**Follow-up to the European Parliament non-legislative resolution on Banking Union - annual report 2023**

1. **Rapporteur*:*** Ivars IJABS (Renew / LV)
2. **Reference number**: 2023/2078 (INI) / A9-0431/2023 / P9\_TA(2024)0012
3. **Date of adoption of the resolution:** 16 January 2024
4. **Competent Parliamentary Committee**: Committee on Economic and Monetary Affairs (ECON)
5. **Brief analysis/assessment of the resolution and requests made in it:**

With this resolution, the European Parliament adopts its ninth Annual Report on the Banking Union. The resolution is divided into four main sections. The first two sections (General considerations and Supervision) cover a wide series of recent events and other issues related to the financial sector. The last two sections (Resolution and Deposit Insurance) are focused on the core issues relevant to the completion of the Banking Union.

In Section 1 “General considerations” and 2 “Supervision”, the European Parliament condemns the Russian aggression against Ukraine and stresses the importance of complying with financial sanctions. It largely welcomes a number of actions already undertaken by the Commission, the European Supervisory Authorities, the Single Supervisory Mechanism, the Single Resolution Board (SRB) and the banking sector and expresses broad support for a number of important Commission initiatives such as the completion of the Banking Union.

In Section 3 “Resolution” and 4 “Deposit Insurance”, the European Parliament welcomes the good crises preparedness and loss-absorbing capacity of banks and highlights the role of the SRB and industry-funded safety nets in protecting taxpayers. It also welcomes the Crisis Management and Deposit Insurance review and the significant progress in risk reduction which together are a good basis for the success of the Banking Union.

The European Parliament also stresses that the European Deposit Insurance Scheme (EDIS) would improve protection for depositors in the EU, increase their trust in the banking sector and help to strengthen the Banking Union by reducing the link between sovereigns and banks. It also reiterates Parliament's commitment to resuming its work and points out that any further harmonisation of deposit insurance schemes would strengthen the financial stability of the EU banking system.

1. **Response to requests and overview of action taken, or intended to be taken, by the Commission:**

***On General Considerations***

The European Parliament stresses the importance of the implementation of sanctions and calls on the Commission to take actions in this respect (*paragraph 2*). It also calls on supervisory institutions and the European Central Bank (ECB) to help the remaining EU banks operating in Russia to exit this market (*paragraph 3*).

The Commission shares the observations on the importance of ensuring the effective implementation of sanctions and works towards this objective and to address circumvention.

The Commission follows closely developments in the financial sector in Russia, and in particular, the operations of EU banks, whose activity in Russia is closely monitored by supervisory institutions and the ECB in order to take action or provide guidance, if necessary (*paragraphs 2 and 3*).

The Commission shares the observations on the importance of the Banking Union to complement the Economic and Monetary Union and the internal market (*paragraphs 4 and 5*) and welcomes the Parliament’s stance on the need to complete the Banking Union.

The Commission continues to work on the completion of the Capital Markets Union (CMU) with significant progress having been made since the project began in 2015. It has delivered on all measures in the 2020 CMU action plan and almost all of the legislative measures have been agreed upon or are being negotiated by co-legislators. These measures are expected to have a positive impact on the growth of EU capital markets, improve access to market-based sources of funding for EU companies, making it easier and more attractive for investors to invest in EU companies and to increase financial stability and resilience.

The Commission considers that the CMU is as fundamental as ever to deliver on the EU’s key economic policy objectives: a competitive and resilient economy that works for all, the transition towards a digital and sustainable economy and open strategic autonomy in an increasingly complex global economic and geopolitical context *(paragraphs 5).*

The Commission shares the European Parliament’s observation that the EU banking sector needs to be profitable in the long term, also to ensure its competitiveness, and agrees that banks should continue to strengthen their resilience to macroeconomic and financial shocks, including by using profits to build buffers. Banks should also use profits for future-oriented investments. The Parliament notes that limitations on dividends and buy-backs proved effective during the COVID-19 crisis. The Commission agrees with the Parliament and notes that such limitations should only be considered to address exceptional circumstances. In normal circumstances, the existing prudential and resolution rules limiting dividend distributions seem adequate (*paragraphs 6 and 7)*.

