

# SENATE OF THE REPUBLIC

XVII LEGISLATIVE PERIOD

Doc. XVIII No 130

## **RESOLUTION OF THE 6<sup>th</sup> STANDING COMMITTEE**

**(Finance and the Treasury)**

*(Rapporteur Gianluca ROSSI)*

*approved at the afternoon session of 11 May 2016*

CONCERNING THE

**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 (COM(2015)586 FINAL)**

AND CONCERNING THE

**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)**

*pursuant to Article 144(1) and (6) of the Rules of Procedure*

**Notified to the President's Office on 18 May 2016**

## **C O N T E N T S**

Text of the resolution .....	<i>Page 3</i>
Observations of the 14 <sup>th</sup> Standing Committee .....	» 7

XVII LEGISLATIVE PERIOD - DRAFT LAWS AND REPORTS - DOCUMENTS - DOC. XVIII, No 130

The Committee, having examined the acts COM (2015) 586 and 587

final,

whereas:

the economic and financial crisis has had significant negative effects on the balance sheets of banks, as demonstrated by the increase in unpaid loans caused by the greater number of insolvencies;

in order to end the crisis in banking systems, in 2012 the European Commission commenced the process of constructing the Banking Union, founded on three pillars: the single supervisory system, the single mechanism for the resolution of bank crises, a European system to guarantee bank deposits;

currently, the first two pillars have been implemented under the Banking Union project and the third will become a reality under the proposal for a regulation under consideration;

the completion of the Banking Union is an important objective, both in order to reinforce the financial stability of Economic and Monetary Union and to restore the confidence of savers and customers in the banking sector, fully recognising the combined measures designed to share and reduce risk,

noting that:

the rulebook for the Banking Union, at European regulatory level, consists of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 ('CRD IV') and the related Regulation (EC) No 575/2013 of the European Parliament and of the Council of 26 June 2013 ('CRR'), Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 ('the BRRD') and Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 ('the DGSD'). CRD IV specifies the prudential requirements to enhance the capacity of banks to absorb adverse economic and financial shocks by increasing the quality and quantity of capital, while the other directives concern European Central Bank (ECB) supervision of large banks and systemically important banks, the single resolution mechanism and the mechanism for harmonised management of crises in credit institutions;

the purpose of the Bank Recovery and Resolution Directive, in force since 1 January 2016 in national legal systems, is to protect taxpayers essentially by managing bank crises in a more timely and orderly manner, avoiding the use of public funds for bank bail-outs;

XVII LEGISLATIVE PERIOD - DRAFT LAWS AND REPORTS - DOCUMENTS - DOC. XVIII, NO 130

the Deposit Guarantee Scheme Directive harmonised coverage, strengthened funding arrangements and shortened the time-limits for payouts of deposits;

a European deposit insurance scheme is an important pillar in ensuring that depositors' confidence is equally strong across the Union. In the absence of a common deposit insurance scheme for the Banking Union depositors remain vulnerable to large local shocks which could overwhelm deposit guarantee schemes;

the legislative proposal for a European Deposit Insurance Scheme - combined, moreover, with a parallel effort to further reduce risks in the banking sector - is the final element of the system;

the proposal sets out a clear path towards a single European Deposit Insurance Scheme, starting with a reinsurance scheme and continuing, through the progressive increase in the share of financing provided at European level in the co-insurance phase, towards a scheme in which the entire financing of deposit insurance comes from a European insurance fund of the deposits themselves;

according to the Communication from the European Commission "Towards the completion of the Banking Union" the achievement of the European Deposit Insurance Scheme (EDIS) has the aim of overcoming the discordance and misalignment which still exists between national deposit guarantee schemes;

the proposal to make the mutual borrowing and lending between national deposit guarantee schemes mandatory was not accepted;

taking into consideration that:

the objective of EDIS, which will be based on the existing system and made up of national deposit guarantee schemes set up in accordance with European rules, is both to reduce the vulnerability of bank depositors to large local shocks and further reduce the link between banks and their national sovereign. It therefore applies to all deposit guarantee schemes (DGS) which are officially recognised in a participating Member State and to all credit institutions affiliated to such schemes;

EDIS also pursues the priority purpose of strengthening the confidence of depositors irrespective of the EU country in which a bank is established;

supervision can only be effective and meaningful if an adequate deposit insurance scheme is created (recital 12 of the proposal for a regulation);

three phases are planned for the full operation of EDIS: in the first phase, reinsurance, EDIS will provide limited funding until 2020 and will cover a limited share of the loss of a participating DGS. In the second phase, co-insurance, from 2020 to 2024,

