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NOTE

From: Presidency

To: Permanent Representatives Committee/Council

Subject: Strengthening of the Banking Union

- European Deposit Insurance Scheme: Progress report
- Banking package (CRR/CRD/BRRD/SRMR/IFRS9/BCH): Progress report
- Non-performing loans: State of play

I. INTRODUCTION

1. In November 2015, the Commission presented a Communication on completing the Banking Union ("Communication from the Commission to the European Parliament, the Council and the European Central Bank on steps towards Completing Economic and Monetary Union").
2. As a result, the Commission also put forward a proposal for the establishment of a European Deposit Insurance Scheme ("Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 806/2014 in order to establish a European Deposit Insurance Scheme", hereinafter referred to as "EDIS").

3. On 17 June 2016, the Council adopted Conclusions on the Roadmap to complete the Banking Union (doc. 10460/16, 'Council 2016 Roadmap'), in which it stressed the importance of pursuing risk reduction and risk sharing measures in an appropriate sequence. In consequence, the political discussions on the EDIS proposal were postponed, pending sufficient progress on risk reduction measures.
4. On 23 November 2016, the Commission presented a package of banking legislative proposals (the "Banking Package") comprising the following five proposals which would amend legislation that is currently in force:
 - a. draft Regulation amending Regulation (EU) No 575/2013 (the "CRR Proposal");
 - b. draft Directive amending Directive 2013/36/EU (the "CRD Proposal");
 - c. draft Directive amending Directive 2014/59/EU (the "BRRD Proposal");
 - d. draft Directive amending the BRRD (the "Bank Creditor Hierarchy Proposal");
 - e. draft Regulation amending Regulation (EU) No 806/2014 (the "SRMR Proposal").
5. The aim of this note is to introduce the objectives of the ECOFIN Council as regards the strengthening of the Banking Union and in particular on EDIS, the Banking Package and Non-Performing Loans (NPLs).

II. EUROPEAN DEPOSIT INSURANCE SCHEME

6. The Council Ad Hoc Working Party on the Strengthening of the Banking Union, which was established on 13 January 2016 (doc. 5006/16), limited its examination of the EDIS proposal to technical aspects.
7. During the Estonian Presidency, the Ad Hoc Working Party on the Strengthening of the Banking Union met three times: on 18 July, 25 September and 20 November 2017. The result of this work is summarised in the Presidency's Progress Report as set out in doc. 14808/17.

III. THE BANKING PACKAGE

8. Pursuant to the Council's 2016 Roadmap, the Banking Package's primary objective is to reduce overall risks in the banking sector by implementing in EU law a set of financial regulation reforms agreed at the international level following the 2008 financial crisis.
9. During the Estonian Presidency, the Financial Services' Working Party met fourteen times. The Working Party meetings were structured in two separate work-streams: prudential requirements (capital, liquidity and supervision of financial institutions) and bank recovery and resolution. The result of this work is summarised in the Presidency's Progress Report as set out in doc. 14896/1/17 REV1.
10. In particular, the "Bank Creditor Hierarchy" and the "IFRS9 and large exposures transitional arrangements", which had been fast-tracked, were successfully concluded at the political level with the European Parliament on 25 October 2017. The respective legal texts should be published in the Official Journal of the European Union before the end of the year.
11. On the other elements of the Banking Package, considerable progress has been made during the Estonian Presidency. As a result, the Presidency has prepared compromises on the CRR, the CRD, the BRRD and the SRMR proposals (as set out in documents 14891/17, 14892/17, 14894/17 and 14895/17 respectively).
12. The Presidency considers that the above-mentioned compromises reflect the best possible overall package at this stage. A number of key political issues emerged during the negotiations, as reflected in the Presidency's Progress Report set out in doc. 14896/1/17 REV1.

IV. NON-PERFORMING LOANS

13. On 11 July, the Council adopted an Action Plan to tackle Non-Performing Loans in the European Union. This Action Plan contains fourteen actions aimed at addressing the existing stock of NPLs and preventing their future emergence and accumulation.
14. The Presidency considers that the discussion on the strengthening of the Banking Union would benefit from an update by the Commission on the state of play of implementation of the Council's Action Plan.
15. This update shall be without prejudice to a comprehensive stock-take of the evolution of NPLs in the European Union, to the restructuring of banking sectors in this context and to the development of secondary markets for NPL transactions which, in accordance with the Council's Action plan, should take place at the January 2018 ECOFIN meeting.

V. CONCLUSION

16. The Permanent Representatives Committee is therefore invited to suggest to the Council to take note of:
 - the Presidency's Progress Report on EDIS as set out in document 14808/17;
 - the Presidency's Progress Report on the Banking Package as set out in document 14896/1/17 REV 1;
 - the information from the Commission on the current state of play as regards the implementation of the Action Plan to tackle Non-Performing Loans in the European Union.