The Commission takes note of the Parliament’s concerns relating to the tightening of credit standards for loans to firms and households, including for house purchases while noting that this is also linked to a tightened monetary policy that seeks to curb inflation. There is also an inherent trade-off between lending to finance the real economy and building up buffers to resist shocks. In this regard, the Commission notes that last year’s political agreement on the Banking Package, which incorporates the final Basel III reforms in EU law, seeks to achieve that balance. In addition, the Banking Package, which is expected to be voted by the Parliament in April 2024, includes a mandate for the European Commission to review the regulatory framework and assess the status of the Single Market for banking. The drawing up of that report will be an occasion for the Commission to further reflect on the call of the European Parliament to assess impediments to cross-border mergers as well as potential incentives for ring fencing in view of seeking solutions to make the banking sector more integrated and foster the development of capital markets (*paragraphs 8 and 9*).

The Commission fully shares the European Parliament’s view that a well-functioning and competitive single market is essential for retail financial services. In its Retail Investment Strategy published on 24 May 2023, the Commission has proposed measures to improve the framework for retail investment. The aim is to ensure that retail investors are empowered to take financial decisions which are right for them and are sufficiently protected so as to enhance trust and confidence in capital markets *(paragraph 10).*

One of the Commission’s main objectives of the CMU action plan was to improve access to market-based sources of finance for EU companies, especially small and medium sized enterprises (SMEs). For example, the Listing Act seeks to reduce the burden and red tape associated with the listing process for companies seeking to raise funding on public capital markets. This is particularly helpful for SMEs for which these costs represent a disproportionate burden. The Commission also included SMEs’ access to finance within the scope of the Financial Data Access proposal (FIDA). The FIDA proposal seeks to create a new framework for secure and open access to customer data across a wider range of financial services. This framework would also support SMEs that are looking for funding from a bank or an alternative funding provider by creating secure and open access to customer data across a wider range of financial services. Effective competition in financial markets, including on mortgage interest rates, within the EU, encourages financial institutions to offer financial products and services to their customers on the most favourable terms. It contributes to efficiency, innovation and price reduction, for the benefit of consumers. The Commission monitors market developments to ensure that competition is functioning properly. In the event of any credible competition concerns with regard to the EU banking sector, the Commission will be ready to act *(paragraph 11).*

The Commission shares the Parliament’s view that banks should play a role in supporting the transition to a digitalised and carbon neutral economy, also to achieve the objectives of the EU Green Deal and the EU Climate Law. It must be noted, as the Parliament acknowledges, that support for the green transition and the digital transition should not come at the cost of financial stability. The Commission is of the view that, also in these areas, the Banking Package sets out appropriate measures. Concerning the green transition, the new prudential rules will require banks to draw up and maintain transition plans, whose actual content will be further detailed by the European Banking Authority and will be scrutinised by bank supervisors. Supervisors will then be able to take them into account, along with stress tests, to possibly require banks exposed to climate-related and other environmental risks to hold more capital. Concerning digitalisation, prudential rules include a favourable treatment (the infrastructure supporting factor) for banks that finance strategic infrastructure, including digital ones, provided that the project is environmentally sustainable (*paragraph 12)*.

The Commission also stands ready to respond to the Parliament’s call to assess whether new legislative initiatives are needed to further limit the bank-sovereign nexus, as part of the work on completing the Baking Union (*paragraphs 16 and 46*).

Concerning gender-balance in financial institutions, Directive (EU) 2022/2381 on improving the gender balance among directors of listed companies and related measures adopted in2022 will ensure that gender balance in corporate boards of the largest listed companies is sought across the EU *(paragraphs 13 and 14*). The directive sets a target for EU companies listed on EU stock exchanges to accelerate the achievement of better gender balance. It sets a target of at least 40% of the underrepresented sex among non-executive directors and at least 33% among all directors. These companies must ensure that board appointment procedures are clear and transparent, and that applicants are assessed objectively based on their individual merits, irrespective of gender. The transposition by Member States should be completed by 28 December 2024.

