



EUROPEAN COMMISSION

*Brussels, 19.6.2017
C(2017) 4075 final*

Dear President,

The Commission would like to thank the Assembleia da República for its Opinion on the Commission's proposals amending Regulation (EU) N 806/2014 as regards the capacity loss absorption and recapitalisation of credit institutions and investment firms {COM(2016) 851 final}, amending Directive 2014/59/EU as regards the capacity loss absorption and recapitalisation of credit institutions and investment firms {COM(2016) 852 final}, amending Directive 2014/59/EU as regards the position of unsecured debt instruments in insolvency hierarchy {COM(2016) 853 final} and amending Directive 2013/36/EU as regards the exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and the capital conservation measures {COM(2016) 854 final}.

The legislative package marks important steps towards the completion of the Banking Union as it delivers important risk reducing measures on which the Commission committed to work in its Communication "Towards the completion of the Banking Union" of November 2015 and in line with the conclusions of the Ecofin Council of June 2016.

The proposals constitute a package of ambitious measures, such as the implementation of the total loss absorbing capacity standard in Union law, designed to complement the existing frameworks for supervision and resolution and further reduce risks in the financial sector. Enhancing the resilience of the financial sector is a priority for the Commission and these proposals are instrumental in ensuring financial stability in the post-crisis era.

The creditor hierarchy proposal creates a targeted and flexible way for institutions to comply with the loss absorption capacity requirement while taking into consideration their funding and business models. It also addresses previous diverging national initiatives to modify national insolvency ranking regimes in an attempt to provide market clarity and certainty towards meeting the requirements brought forth by the risk reduction package.

A timely general approach on the harmonisation of the creditor hierarchy for unsecured debt is critical in order to ensure markets have the necessary legal clarity and that institutions start working towards reducing their shortfalls and complying with the loss absorption capacity requirements within the ambitious timeline.

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The Commission welcomes the Assembleia da República's broad support for the aims of the proposals and takes careful note of the concerns expressed by the Assembleia da República as regards the need to ensure that the Resolution Fund is supported by means of a credit line and points to the progress made in this area. Contracting parties agreed in the Intergovernmental Agreement on the Single Resolution Fund that a common backstop will be developed during the transitional period. Such a backstop will facilitate borrowings by the Fund. On 8 November 2016, the Economic and Financial Affairs Council concluded that all conditions established in the Council conclusions of 17 June 2016 that needed to be met before technical work on the backstop can commence had been fulfilled. Technical work is now on-going. All participating Member States have signed the Loan Facility Agreement, which implements the bridge financing arrangements for the Single Resolution Fund.

The Commission welcomes the Assembleia da República's support in setting up a European Deposit Insurance Scheme as the third pillar to the foundation to the Banking Union in order to ensure the protection of depositors, irrespective of their location within the Banking Union. In the Commission's view, the risk reduction package would deliver robust policies and set the necessary conditions for the European Deposit Insurance Scheme to materialise.

The Commission also welcomes the supportive view of the Assembleia da República on the Capital Markets Union project. The Commission has delivered 19 out of the 33 actions set out in the Action Plan on Building a Capital Markets Union. Yet, recent developments in the political, economic and technologic context have made progress on building a Capital Markets Union more important than ever. The Commission will adopt a mid-term review of the Capital Market Union Action Plan in June. The objective is to respond to the new policy challenges and strengthen the development of capital markets in the European Union so that European companies have easier access to finance and to support investment for the long-term, infrastructure projects and sustainable finance.

The points made above are based on the initial proposals of the Commission which are currently in the legislative process involving both the European Parliament and the Council.

The Commission hopes that the clarifications provided in this reply address the issues raised by the Assembleia da República and looks forward to continuing our political dialogue in the future.

Yours faithfully,

*Frans Timmermans
First Vice-President*

*Valdis Dombrovskis
Vice-President*