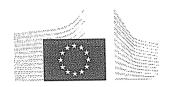
## **EUROPEAN COMMISSION**



Brussels, 2.8.2013 C(2013) 5115 final

Dear President,

The Commission would like to thank the Senát for its Opinion on the Communication from the Commission to the European Parliament and the Council on A Roadmap towards a Banking Union {COM(2012) 510 final}, and on the Proposals for a Council Regulation conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions {COM(2012) 511 final}, and for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority) as regards its interaction with the Council Regulation conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions {COM(2012) 512 final}.

The Commission welcomes the support of the Senát for the creation of a more effective system of supervision strengthening the stability of the financial system and the acknowledgement of the need for quick action. The Commission underlines that the issues raised by the Senát have been carefully analysed during the negotiation and addressed in the Council compromise unanimously agreed on 12-13 December 2012 on ECB supervision. They were also taken into account in the comprehensive compromise texts on the proposals following negotiations with the European Parliament on the proposal amending the Regulation establishing the European Banking Authority (EBA) and the consultation of the European Parliament on the proposal establishing the SSM.

The Commission agrees that the establishment of the single supervisory mechanism (SSM) constitutes only one of the elements of the Banking Union which should be built on the single rulebook and combined with harmonised deposit guarantees schemes and an integrated framework for bank resolution. Due to the need for urgent action and following the request of the Heads of State or Government at the Euro area summit on 29 June 2012 to come forward with proposals establishing a SSM, the Commission prioritized this element of the banking union. The Commission is fully committed to work with the co-legislators in view of reaching an agreement on the outstanding proposals on recovery and resolution and on deposit

Mr Milan Štěch President of the Senát Valdštejnské náměstí 17/4 CZ – 118 01 PRAGUE guarantees, to establish the single rulebook for all 27 Member States. The Commission has adopted its proposals on a Single Resolution Mechanism on 10 July 2013.

The Commission notes the concern of the Senát that the Banking Union might disrupt the Single Market in the area of financial services. It underlines that the Banking Union will be fully in line with already adopted legislation or currently negotiated legislation forming the single rule book. Furthermore, the prerogatives of the EBA in the development of the single rulebook and its important role in promoting consistency of supervisory practices in the whole EU will be preserved. In order to promote best supervisory practices in the Single Market, the single rulebook will be complemented by a European supervisory handbook drawn up by the EBA in consultation with national competent authorities. Moreover, voting modalities at EBA have been adjusted to ensure that interests of all Member States are adequately taken into account and to allow for the proper functioning of the EBA after the establishment of the SSM.

As to the comments of the Senát on the impact of the banking union on the stability of the Czech financial system and the necessary powers of national supervisory authorities to ensure the stability of the financial system, the Commission is convinced that the Banking Union will restore trust in banks and in the euro which will be conducive for financial stability in the Union as a whole. Existing home/host supervisor coordination procedures and colleges of supervisors will continue to exist as they do today, as far as coordination with supervisors in non-participating Member States is concerned and supervisory authorities of non-participating Member States will retain all their existing powers and prerogatives. Furthermore, in order to assist national authorities in fulfilling their responsibilities the political compromise includes a recital on information to be provided to depositors and national authorities on any changes to the legal form of subsidiaries or branches.

The Commission believes that the ECB is best placed to carry out prudential supervision of banks. It fully shares the Senát's views that these powers need to be accompanied by appropriate democratic control and underlines that the comprehensive compromise text reinforces these arrangements, in particular by granting rights to national Parliaments thus allowing them to obtain explanations and express their views on issues relevant for their national credit institutions. It also fully agrees that the ECB governance structure must ensure separation between its supervisory and monetary tasks. The comprehensive compromise text ensures the separation between the two functions: In particular, the Supervisory Board would carry out full preparatory work and propose complete draft decisions to the Governing Council which will be deemed adopted unless the Governing Council objects in a duly justified manner. In addition, a mediation panel will be created to resolve differences of views expressed by national supervisors on an objection of the Governing Council to a decision proposed by the Supervisory Board.

The Commission shares the view of the Senát that the experience and know-how of national supervisory authorities should be adequately reflected in the SSM. Indeed, the comprehensive compromise text keeps the ECB's responsibility for the functioning of SSM which should ensure efficient and high quality supervision of all banks. At the same time, it provides for a clearer division of labour between the ECB and national supervisors: the ECB will carry out direct supervision of more significant banks while national supervisors will have responsibility for less significant banks within the framework established by the ECB. The

significance of banks will be assessed on the basis of objective criteria (assets of more than EUR 30 billion assets or 20% of national GDP, public financial assistance) which seem suitable in view of ensuring that supervision is carried out at the most appropriate level. The activity of national supervisors will be integrated in the SSM and the ECB will be able to take over the direct supervision of any bank in participating Member States when necessary to ensure consistent application of high supervisory standards.

Both regulations impose extensive reporting requirements on the Commission on their application to avoid unintended side effects by 31 December 2015. The evaluation reports will assess inter alia the impacts on the SSM on non-participating Member States and on the integrity of the single market in financial services and will be coupled with accompanying proposals, as appropriate. However, due to the urgent need expressed by the European Council in its December 2012 conclusions to move towards a fully-fledged banking union in order to restore financial stability it is not possible to assess the impacts of the SSM before proposing measures establishing the other components of the Banking Union.

The Commission hopes that these clarifications address the concerns raised by the Senát and looks forward to continuing our constructive political dialogue in the future.

Yours faithfully,

Maroš Šefčovič Vice-President