The Commission agrees that the European institutions should do their utmost in terms of outreach to ensure that a wide variety of competent candidates apply for roles such as those in the Single Resolution Board (SRB), thus enabling gender-balanced shortlists of candidates as far as possible.

The Commission shares the European Parliament’s opinion that an EU safe asset could weaken the negative feedback loop between banks and sovereigns at national level. In that regard, the NextGenerationEU created a low-risk European asset which allowed banks to successfully diversify their sovereign exposure (*paragraph 17)*.

***On Supervision***

The Commission takes note of the Parliament’s observation on European banks’ capitalisation (*paragraph 18)*. It notes that banks maintained robust capitalisation levels in the third quarter of 2023. The average Common Equity Tier 1 (CET) ratio (fully loaded) remained at high levels, slightly decreasing by 10bps to 15.8% from a historical high of 15.9% reported in the second quarter of 2023. On a year-on-year basis, the CET1 ratio increased by 100bps, from 14.8% in September 2022.

The Commission also notes the Parliament’s remark on the decrease of liquidity indicators. Nonetheless, the liquidity outlook is overall stable and banks show healthy liquidity ratios, well above minimum requirements. The liquidity coverage ratio (LCR) slightly decreased from 160.9% in the second quarter of 2023 to 160.7% in the third quarter of 2023 for EU banks. The volume of client deposits, the most important funding instrument, is at a comparable level to December 2022, after a decline in the first half of 2023 and a slight increase in the third quarter. The LCR had declined faster in the second quarter of 2023 due to the repayment of the ECB’s targeted longer-term refinancing operations (TLTRO) III facility by Euro area banks. Given the underlying liquidity context this should be interpreted as the gradual absorption of excess liquidity in the EU banking system *(paragraph 19).*

The Commission shares the Parliament’s view on the progress made by banks in reducing the stock of non-performing loans (NPLs), stable at 1.8% as of the third quarter of 2023. Notwithstanding the fact that the aggregate NPL ratio is following a declining trend, the Commission believes that vigilance should remain high given that in some Member States the absolute NPL volume remains significant, also in the light of the elevated uncertainties given the EU economic outlook (*paragraph 20*).

The Commission agrees with the overall objective to continue working to further improve this market segment. It also agrees with the call on supervisors to monitor the development of stage 2 loans. The Commission will monitor the implementation of the various actions outlined in its action plan to tackle non-performing loans, including the transposition and implementation of the Directive on credit servicers and credit purchasers to further foster the development of NPL secondary markets, while ensuring further strengthened protection for debtors.

The Commission fully shares the Parliament’s view that banks need to ensure prudent risk management and appropriate provisioning: these are requirements under the existing prudential framework. The Commission acknowledges the deteriorating macroeconomic situation. It is actively monitoring the dynamics in EU banks asset quality and stands ready to take action if needed (*paragraphs 19 and 20*).

The Commission agrees with the Parliament that the banking crises events which took place in third countries in the Spring of 2023 have shown potential vulnerabilities in the financial system. While the Commission believes that European banks and European bank supervisors need to remain vigilant, it is worth recalling, as the Parliament rightly does, that the EU banking sector remained solid in 2023. This is demonstrated by the results of the European Banking Authority (EBA) and ECB joint stress test exercises, but also by the capital and liquidity position of European banks as reported in the latest EBA risk dashboard[[1]](#footnote-2) (*paragraph 21)*.

The Commission has supported and continues to support actions taken by macroprudential authorities in the EU to strengthen banks’ resilience through capital and risk weight measures. In addition, the so-called borrower-based measures, which set limits to bank lending standards, are not part of the EU legal framework. Nevertheless, the Commission supports national action also in this area where appropriate *(paragraphs 7 and 23).*

With regard to the Parliament’s call on bank supervisors to monitor banks’ exposures to interest rate risks, the Commission notes that the Banking Union supervisor, the ECB-SSM (Single Supervisory Mechanism), included in its supervisory priorities for 2024-2026 a specific focus on how banks manage such risks. In addition, the EBA is in the process of finalising technical standards on the issue. In line with the Parliament’s suggestions, all these elements are going to feed into the Commission’s assessment of the regulatory framework for banks pertaining to credit risk exposures (*paragraphs 22 and 23*).