XVII LEGISLATIVE PERIOD - DRAFT LAWS AND REPORTS - DOCUMENTS - DOC. XVIII, NO 130

a progressively mutualised scheme will be introduced with a consequent higher level of risk sharing. The third phase, from 2024, will underwrite in full national DGSs;

the principle of mutualisation of risk therefore constitutes the cornerstone of the European structure of deposit insurance. It is important to note, however, that the Banking Union is not currently based on a level playing field for depositors and for banks wishing to expand their customers. Further, the difference between the national guarantee schemes contributes to the fragmentation of the market and undermines its capacity;

the proposal of the European Commission is entirely appropriate for building up a volume of funds over time so as to create an essential tool for the Banking Union system;

recital 16 of the proposal for a Regulation to the effect that any financial support to reimburse depositors enhances the financial stability not only in the participating Member State concerned but also in other Member States can be endorsed entirely;

the Committee believes that the protection of European citizens as taxpayers cannot always take precedence over the protection of citizens as savers;

EDIS should progressively evolve from a reinsurance scheme into a fully mutualised co-insurance scheme (recital 17 of the proposal for a regulation);

it is stated, finally, that each bank's contribution will however be calculated on the basis of the degree of risk of the bank itself, and that therefore the costs incurred by the use of the fund are borne above all by the least robust parties;

the aforesaid measures propose not to intervene in respect of the prudential treatment of exposures to national sovereigns and criteria for the calculation of the risk index of public securities also held by banks nor to place limits on the holding of the same,

acknowledging that:

in the achievement of Banking Union and overcoming the crisis in banking systems, Italy has played a decisive role, contributing also to the recovery of banking systems of other European countries by means of action through the ESM to which it has contributed financing of 17.7 percent of the total;

at the end of 2015, Italy transposed the Bank Recovery and Resolution Directive (the BRRD), the Deposit Guarantee Scheme Directive (the DGSD) and ratified the Intergovernmental Agreement on the Single Resolution Fund, and, accordingly, the rules which constitute the innovative and complex context of the first two pillars of the Banking Union are fully in force;

following the transposition of those Directives and the adoption of recent measures in the banking sector, the Italian banking system is gradually strengthening, and that process will be consolidated in the coming months owing to the following measures of a permanent nature: aggregations and mergers between banks of different types (cooperatives and joint stock companies), creation of holding companies between cooperative banks, reduction of time-limits for deduction of losses on loans, reduction of time-limits for recovering non-performing loans, activation of a private means of purchasing non-performing loans, State guarantee on senior tranches of securitised loans, increases of capital guaranteed by private finance, application of the principles of resolution and crisis management for regional banks; restructuring of the management model and increased computerisation of banking and investment services,

given that:

swift approval of the entire framework of the proposal under consideration constitutes the final necessary stage for the completion of the Banking Union and to give stability to the European banking system;

the subsequent transposition into Italian law of the third pillar of the Banking Union is a fundamental step in ensuring that depositors have confidence in Italy's banking system,

in the light of all of the foregoing,

the Committee gives a favourable opinion, subject to the following conditions:

define unequivocally the necessary finance to be borne by each contributor for the start-up phase of the European Deposit Insurance Scheme (EDIS) and for securing immediate operations in accordance with the procedures and time frame provided for in the Regulation;

build up within the time frame laid down the finance of EDIS, specifying for each year the costs borne by the contributors, recognising, however, that the Italian banking system is already committed to finding the financial means to support banks in resolution and also formulating a disposal process in respect of non-performing loans;

not tie the implementation of EDIS to measures amending the criteria for the calculation of the risk of public securities held by banks or set limits on the holding of the same, since intervention in this area, forcing banks haphazardly and abruptly to reduce their exposure to government securities, would cause turbulence and instability in the markets;

and with the following general observations:

evaluate the possibility, in the face of significant systemic crises, including at local level, of activating the European Deposit Insurance Scheme as part of action for the resolution of bank crises;

should there be a need to contribute to any critical situations which may arise in other countries, take into account at European level the commitments already undertaken and supported by Italy in participating in the recovery of the banking systems of other European countries.

XVII LEGISLATIVE PERIOD - DRAFT LAWS AND REPORTS - DOCUMENTS - DOC. XVIII, No 130

## **OBSERVATIONS OF THE 14<sup>th</sup> STANDING COMMITTEE**

(EUROPEAN UNION POLICIES)

(Rapporteur: GUERRIERI PALEOTTI)

