Follow-up to the European Parliament non-legislative resolution on Banking Union – annual report 2024

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2. **References:** 2024/2055(INI) / A10-0044/2025 / P10_TA(2025)105

3. **Date of adoption of the resolution:** 8 May 2025

4. **Competent Parliamentary Committee:** Committee on Economic and Monetary Affairs (ECON)

5. **Brief analysis/ assessment of the resolution and requests made in it:**

Through this resolution, the European Parliament adopts its tenth Annual Report on the Banking Union. The resolution is divided into four main sections. The first two (General Considerations and Supervision) cover a wide set of issues related to the financial sector, in particular banking. The last two sections (Resolution and Deposit Insurance) are focused on the core issues relevant for further developing the Banking Union.

In section 1 'General Considerations' and section 2 'supervision' the European Parliament notes that Banking Union will not be complete without its the third pillar (i.e. the European Deposit Insurance Scheme) and asks that the completion of both the Capital Market Union (CMU) and the Banking Union (BU) remains a priority. The European Parliament urges the Commission to assess the need for proportionality in regulation, particularly for small and medium-sized banks; to explore options for streamlining the implementation of Basel III and evaluating third-country equivalence decisions; and to address the issue of 'bank desertification' caused by branch closures.

The report also emphasises the need to develop frameworks to enhance small and medium-size enterprises (SMEs) and start-up access to finance. The Parliament calls for strengthening further cyber resilience and ensuring safeguards in digital finance, guaranteeing political oversight in any decision on the introduction of a digital euro, embedding sustainability into supervisory and resolution frameworks, and supporting the effectiveness of the Anti-Money Laundering Authority (AMLA). Additionally, it calls for promoting gender balance in bank management and improving financial literacy to support cross-border activity and system resilience. It also requests the introduction of macroprudential tools for Non-Bank Financial Intermediaries (NBFIs).

In section 3 'resolution' and section 4 'deposit insurance, the European Parliament recalls its position on the crisis management and deposit insurance framework to ensure a more consistent approach across all Member States to the application of resolution tools and deposit protection to enhance financial stability, taxpayer protection and depositor confidence. The European Parliament stresses that the bail-in of shareholders and creditors must remain the main source of resolution financing before any recourse to industry-funded sources.

The European Parliament also stresses that the write-down or conversion of bank eligible liabilities issued to non-EU investors should be enforceable with full certainty, and recalls that it is important to clarify the role of the ECB with regard to the provision of liquidity in resolution. Finally, the European Parliament calls for the ratification of the Amending Agreement to the European Stability Mechanism (ESM).

The European Parliament recalls the position adopted by the Committee on Economic and Monetary Affairs on a European Deposit Insurance Scheme in April 2024. It waits for and encourages the Council to move forward with the negotiations for a European Deposit Insurance Framework. It underlines the need to take specific national characteristics into account and to preserve well-functioning systems for smaller banks, such as institutional protection schemes.

6. Response to requests and overview of actions taken, or intended to be taken, by the Commission:

General remarks

- **In paragraph 2, the European Parliament** asks the Commission to prioritise the completion the Banking Union and Capital Markets Union, stressing their role in improving access to finance for households and SMEs, reducing reliance on bank credit, boosting investment, job creation, financial stability and competitiveness, and supporting the green and digital transition. It also calls for consideration of different banking models while ensuring a level playing field. Furthermore, in **paragraph 7, the European Parliament** urges the Commission to evaluate the necessity of developing targeted frameworks within the Banking Union to improve access to finance for SMEs and start-ups, acknowledging their vital role as the backbone of the EU economy. **In paragraph 10, the European Parliament** invites the Commission to further examine whether establishing a separate jurisdiction for EU banks with significant cross-border operations could contribute to completing the Banking Union or, conversely, risk increasing fragmentation within the banking sector. **In paragraph 14, the European Parliament** takes the view that the Commission should prioritise measures that support digitalisation, modernisation, simplification, streamlining, and enhanced competitiveness; stresses that legal certainty, security, predictability, and stability are crucial for enabling EU banks to operate in a favourable environment.

