BUSINESSEUROPE

THE PRESIDENT

Mr Herman Van Rompuy
President
European Council
Rue de la Loi 175
B-1048 Brussels
BELGIUM

9 December 2013

Dear President,

A full Banking Union is essential to boost investors' confidence, strengthen growth and create jobs

European companies want to grow and create jobs but they will only be able to do so in a sound business-friendly environment, with access to finance at affordable prices.

Today, overall bank lending to companies is 7.5% lower (€360 billion) than in September 2011. Access to credit is affected by the tightening of capital requirements for banks and fragmentation of the EU savings and credit markets, with huge differences in loans costs for businesses within the Euro area and the Single Market.

A properly functioning banking union is urgently needed. It will lead to deeper and more liquid markets, more resilient to financial shocks, and better able to support cross-border trade and investment.

In October, the European Council committed to take the decisions on how to further strengthen the Economic and Monetary Union and complete the Banking Union during its meeting on 19-20 December 2013. European leaders must live up to their commitment.

BUSINESSEUROPE believes that this Banking Union must be

- flanked by structural reforms to improve competitiveness and further strengthening of the Economic and Monetary Union,
- preceded by a thorough, robust and transparent assessment of banks' balance sheets by the ECB,
- based on common rules for bank resolution which encourage responsible risk taking,
- administrated by a stand-alone single resolution authority,
- supported by a gradually developed single resolution fund and a strengthened deposit insurance,
- open and transparent towards Member States not using the single currency to be fully compatible with the Single Market.

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1. Structural reforms to improve competitiveness and further strengthening EMU

Progress on the banking union alone will not be sufficient to return to a path of long-term sustainable growth in Europe unless greater progress is made in implementing structural reform in EU Member States.

BUSINESSEUROPE believes that the development of contractual arrangements and associated solidarity mechanisms have the potential to strengthen the EU's role in encouraging necessary reforms and fiscal consolidation, provided they are linked to reform implementation and do not lead to an increase in the overall tax burden in the Euro area. To be effective, funds provided through EMU solidarity mechanisms should be targeted, temporary and conditional on the delivery of reforms.

We fully support the strengthening of economic policy coordination and closer monitoring of growth enhancing reforms. However, indicators should only be included in the scoreboard relating to the macro imbalances procedure if they significantly contribute to the identification of trends giving rise to macroeconomic developments which are (or have the potential to) adversely affect the proper functioning of the economy of a Member State, of the Economic and Monetary Union or of the Union as a whole.

Last but not least, further developing the Single Market is also essential to enhance growth and support Member States in their efforts. The EU Council will discuss a European strategy for the security and defence industry. This strategy should establish a real internal market for security and defence goods through a correct implementation of the existing EU rules for public procurement applicable to this sector.

2. The ECB assessment of banks' balance sheets

BUSINESSEUROPE supports the ECB's decision to undertake a comprehensive assessment of banks' balance sheets prior to taking on supervisory responsibilities. To contribute to restoring confidence in financial institutions and improve their ability to finance the real economy and therefore investment, the assessment must be carried out in a thorough, robust and transparent manner.

In this context, it is particularly important that Member States demonstrate in advance, that they have the scope to provide support for recapitalization if bail-in and market access is not sufficient.

The implementation of the Excessive Deficit Procedure (EDP) for 2014 therefore needs to take place in a way that supports long-term fiscal consolidation, whilst providing governments with the capacity to strengthen financial stability, in line with the agreement at the 15th November Economic and Financial Affairs Council. In addition to enforcing the EDP, the Council and Commission must remain vigilant regarding the extent of macro-economic imbalances in the Euro area.

3. Common Rules for bank resolution

In order to build confidence in government finances and in the financial system, agreement on common rules for bank resolution, through restructuring or orderly winding down of banks that are failing is essential. These rules must encourage responsible risk-taking by all banks.

BUSINESSEUROPE supports the principles underpinning the Bank Recovery and Resolution Directive and calls on the Council and Parliament to adopt this directive before the end of the year.

In particular, we agree that, when recapitalization of a bank is required because there is a capital shortfall, this should take place in the first instance through the absorption of losses by equity holdings of shareholder and the 'bailing-in' of private creditors (excluding all deposits of under €100,000). However, in the specific case of precautionary recapitalizations in light of the ECB's comprehensive assessment, the mandatory conversion into equity of subordinated debt should be carefully assessed to avoid weakening broader investor confidence in bail-in instruments. We also agree with the proposals that, in the first instance, Member States should each develop resolution funds funded by financial institutions to further strengthen confidence in the ability of authorities to undertake swift and orderly resolution without drawing on public funds.

Finally, the operational framework for direct bank recapitalization through the European Stability Mechanism is another fundamental piece of the puzzle. It must also be completely agreed by the end of the year.

4. The Single Resolution Mechanism

In order to avoid the problem of ailing banks being shielded by national authorities, the administration of resolution for all banks operating within the single supervisory mechanism should lie with a stand-alone single authority. This authority should be fully independent from national political interests and have the capacity, through an EU mandate and adequate governance, to make the general interest prevail over the national one. The authority must be skilled, credible and accountable.

In order to ensure the Single Resolution Mechanism comes into operation as soon as possible after the Single Supervisory Mechanism, we strongly support the envisaged timeline for the Single Resolution Mechanism to become effective in January 2015.

5. Single resolution fund

In order to further integrate bank recovery and resolution in the banking union, a common resolution fund should be developed by gradually integrating existing national funds. However, it is important that issues related to existing weaknesses in banks' assets are resolved before the fund is initiated. Furthermore, the rules and decision-making structure of the fund must be designed so as to ensure that the risk of moral hazard is minimized and that there are strict limits to the use of the fund. Bail-in must always be the primary source of resolution financing.

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6. Strengthening deposit insurance

Recognising the importance of credibly guaranteed deposits, which take account of the issue of moral hazard, the European business community welcomes the current proposal on deposit guarantee in the EU 28.

Jobs will not be created if European and national administrations put unnecessary burdens on businesses. Europe will not be strengthened if the best export performers are penalized or necessary adaptation to change is delayed. There is no time to waste. The European Council must spare no efforts and act to improve the investment climate, in particular by simplifying the regulatory framework, and restore competitiveness throughout Europe. Putting in place a comprehensive Banking Union, stepping up national structural reforms, further developing the Single Market, strengthening the Economic and Monetary Union, and mobilizing all European polices to enhance our competitiveness is the way forward.

Yours faithfully,

Emma Marcegaglia