24 February 2016

The Committee, having examined the acts COM (2015) 586 and 587 final,

recalling the very different beginning of the proposal in the Council of the European Union and the setting up, on 13 January, of the Ad Hoc Working Party on the Strengthening of the Banking Union;

taking the view that the absence, to date, of a common deposit insurance scheme and European fiscal support of last resort in the event of systemic crisis increases the risks for depositors and creditors of banks, since the Banking Union would be a scheme which is incomplete and exposed to considerable risks of instability,

comments favourably on the proposal, within its area of responsibility, with the following remarks:

the legal basis of Article 114 of the Treaty on the Functioning of the European Union (TFEU) is appropriate in relation to the objective pursued, given that the proposal for a regulation aims to preserve the integrity and enhance the functioning of the internal market. Uniform application of a single set of rules for deposit protection, together with access to a European Deposit Insurance Fund managed by a central authority would contribute to the more orderly functioning of the Union financial markets and to financial stability in the Union. It would remove obstacles to the exercise of fundamental freedoms avoiding significant distortion of competition;

the choice of that legal basis is also justified by the fact that it affects Regulation (EU) 806/2014 of the European Parliament and of the Council of 18 November 2014 concerning the Single Resolution Mechanism, adopted on the legal basis of Article 114 TFEU;

since there is no reason to depart from it, the choice of the European Commission is therefore endorsed;

the principle of subsidiarity has been fully observed because in the current situation, where deposit guarantee schemes (DGSs) remain purely national, they are vulnerable to large local shocks maintaining a strong and potentially negative interaction between banks and their national sovereign. This situation undermines the homogeneity of protection for deposits and can contribute to a lack of confidence among

XVII LEGISLATIVE PERIOD - DRAFT LAWS AND REPORTS - DOCUMENTS - DOC. XVIII, No 130

depositors. Furthermore, substantial differences in the protection of depositors taken at national level, and subject to local specificities and funding constraints, may undermine the integrity of the internal market. Only action at European level can ensure appropriate deposit insurance for depositors across the internal market and weaken the link between national DGSs and the financial position of the respective sovereign. Furthermore, the European Deposit Insurance Scheme (EDIS) would bring significant economies of scale and would avoid the negative externalities that may derive from purely national decisions and funds. The two criteria concerning the necessity for European action and its added value are therefore fulfilled;

the proposals observe the principle of proportionality because EDIS would ensure that the same rules are applied in the same manner to protect deposits in any participating Member State. Adequate backup funding would mitigate problems in individual banks from translating into a loss of confidence in the entire banking system of the Member State or of other Member States perceived by markets to be exposed to similar risks. Further, the choice of a regulation is in line with the principle that the rules which govern the establishment and the functioning of EDIS should be directly applicable in the Member States so as to avoid differences in interpretation;

on the substance, the entire framework of the proposal under consideration is endorsed, the swift approval of which constitutes the final necessary stage for the completion of the Banking Union and will give stability to the European banking system;

secondly, it is noted that the process of reducing bank risks at European level and the gradual process of sharing the same should continue in parallel and be mutually reinforcing, with a positive effect in terms of credibility of the markets. Moreover, the European Commission proposal, being based on a gradual approach towards the objective of full mutualisation, is already the result of a compromise and cannot constitute the starting point for further watered-down compromises;

thirdly, also in view of the fact that the rules on State aid to banks and the BRRD Directive ('the Bail-In Directive') provide that in the event of systemic crisis, the competent authority may suspend the rules on the bail-in of creditors and shareholders, it is considered desirable in such cases to mobilise a public guarantee of last resort for the liabilities of banks;

it is also noted that EU Member States must ensure that, by 3 July 2024, the financial means of a national deposit guarantee scheme (DGS) reach a target level of at least 0.8 percent of the total amount of covered deposits of its members (or approximately EUR 55 billion);

in the proposal under consideration, which influences Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014, albeit only indirectly, it is stated that EDIS will be involved only



XVII LEGISLATIVE PERIOD - DRAFT LAWS AND REPORTS - DOCUMENTS - DOC. XVIII, NO 130

if each national DGS guarantees gradually over time a percentage of the total amount of covered deposits as follows: by 3 July 2017: 0.14%; by 3 July 2018: 0.21%; by 3 July 2019: 0.28%. In that regard, it should be clarified with what financial means EDIS may take such measures, in particular in the first phase of its activities;

further, in view of the current level of cover of the Interbank Deposit Protection Fund (FITD, Italy's DGS), which should correspond to 0.4% of covered deposits (equal to approximately EUR 2 billion), it would be advisable to clarify what impact the current rules (Directive 2014/49/EU cited above), which require 0.8% to be reached by 2024, would have on the Italian system;

more generally, with the prospect of the full integration of national DGSs, the future risks for the Italian system should be examined of being called upon to deal with any critical situations which may arise in other Member States;

in that regard, it should be recalled that Italy has already significantly contributed - with the resources of its taxpayers - to the recovery of the banking systems of other European countries, in particular by means of action through the ESM ('the State rescue mechanism') to which it has contributed financing in an amount corresponding to its participation in the capital of the European Central Bank, equal to 17.7 percent of the total;

finally, it is hoped that the parliamentary bodies will ensure that continued and close attention is paid to all aspects of the overall subject of the Banking Union.

