the Single Supervisory Mechanism, as well as the new European rules on capital requirements of European banks, and two other legislative initiatives, the Bank Recovery and Resolution Directive and the Deposit Guarantee Schemes Directive.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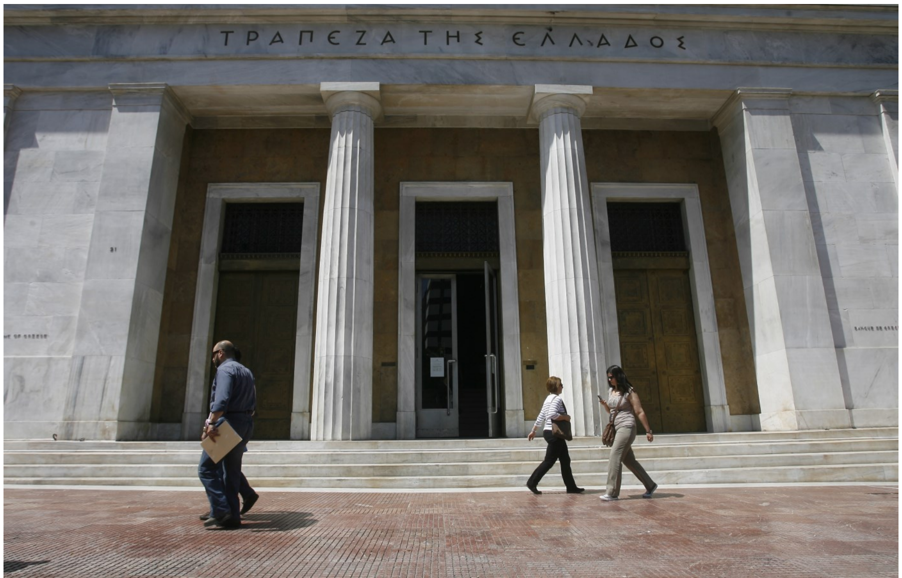
What is the banking union?

The banking union is an EU-level banking supervision and resolution system which operates on the basis of EU-wide rules. It aims to ensure that the banking sector in the euro area and the wider EU is safe and reliable and that non-viable banks are resolved without recourse to taxpayers' money and with minimal impact on the real economy.

The banking union members are all euro area countries and those non-Euro EU member states that choose to participate. All countries that adopt the euro in future will automatically become members of the banking union, while non-eurozone countries can join by establishing a close cooperation agreement.



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Does the banking union affect the lives of EU citizens

or is it just about saving the banks?

The new regulatory framework that constitutes the backbone of the Banking Union, directly affects the real economy. Improved supervision at EU level, coupled with stricter capital requirements restore **the credibility of the European Banking system** while the harmonized EU deposit guarantee framework that fully protects deposits below 100,000 euro **increases the trust of depositors** to the banking system.

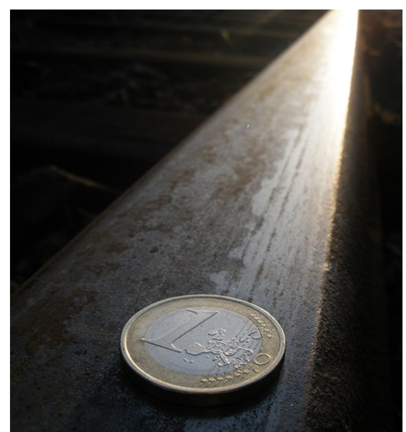
At the same time, the single resolution mechanism will ensure that any troubled bank will be dealt with in a way that **avoids any disruption to the overall financial system and any contagion risk**, taking into account the importance of unsecured deposits during the resolution process, particularly for natural persons and SMEs, while **ensuring that the taxpayer will not pay the final bill.**

What's **more important** is that the banking union will make the European banking system more resilient, thus allowing it to **renew credit supply and loans to the real economy at affordable rates**, helping European businesses and citizens and fostering the return to economic growth after a series of difficult years for the European economy as a whole.

What is the purpose of the banking union?

The banking union aims to:

- ensure banks are robust and able to withstand any future financial crises
- prevent situations where taxpayers' money is used to save failing banks
- reduce market fragmentation by harmonising the financial sector rules
- strengthen financial stability in the euro area and the EU as a whole.



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What does it involve?

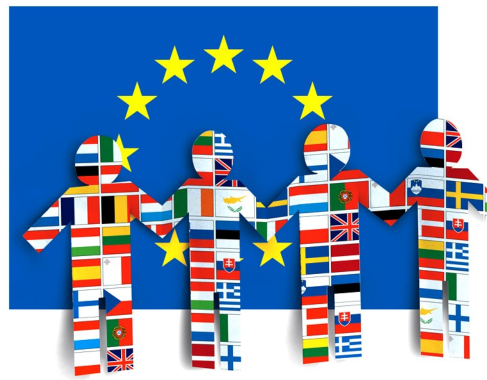
The banking union comprises three main building blocks:

'The single rulebook'

It consists of a set of legislative texts to be applied to all financial institutions and all financial products across the EU.

Specifically, its rules include capital requirements for banks, improved and harmonized EU framework for deposit guarantee schemes and rules for managing failing banks.

It aims to ensure that banks are regulated according to the same rules in all EU countries so as to avoid distortions of the single market and to ensure financial stability across the EU.



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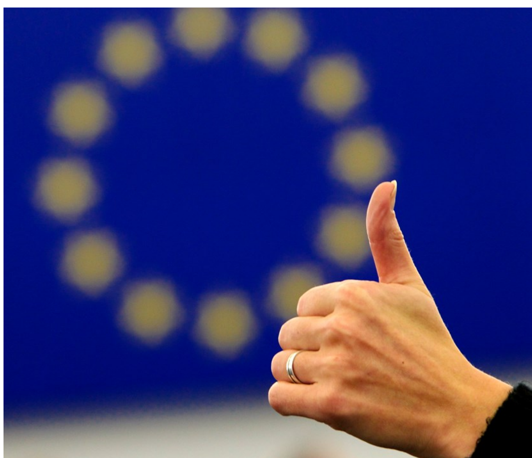

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The single supervisory mechanism (SSM)

It is the EU's supranational bank supervisory body, where responsibility for supervising financial institutions is exercised by the European Central Bank in close cooperation with national supervisory authorities.

Its main aim is to ensure the soundness of Europe's financial sector through regular and thorough checks of bank health on the basis of rules that are the same for all EU countries.

The single resolution mechanism (SRM)

It is a system for effective and efficient resolution of non-viable financial institutions.

It is made up of the central resolution authority – the single resolution board – and a single resolution fund, which is to be used in cases of bank failure and is financed entirely by Europe's banking sector.

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(Source: EU Council, Greek Ministry of Finance)

EP adopts key texts

"I wholeheartedly welcome today's adoption by the European Parliament and with a very large majority, of three key texts which make up the EU's Banking Union, namely, the Bank Restructuring and Resolution Directive, the Single Resolution Mechanism Directive and the recast Directive on Deposit Guarantee schemes. With these legislative acts, the European Union has come a long way in ensuring that taxpayers are safeguarded from failing banks, and, at the same time, that their hard- earned savings held in Banks up to EUR 100,000 will be fully protected.

These are significant milestones for the European Union, its banking sector and for its common currency. As President of the ECOFIN Council, I would like to thank and congratulate the co-legislators for their arduous work on these files and for their constructive and forward looking approach, which made difficult compromises possible."

Yannis Stournaras, Greek Minister of Finance

and ECOFIN President (15 April 2014)

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