The Commission fully agrees that the completion of the Banking Union and the Capital Markets Union must remain key priorities. It is against this background that the Commission has adopted the new **Savings and Investments Union (SIU) Communication in March 2025,** including banking and capital markets. In the face of shifting geopolitical dynamics and escalating security concerns, of climate change and technological development, the EU needs the SIU to create the conditions for efficiently mobilising private capital into growth-driving strategic investments. Furthermore, the SIU is pivotal in providing diversified investment opportunities for EU citizens, enhancing their wealth-building potential and retirement security. This is vital amidst demographic shifts and economic challenges. By expanding capital markets, the SIU can also support all companies wherever they are located in the Union, including small and medium-sized enterprises (SMEs) by giving more diverse funding sources next to traditional banking. Crucially, the SIU addresses market fragmentation that hinders financial integration and imposes substantial economic costs. By dismantling these barriers, the SIU can enhance the EU's economic strength, competitiveness, and open strategic autonomy. Overall, the SIU is indispensable for enhancing the EU's economic competitiveness and securing its geopolitical and strategic future.

The Commission is proactively **working on a report assessing the overall situation of the banking system in the Single Market**. This report will include an **assessment of the sector's competitiveness, as well as an evaluation of existing barriers and market fragmentation**. This report is referred to as the 2026 Report, and it is scheduled for completion next year. The 2026 Report will consider all the issues mentioned by the European Parliament. The Commission **recognises the demand for simplification and burden reduction**, as the current framework for banks combines microprudential, macroprudential and resolution requirements.

- **In paragraph 8, the European Parliament** regrets the still limited cross-border activity of EU banks, especially in the area of lending; therefore, considers it essential to complete the Banking Union in order to support the free movement of capital within a fully integrated internal market.

  The Commission fully agrees with the European Parliament's assessment. In order to reap economies of scale and scope and, given the advances in the European supervisory and regulatory framework, **banks should operate more across borders and contribute to financial integration in the single market**. The Commission's position is clear: **banks should engage in greater cross border activity, scale up and consolidate,** in order to enhance the functioning of the Single Market and to better compete in global financial markets.

- **In paragraph 11, the European Parliament** notes that a review of the securitisation framework to strengthen European markets, as well as the introduction of European Secured Notes as a dual-recourse funding instrument for SMEs' long-term financing, could be explored.

  The Commission is pursuing work on securitisation as requested by the European Parliament and the European Council. On 17 June the Commission has adopted a package of measures to make the EU securitisation framework simpler and more fit for purpose[1]. The proposed measures seek to **facilitate securitisation activity in the EU while continuing to safeguard financial stability**. However it should be noted that regulation has its limits: **unless banks are willing and able to standardise and scale their issuance of securitisations, the market will not scale up significantly**. On European Secured Notes, the Commission looks forward to the reply from the European Banking Authority to the call for advice on the Covered Bonds Directive, which should also cover the topic.

Supervision

- **In paragraph 18, the European Parliament** welcomes the adoption of the new EU banking package that implements Basel III standards but notes the uncertainty surrounding its implementation in other jurisdictions, which could impact global competition. It urges the Commission to assess whether targeted adjustments are required to protect the competitiveness of EU banks without compromising their resilience. Recalling the one-year delay to 1 January 2026 in applying new market risk rules, it

[1] COM(2025) 826 final *'Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation'* and COM(2025) 825 final *'Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions as regards requirements for securitisation exposures'*

calls on the Commission to review equivalence decisions with non-implementing jurisdictions in order to protect EU financial stability.

The application of the final Basel III standards in the European Union since 1 January 2025 is a very important achievement and marks the completion of a very long reform process. The Banking Package is a balanced compromise that keeps all EU banks resilient, as at European level Basel standards apply to all 4500-plus banks while responding to the specificities of the EU economy. It is in the best interest of the EU, as only stable banks can contribute to sustainable economic growth.

