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*Mr Stanislaw TILLICH
President of the Bundesrat
Leipziger Straße 3 – 4
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Dear President,

The Commission would like to thank the Bundesrat for its Opinion on the Commission Communication of 21 October 2015 to the European Parliament, the Council and the European Central Bank on steps towards completing Economic and Monetary Union {COM(2015) 600 final}.

The Five Presidents' Report, which was published in June 2015, maps the way ahead to complete the Economic and Monetary Union (EMU) by 2025 at the latest. The report is ambitious, yet pragmatic. Some steps can and should be implemented immediately and do not require a Treaty change; others will take more time. In order to help ensure a fast and concrete implementation of the next steps, the Commission published a package of measures towards the completion of the EMU in October 2015, on which the Bundesrat has given its views in its Opinion. The package was followed in November 2015 by the Commission's proposal for a European Deposit Insurance Scheme.¹

The Commission thanks the Bundesrat for its support in moving ahead with the development of the EMU. It welcomes the support of the Bundesrat for a stronger interaction with the social partners, the measures to simplify the European Semester, to place a stronger emphasis on social issues and for an increased focus on benchmarking, inter alia to help support the stronger implementation of the country-specific recommendations by Member States. It also notes the concerns of the Bundesrat regarding the European Fiscal Board and

¹ Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions "Towards the completion of the Banking Union", COM(2015) 587 final.

the opposition of the Bundesrat to the establishment of national Competitiveness Boards and welcomes this opportunity to comment on these issues.

The European Semester, in particular the macroeconomic imbalance procedure, provides a framework for integrated economic policy coordination and surveillance. Competitiveness developments are particularly relevant both for the accumulation and correction of macroeconomic imbalances and for adjustment to country-specific shocks. Coordination of policies having a bearing on competitiveness would help to ensure that competitiveness developments are compatible with the objective of a smooth functioning of the economic and monetary union (EMU). For this purpose, the Commission's October package includes a draft Council recommendation on the establishment of National Competitiveness Boards.

The aim of the Boards will be to contribute to the enhancement of ownership of the necessary policies and reforms at national level and to improve the knowledge base for the Union's economic policy coordination in the field of competitiveness. The Boards will provide independent expertise to assess competitiveness developments and policies, and will provide policy advice for reform implementation, taking into account national specificities and established practices. In accordance with the Charter of Fundamental Rights of the European Union, the establishment of the Boards should not affect the right of workers and employers, or their respective organisations, to negotiate and conclude collective agreements or to take collective action. The competitiveness Board of a given Member State can also rely on different existing bodies.

The Commission sees the need for a more effective system of economic and fiscal surveillance. Following the Five Presidents' Report, which was based also on input from the Member States, the independent advisory European Fiscal Board has been set up by a dedicated Commission Decision which entered into force on 1 November 2015. The Board will act independently and contribute in an advisory capacity to the exercise of the Commission's functions in multilateral fiscal surveillance in the euro area. It will be composed of a chair and four Members appointed on merit and experience and supported by a secretariat. The Board will provide the Commission with an evaluation of the implementation of the Union fiscal framework, in particular regarding the horizontal consistency of decisions, cases of particularly serious non-compliance, and the fiscal stance appropriate to the euro area. Its work will therefore help strengthen the governance of the Economic and Monetary Union. The Board will cooperate with national fiscal councils across the EU to promote the exchange of best practices and a common understanding on EU fiscal matters. This cooperation will take place on a voluntary basis and in full respect of the independence of all participating entities.

The Commission appreciates the Bundesrat's support for the Commission's efforts to further reduce risks and ensure a level playing field in the Banking Union by weakening the link between banks and their national sovereign. It however carefully notes the concerns expressed by the Bundesrat regarding the European Deposit Insurance Scheme (EDIS).

On these issues, the Commission would like to emphasise that the transposition of the Bank Recovery and Resolution Directive (BRRD) and Deposit Guarantee Scheme Directive (DGSD) are more advanced than is implied in the Opinion of the Bundesrat. Regarding the BRRD, as of 8 March 2016, four Member States had communicated only partial transposition. Regarding the DGSD, five Member States had not yet communicated any transposition of measures to the Commission. All other Member States have communicated full transposition.

With regard to EDIS, the idea of having a common European deposit insurance system was already discussed when the Banking Union was initiated in 2012 and more recently taken up by the Five Presidents' Report. The Commission is of the opinion that completing the Banking Union is an indispensable step towards completing the EMU. EDIS is a necessary complement to the Single Supervisory Mechanism and the Single Resolution Fund. But its construction cannot, and should not, be addressed in a single step, since there is too much diversity between the national deposit guarantee systems as they stand. That is why the Commission has proposed as the first step a common "re-insurance"-based arrangement, coexisting with those national schemes. The proposal also contains safeguards against moral hazard and potential abuse, since the re-insurance scheme will only kick in when national deposit insurance funds have been exhausted. Accessing the reinsurance arrangement will be conditional on strict compliance with EU rules. This will be done in a "cost neutral" way, so that the overall costs for the banking sector will not rise.

The Commission believes that this design of the scheme will prove to be an effective way of sharing risk in the euro area, while it agrees that it is also important to reduce the overall risks. Much has been done on risk reduction already since the onset of the crisis, but more is needed. The stronger the overall system, the better a bank can weather stress - wherever that bank is located.

Ensuring a level playing field in the Banking Union also requires a regulatory framework that is reflective of the specificities resulting from the legal form and ownership of credit institutions in the Single Market so that regulation does not disadvantage credit institutions on such grounds without prudential reason. Moreover, the Commission agrees that a level playing field should allow for proportionality. In fact, a level playing field even requires that smaller and less complex banks are subject to proportionate requirements and can compete in the markets. The Commission will consider how to achieve this in future regulatory measures and is reflecting on the need for possible adjustments to the current regulatory framework. As regards the regulatory treatment of government bonds, the Commission will consider carefully all possible policy options and will be mindful of the risk of potential unintended consequences that they may entail.

The Commission hopes that these comments address the issues raised by the Bundesrat and looks forward to continuing the political dialogue in the future.

Yours faithfully,

*Frans Timmermans
First Vice-President*

*Valdis Dombrovskis
Vice-President*