EUROPEAN COMMISSION

PRESS RELEASE

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Commission proposes new ECB powers for banking supervision as part of a banking union

Today's proposals for a single supervisory mechanism (SSM) for banks in the euro area are an important step in strengthening the Economic and Monetary Union (EMU). In the new single mechanism, ultimate responsibility for specific supervisory tasks related to the financial stability of all Euro area banks will lie with the European Central Bank (ECB). National supervisors will continue to play an important role in day-to-day supervision and in preparing and implementing ECB decisions. The Commission is also proposing today that the European Banking Authority (EBA) develop a Single Supervisory Handbook to preserve the integrity of the single market and ensure coherence in banking supervision for all 27 EU countries.

The Commission calls on the Council and European Parliament to adopt today's proposed regulations by the end of 2012, together with the other three components of an integrated "banking union" – the single rulebook in the form of capital requirements (see IP/11/915), harmonized deposit protection schemes (see IP/10/918), and a single European recovery and resolution framework (see IP/12/570).

President of the European Commission José-Manuel Barroso said: *"Today, the Commission has presented proposals for a single European supervisory mechanism, a major step to a banking union. This new system, with the European Central Bank at the core and involving national supervisors, will restore confidence in the supervision of all banks in the euro area. The European Parliament will have a crucial role to play in ensuring democratic oversight. We should make it a top priority to get the European supervisor in place by the start of next year. This will also pave the way for any decisions to use European backstops to recapitalise banks."* The President added: *"We want to break the vicious link between sovereigns and their banks. In the future, bankers' losses should no longer become the people's debt, putting into doubt the financial stability of whole countries."*

Internal Market Commissioner Michel Barnier said: *"Banking supervision needs to become more effective in all European countries to make sure that single market rules are applied in a consistent manner. It will be the role of the ECB to make sure that banks in the euro area stick to sound financial practices. Our ultimate aim is to stop using taxpayers' money to bail out banks". He continued: "We have proposed a mechanism to separate supervision from monetary policy within the ECB, and made sure that the ECB will be accountable to the European Parliament for supervisory decisions".*

Today's package includes:

- A regulation conferring strong powers on the ECB for the supervision of all banks in the euro area, with a mechanism for non-euro countries to join on a voluntary basis.
- A regulation aligning the existing regulation on the EBA to the new set-up for banking supervision in order to make sure that EBA decision-making remains balanced and that EBA continues to preserve the integrity of the single market
- A communication outlining the Commission's overall vision for the banking union, covering the single rulebook and the single supervisory mechanism, as well as the next steps involving a single bank resolution mechanism.

Specific supervisory tasks will be shifted to the European level in the Euro area, notably those that are key to preserving financial stability and detecting viability risks of banks. The ECB will become responsible for tasks such as authorizing credit institutions; compliance with capital, leverage and liquidity requirements; and conducting supervision of financial conglomerates. The ECB will be able to carry out early intervention measures when a bank breaches or risks breaching regulatory capital requirements by requiring banks to take remedial action.

The ECB will cooperate with the EBA within the framework of the European System of financial supervision. The role of the EBA will be similar to today: it will continue developing the single rulebook applicable to all 27 Member States and make sure that supervisory practices are consistent across the whole Union.

For cross-border banks active both within and outside Member States participating in the SSM, existing home/host supervisor coordination procedures will continue to exist as they do today. To the extent that the ECB has taken over supervisory tasks, it will carry out the functions of the home and host authority for all participating Member States.

The Commission is proposing to have the SSM in place by 1 January 2013. To allow for a smooth transition to the new mechanism, a phasing-in period is envisaged. As a first step, as of 1 January 2013, the ECB will be able to decide to assume full supervisory responsibility over any credit institution, particularly those which have received or requested public funding. As of 1 July 2013 all banks of major systemic importance will be put under the supervision of the ECB. The phasing-in period should be completed by 1 January 2014 when the SSM will cover all banks.

Background

Boosted by the single currency and the single market, the EU banking sector has grown and has become more and more integrated. Many banks have developed cross-border activities and have outgrown their national markets.

Given pooled monetary responsibilities in the euro area and closer financial integration, there are specific risks in the euro area in terms of cross-border spill-over effects in the event of bank crises. Coordination of national banking supervision is no longer an option for the euro area. A move to an integrated system is necessary.

At the European Council and the Euro area summit of 28/29 June, EU leaders agreed to deepen economic and monetary union as one of the remedies of the current crisis. One of the main building blocks towards deeper integration is banking union. All four component parts of the banking union are vital (see MEMO/12/656 on banking union). Pending proposals should be adopted by the end of the year.

It is important to note the Member States' decision to make the set-up of a single supervisory mechanism a precondition for the possible direct recapitalisation of banks by the European Stability Mechanism (ESM).

After agreement on the pending proposals, as a next step the Commission envisages making a proposal for a single European resolution mechanism to deal efficiently with cross-border bank resolution and avoid taxpayers' money going into rescuing banks.

See also MEMO/12/662

More information

Texts of the legislative proposals and of the communication can be found at:

http://ec.europa.eu/internal_market/finances/committees/index_en.htm

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