As of today, the implementation of the final Basel III standards by the United States (US) is uncertain; the United Kingdom (UK) has also delayed its entire package, in response to the US uncertainty. **The EU should not engage in a race to the bottom. Nonetheless, we must also consider the international level playing field, particularly in those areas prone to international competition**, such as those related to global financial market activities. Subsequently, in consideration of this matter, the Commission has taken a number of stances, namely:

- On **liquidity issues, specifically the Net Stable Funding Ratio (NSFR)** treatment of reverse repos, the Commission has proposed to prolong the current prudential approach, also beyond 28 June 2025. The current approach seems prudent, supports EU capital markets, and aligns the Union with other major Basel jurisdictions' practices in this area for sovereign debt. In 2025, the Commission put forward a targeted legislative proposal and welcomes co-legislators’ swift agreement.
- On **market risk**, on 24 March, the Commission published a targeted consultation setting out several options for the prudential **treatment of market risk (FRTB)**. These include a further one-year postponement of FRTB implementation, or the introduction of temporary and targeted amendments. The majority of stakeholders prefers to delay the application of the EU’s framework for market risk prudential requirements for EU banks by another year, until January 2027. The Commission will communicate its decision on this in the coming days.
- On **equivalence**, together with the European Banking Authority (EBA), the Commission is continuing to monitor the existing equivalence conditions for third countries.

- **<u>In paragraph 19</u>, the European Parliament** expresses concern about the growing number of bank branch closures, which could lead to the creation of 'bank deserts' and disproportionately affect vulnerable citizens who lack digital access. It emphasises the crucial function of smaller banks in delivering vital services in rural and remote regions, and in supporting local communities and SMEs. It acknowledges that high supervisory and regulatory costs pose a challenge to these banks, and it advocates proportional regulation that takes into account their size, risk profile, business model and territorial importance. Furthermore, the European Parliament calls on the Commission to consider whether banking regulation should take into account the size of smaller credit institutions, with the aim of making the system more proportionate.

The Commission acknowledges that application in the EU of the same set of rules to all EU banks is necessary to provide a level playing field in the single market and to ensure all banks are resilient in times of crisis (i.e. to prevent a flight to safety at larger banks). **Proportionality is a key principle in the regulatory framework and there are already lighter rules for Small and Non-Complex institutions** (SNCI). Under the Banking Package, the EBA has a mandate to reduce reporting requirements, at least for SNCI. EBA has also received a mandate in the Banking Package to do a report on proportionality by 31 December 2027.

- **In paragraph 20, the European Parliament** recalls that the Banking Package contains a high number of mandates to the European Banking Authority; calls on the European Banking Authority to respect these mandates.

The Commission notes that the European Parliament and the Council agreed on those mandates, including on their prioritisation, during the negotiations on the Banking Package. EBA is continuing to provide information on its implementation of the mandates through its Roadmap. The Commission is engaging with co-legislators to ensure a further prioritisation of the mandates.

- **In paragraph 25, the European Parliament s**tresses that the current profitability levels in the banking sector may offer a window of opportunity to strengthen macroprudential buffers and support the sector's resilience; calls on the Commission to further examine this possibility and thoroughly assess options for revising the macroprudential framework, while considering the potential implications for capital requirements and ensuring a level playing field with other jurisdictions.

The Commission notes that bank profitability levels have improved significantly in recent years, in part thanks to the increase in interest rates. The Commission further notes that European banks are showing significant levels of overall resilience, when considering all microprudential and macroprudential requirements that are in application. Basel III standards have been implemented as of 1 January 2025 in the EU and are being broadly applied to all EU banks. In recent years macroprudential space has increased, as macroprudential policy has tightened in most Member States.

- **In paragraph 26, the European Parliament** notes that the banking sector has a key role in facilitating the transition to a digital and carbon-neutral economy by directing investments toward renewable energy and contributing to the goals of the EU Green Deal and the EU Climate Law

The Commission fully agrees with the position of the European Parliament. The Commission recognises the crucial role of banks as financial intermediaries in channelling funds to the European economy. **The Commission therefore encourages banks to focus their efforts and actively contribute to essential investments in strategic sectors as mentioned in the SIU Communication and in the Competitiveness Compass.** As set out in the mentioned communication, the Commission will provide guidance on the use of **favourable prudential treatment for investment** under **legislative programmes**.

