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Bank supervision: Council confirms agreement with EP

The Permanent Representatives Committee today approved a compromise agreed with the European Parliament on the establishment of a single supervisory mechanism (SSM) for the oversight of credit institutions.

The compromise, agreed on 19 March, involves two regulations: one conferring supervisory tasks on the European Central Bank *(7776/1/13)*, the other modifying regulation 1093/2010 establishing the European Banking Authority *(7775/13)*.

The SSM will be composed of the ECB and the supervisory authorities in the member states. The ECB will be responsible for the overall functioning of the SSM. It will have direct oversight of eurozone banks, although in a differentiated way and in close cooperation with national supervisory authorities. Non-eurozone member states wishing to participate in the SSM will be able to do so by entering into close cooperation arrangements.

The ECB's monetary tasks will be strictly separated from its new supervisory tasks, in order to eliminate potential conflicts of interest between the objectives of monetary policy and prudential supervision. To this end, a supervisory board responsible for the preparation of supervisory tasks will be set up within the ECB. Non-eurozone countries participating in the SSM will have full and equal voting rights on the supervisory board. The board's draft decisions will be deemed adopted unless rejected by the ECB governing council.

P R E S S

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National supervisors will remain in charge of tasks not conferred on the ECB, for instance in relation to consumer protection, money laundering, payment services, and branches of third country banks. The EBA will retain its competence for further developing the single rulebook and ensuring convergence and consistency in supervisory practice.

The EBA regulation is amended, in particular as regards voting modalities, in order to ensure equitable and effective decision-making within the single market. The amendments ensure that the countries participating in the SSM will not unduly dominate the EBA's board of supervisors.

The agreement reached with the Parliament confirms the Council's position, agreed in December, on the balance of rights and obligations between participating and non-participating member states, and between euro area and non-euro area participants. It also strengthens accountability, in terms of transparency and right of inquiry, and gives the Parliament a greater role in the appointment of the chair and vice chair of the supervisory board: Specifically, a proposal by the ECB has to be approved by the Parliament, before the Council can adopt an implementing decision on the appointment. The Parliament and the Council will also have the right to initiate a procedure for the removal of the chair, though it will be within the ECB's discretion what kind of action it will take in response.

At an informal meeting of ministers and central bank governors in Dublin on 12 April, the member states agreed on a political declaration accompanying the ECB regulation, stating that they are "ready to work constructively on a proposal for treaty change" and that the ECB regulation should be appropriately adjusted, if necessary, should article 127 paragraph 6 TFEU[1] or other relevant treaty provisions be amended. Member states also reaffirmed "their commitment to the urgent completion of all the agreed elements of banking union, as set out by the European Council, in particular in its conclusions of 13/14 December 2012."

The ECB will assume its supervisory tasks within the SSM either on 1 March 2014 or 12 months after entry into force of the legisation, whichever is later, subject to operational arrangements.

In June 2012, eurozone heads of state and government stated that when an effective SSM is established, the European Stability Mechanism, which currently contributes to bank capitalisations via member state treasuries, could, following a regular decision, have the possibility to recapitalise banks directly. This will enable the vicious circle between banks and sovereigns – which has been a salient feature of the debt crisis in Europe – to be broken.

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[1] Treaty on the Functioning of the European Union.

Following today's approval of the legislation by the Coreper, a letter will be sent to the chair of the Parliament's "ECON" committee confirming the Council's agreement on the EBA regulation and informing the chair that it has also endorsed the amending regulation on the ECB.[1]

If the Parliament votes accordingly and in particular approves the EBA text as agreed, the Council will approve both texts without further discussion. The presidency confirmed that following finalisation of the two regulations in all languages, it will submit them together for final adoption as a package.

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1 The ECB regulation requires unanimity for adoption by the Council, after consulting the European Parliament and the ECB. The EBA amending regulation requires a qualified majority for adoption by the Council, in agreement with the Parliament.