Council approves single supervisory mechanism for banking

The Council today\(^1\) adopted regulations creating a single supervisory mechanism for the oversight of banks and other credit institutions, thus establishing one of the main elements of Europe’s banking union.

The single supervisory mechanism (SSM) will be composed of the European Central Bank (ECB) and the supervisory authorities of the member states. It will cover the euro area as well as non-eurozone countries that choose to participate. The ECB will have direct oversight of eurozone banks, although in a differentiated manner and in close cooperation with national supervisory authorities. It will be responsible for the overall functioning of the SSM.

The ECB will assume its supervisory tasks twelve months after entry into force of the legislation\(^2\), subject to operational arrangements.

One of the two regulations adopted today confers supervisory tasks on the ECB (9044/13), whilst the other modifies regulation 1093/2010 on the European Banking Authority as concerns the EBA’s interaction with the SSM (22/13)\(^3\).

Adoption of the legislation follows an agreement reached with the European Parliament at first reading on 19 March, and subsequent approval by the Permanent Representatives Committee, on behalf of the Council, on 18 April.

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\(^1\) At a meeting of the Economic and Financial Affairs Council, without discussion.

\(^2\) The ECB regulation will enter into force on the fifth day following its publication in the Official Journal; the EBA regulation will enter into force the day after publication.

\(^3\) See also 13766/1/13 ADD 1 and 13853/13 ADD 1
The ECB’s monetary tasks will be strictly separated from its new supervisory tasks, in order to eliminate potential conflicts of interest between the objectives of monetary policy and prudential supervision. To this end, a supervisory board responsible for the preparation of supervisory tasks will be set up within the ECB. The board's draft decisions will be deemed adopted unless rejected by the ECB’s governing council.

Non-eurozone member states wishing to participate in the SSM will be able to do so by entering into close cooperation arrangements; they will have full and equal voting rights on the supervisory board.

National supervisors will remain in charge of tasks not conferred on the ECB, for instance in relation to consumer protection, money laundering, payment services, and branches of third country banks. The EBA will retain its competence for further developing the "single rulebook" for the banking industry and for ensuring convergence and consistency in supervisory practice.

The EBA regulation is amended, in particular as regards voting modalities, in order to ensure equitable and effective decision-making within the EU’s single market. The amendments ensure that the countries participating in the SSM will not unduly dominate the EBA’s board of supervisors.

Establishment of the SSM is a precondition for enabling the European Stability Mechanism to have the possibility to recapitalise banks directly, as agreed by eurozone heads of state and government in June 2012.

The ESM currently contributes to bank recapitalisations via member state treasuries. However, direct recapitalisation will enable the vicious circle between banks and sovereigns – which has been a salient feature of the debt crisis in Europe – to be broken.