Brussels, 27.5.2014
C(2014) 3035 final

Dear Chairman,

The Commission would like to thank the House of Lords for its Opinion on the Commission's Communication "Blueprint for a Deep and Genuine Economic and Monetary Union: Launching a European Debate" {COM(2012) 777 final} and its related Opinion on the Proposal for a Regulation of the European Parliament and the Council establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Bank Resolution Fund {COM(2013) 520 final}.

The Commission would like to comment on the various issues and elements put forward in both of the Opinions as follows:

The Commission welcomes the House of Lords' analysis of the challenges present in the original setup of the Economic and Monetary Union (EMU) and the need to take further steps to ensure its sustainability. The Commission fully acknowledges that the EMU cannot be completed overnight. For the Commission, the guiding principle is that stronger solidarity can only be pursued in return for stronger responsibility. This raises issues on sovereignty, and thus such deepening can only emerge in a profoundly democratic process. The Blueprint for a Deep and Genuine EMU therefore distinguishes between steps to be taken in the short, medium and long term. All steps to be taken must build on and follow from each other. The way forward needs to be carefully balanced in parallel and in each phase of the development of the EMU. The deeper integration of financial regulation, fiscal and economic policy and corresponding instruments must also be accompanied by commensurate political integration, ensuring democratic legitimacy and accountability.

The Banking Union is a vital part of the policy measures to put Europe back on the path of economic recovery and growth. It will foster economic and financial integration in the internal market and boost financial stability in the EU. Given the importance of the euro area for global financial markets, the establishment of the Banking Union is also crucial for worldwide financial stability.

The Lord Boswell
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Building on the single rulebook for the whole Internal Market, the European Commission has therefore proposed to set up a Single Supervisory Mechanism (SSM) in the euro area which is open to all Member States. This mechanism will be fully operational in November 2014. The European Central Bank (ECB) is actively preparing to take up its new role of supervisor and is currently undertaking a comprehensive assessment of banks which will potentially be under its direct supervision and the balance sheets of those banks. A supervisory manual setting out the practical arrangements for the implementation of the cooperation between the ECB and the national competent authorities is currently being developed.

The establishment of a Banking Union, and notably of the SSM as a key component, does not call into question the existence and necessity of the European Supervisory Authorities, notably of the European Banking Authority (EBA). The Authorities will continue to be responsible for the establishment of common regulatory and supervisory standards and practices and the consistent application of EU legislation across the Internal Market.

The Commission welcomes the House of Lords' plea for an effective Single Resolution Mechanism (SRM). As the second pillar of the Banking Union, it is a crucial step to overcome financial fragmentation, ease funding conditions, break the link between sovereigns and banks, and re-launch cross-border banking activity in the internal market to the benefit of all Member States.

As the House of Lords rightly points out, established case law of the European Court of Justice requires a Union institution to control decisions of agencies like the Single Resolution Board, which imply a wide margin of discretion. According to the political agreement between co-legislators, the decision-making process has been rendered less complex compared to the Council's general approach of 18 December 2013. The Union institution to control discretionary decisions of the Single Resolution Board would in most cases be the Commission while the Council would decide if the Commission proposed to significantly change the amount of the Single Resolution Fund to be used or for reasons of public interest. The ECB would take the leading role in triggering resolution. However, the Single Resolution Board could trigger resolution if it has informed the ECB and the latter has not reacted within 3 days.

The Commission agrees with the House of Lords' assessment that the SRM needs to be based from the outset on a Single Resolution Fund, fully financed by the banking industry. The Single Resolution Fund would provide an effective funding source for the resolution of banking crises in the Banking Union.

With regard to the House of Lords' concerns as to the integrity of the Single Market, the Commission would like to point out that it will be safeguarded by the common substantive rules as they have been laid down in the Capital Requirements Directive and Regulation (CRD/CRR) and the Bank Recovery and Resolution Directive (BRRD), by the specific provisions for non-participating Member States, envisaged both for SRM Regulation and the intergovernmental agreement, and by the principle of non-discrimination, which is clearly and unambiguously established in EU law by the Treaties.

At this stage, it is not envisaged to set up a common European Deposit Guarantee Scheme (DGS) within the Banking Union. The funding of national DGSs should be improved by the Deposit Guarantee Schemes Directive that is about to be adopted by co-legislators. Voluntary lending arrangements between adequately prefunded national schemes, could strengthen the overall protection of depositors across the internal market, help tackle asymmetric banking shocks, and mitigate their cross-border spill-over effects.

The Commission agrees with the need to take further steps to break the link between bank and sovereign debt, which includes the instrument of direct recapitalisation of banks by the European Stability Mechanism (ESM).

The Commission welcomes the view that further steps towards an integrated budgetary framework remain necessary, including the possible setup of mechanisms to cushion asymmetric shocks and debt mutualisation. The Commission fully acknowledges that these issues will require profound debate and will therefore not materialise overnight. In its Blueprint for a Deep and Genuine EMU the Commission therefore considers these issues as possible steps for the medium and long term. The Commission fully agrees with the importance attached to the implementation of structural reform measures to tackle economic divergence, including by increasing the mobility of labour, investment in innovation and measures to stimulate productivity growth.

The Commission further agrees with the need for a comprehensive approach in ensuring sustainable growth, jobs and public finances. It also agrees with the mutual interest in the EU that all economies return to growth and are able to create employment. Therefore, the Commission advocates, notably in its regular Annual Growth Surveys, EU wide economic and policy priorities consisting of a combination of differentiated growth-friendly fiscal consolidation and structural reforms and measures to improve financial, product and labour market functioning.

In taking further steps towards an integrated economic policy framework, the Commission agrees on the need to maintain and improve national ownership and commitment for the implementation of those reform measures. On the basis of the general orientations agreed at the December 2013 European Council, the President of the European Council together with the President of the European Commission will carry work forward on the issue of contractual arrangements and associated solidarity mechanisms in preparation of the October 2014 European Council. The concerns of the House of Lords in this regard have been duly noted.

The Commission hopes that these clarifications address the concerns and issues raised by the House of Lords and looks forward to continuing our political dialogue in the future.

Yours faithfully,

Michel Barnier
Member of the Commission