The Commission thanks the Parliament for its efforts to make sure that the final Basel III reforms are implemented into Union law in a timely manner. While the Commission took good note of the views expressed by the EBA and the ECB regarding the risks of deviating from international standards, it is important to note that the Banking Package includes phase-in periods and adjustments, reflecting the specificities of the European banking sector. Union rules need to cater for different banking system structures, bank practices, and bank business models across the 27 Member States. Considering this, the Commission fully supports the Parliament’s call for further harmonisation of the EU bank regulatory framework (*paragraphs 24, 25 and 26*). At the same time, the Commission acknowledges the request of the Parliament to combine further integration with adequate safeguards addressing the home-host issue in a proportionate and credible manner, which is one of the objectives of the planned Commission’s assessment of the regulatory framework for banks which is scheduled for end 2028 (*paragraph 29*).

The Commission takes note of the observation of the Parliament that the fully fledged transposition of the Basel standards for crypto assets into Union law is still pending. At the same time, the Commission notes that the political agreement on the Capital Requirements Regulation include a transitional regime and, along with the Regulation on markets in crypto-assets (MiCAR), makes Union law one of the most advanced legislations on cryptos worldwide (*paragraph 27*).

The Commission also takes notes of the Parliament’s concerns on the growth of the non-bank financial intermediary sector as well as the linkages with the banking sector. In this regard, it is worth noting that the Banking Package strengthens the related disclosure requirements, thus equipping bank supervisors and market participants with valuable information on interconnections between the sectors. The Commission conducted a first analysis[[2]](#footnote-3) of the growth of the non-bank financial intermediary sector and associated risks, and will collect further evidence on missing tools, potential gaps in existing tools to meet macroprudential objectives and on the effectiveness and consistency of macroprudential policies for the non-bank financial institutions (NBFIs) in the EU (*paragraph 28*).

The Commission also welcomes the observation that the ECB’s supervisory priorities include climate, but also nature-related financial risks for the coming years. In particular, the Commission will monitor the Fit-for-55 stress test that will be carried out by the ECB and the European Supervisory Authorities (ESAs) by 2025. The Commission will continue its work to curb greenwashing following the Opinions of the three ESAs and via, among others, the implementation of the Regulation on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities *(paragraphs 30 and 31*).

***On Resolution and deposit insurance***

In April 2023 the Commission put forward legislative proposals to review the existing framework for crisis management and deposit protection, with the goal of ensuring more consistent approaches across all the Member States towards the application of resolution tools and deposit protection, including facilitating a market exit for failing banks, to the benefit of financial stability, taxpayers’ protection and depositors’ confidence. The Commission remains committed to working closely with the European Parliament and the Council on these topics and welcomes the European Parliament’s willingness to reach an agreement on this reform promptly (*paragraphs 37 and 41*).

The Commission shares the view of the European Parliament that a loss sharing European Deposit Insurance Scheme would improve protection for depositors in the EU, wherever their bank is located, and provide an additional safeguard to host Member States. It would mitigate potential risk of liquidity shortfall in national Deposit Guarantee Schemes (DGSs) and the risk of recourse to public funds. It takes note of the work in the European Parliament in view of resuming its work on the gradual process of pooling liquidity and building the EU fund. The Commission also shares the expectation that the prompt adoption of the Crisis Management and Deposit Insurance framework will pave the way for further progress on Banking Union completion *(paragraphs 41 to 47*).

1. <https://www.eba.europa.eu/sites/default/files/2024-01/8039a4ea-6e61-45a9-a746-058fd070c34a/EBA%20Dashboard%20-%20Q3%202023.pdf> [↑](#footnote-ref-2)
2. [eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52024DC0021](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52024DC0021) [↑](#footnote-ref-3)