- **In paragraph 30, the European Parliament** stresses the need to enhance the resilience of non-bank financial intermediaries, including by designing specific regulatory and supervisory tools. It welcomes the Commission’s consultation on macroprudential policies for non-bank financial intermediaries and supports the introduction of an EU system wide stress test exercise aimed at identifying and assessing key risks across sectors and markets. The European Parliament invites the Commission to investigate whether there are any gaps in the supervisory toolkit for non-bank financial intermediaries.

The Commission welcomes the position of the European Parliament on strengthening the resilience of non-bank financial intermediaries and its favourable view on the public consultation conducted by the Commission. There is widespread agreement among stakeholders that we need to better understand how non-bank financial intermediaries and banks interact in core funding markets. A system-wide risk assessment is one of the options that received widespread support, including from the European Parliament, Member States and other stakeholders. The feedback from this public consultation will inform the Commission’s future work on scope, timing and priorities for drawing up a macroprudential strategy on non-bank financial intermediation.

Resolution and deposit insurance

With regard to the Banking Union, substantial progress has also been made in establishing the Banking Union, increasing resilience in the sector, supporting integration and boosting international competitiveness. However, the Commission agrees with the European Parliament that Banking Union remains incomplete, notably in the absence of adequate arrangements for managing the failure of mid-sized banks and a European deposit insurance framework. While this is the case, the EU safety nets remain fragmented (paragraph 32).

In April 2023, the Commission put forward legislative proposals to review the existing framework for crisis management and depositor protection, with a goal of ensuring more consistent approaches across all Member States towards the application of resolution tools and deposit protection to the benefit of financial stability, taxpayer protection and depositors' confidence. The Commission takes note of the position of the European Parliament as adopted in 2024. Negotiations in trilogues are ongoing. The Commission invites the co-legislators to address shortcomings in arrangements to manage the failure of mid-sized banks by agreeing on an ambitious outcome in the crisis management and deposit insurance framework negotiations. The Commission continues to provide its full support in this process. (paragraph 32,36).

A bank's internal loss absorption capacity must remain the primary tool to fund the handling of that bank's failure. The Minimum requirement for own funds and eligible liabilities (MREL) buffers held by the bank and, once they are depleted, liabilities of other creditors can be used to absorb losses up to the threshold of 8%. MREL is and will remain the first line of defence to ensure that the bank will have sufficient own internal resources to pay for the cost of its failure. The condition of the minimum bail-in of 8% to access the resolution fund remains in place. However, experience has shown that for certain banks with a high prevalence of deposits, meeting the 8% condition may result in losses on depositors, which in turn may negatively affect the community, depositor confidence and financial stability. The crisis management and deposit insurance proposal reforms the use of the funds from national deposit guarantee schemes in resolution, including, under certain conditions, as a 'bridge' to meet the 8% condition, in order to shield depositors from bearing losses. This added flexibility is put forward with strong safeguards (paragraphs 33,34).

The Commission agrees with the European Parliament that if a bank's eligible liabilities are issued to non-EU investors, the write-down or conversion of these liabilities should be enforceable with full certainty to safeguard the effective application of resolution tool. The Commission has done substantial work, in particular within the Financial Stability Board, to ensure that the write-down and conversion of liabilities issued to non-EU investors can be done with legal certainty, and is committed to continuing this work.[1] (paragraph 35)

With regard to the provision of liquidity in resolution, the Commission notes that in 2018 the Eurogroup provided broad support for the assessment of the Commission that there are limitations in the current framework which may hamper its effectiveness. No agreement on consensus solutions has been reached since then (paragraph 38). The Commission keeps assessing with the relevant stakeholders how to address this important issue going forward.

The Commission welcomes the fact that the previous European Parliament was willing to move forward with the European Deposit Insurance Scheme (EDIS) proposal. Upon completion of negotiations between co-legislators on the crisis management and deposit insurance framework, the Commission will follow with decisive steps to develop further the Banking Union, including by identifying a way forward on the European Deposit Insurance Scheme, considering discussions held so far based on the Commission proposal (paragraphs 44,45,46).

[1] 2024 Resolution Report: From Lessons to Action: Enhancing Resolution Preparedness (in particular section 3.3 (pp. 11 et seq.)