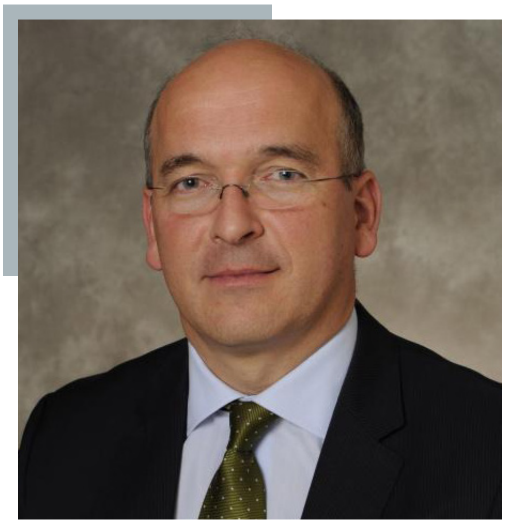

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A harmonised banking sector is essential for financing the EU's twin transition

More than a decade on from the financial crisis and despite the unprecedented economic impact, the banking sector proved to be much better prepared this time in terms of resilience, capital, and liquidity. This is mostly due to the regulatory overhaul that the international community carried out over the last decade. In the EU, the ECB has responded swiftly to the pandemic by providing banks with regulatory / supervisory relief (such as capital requirements, liquidity) to allow continued lending to the economy. This decisive and coherent action would not have been possible without having a single supervisor across the continent. The pandemic showed us not only how important the recent reforms are, but also reminded us that completing the Banking Union and the Capital Markets Union remain fundamental to improving the efficiency of the financial sector as well as enhancing the financing options available for the real economy.

Is a first positive step towards completing and strengthening the Banking Union, the EU should finalize the implementation of Basel III in a fashion that is as consistent as possible with the internationally agreed Basel capital framework. This will ensure a global level playing field and will limit the costs and risks of global fragmentation. The new iteration of EU's prudential rules should also address the issue of national ring-fencing: a true European cross-border banking sector should be fully integrated to reap the benefits of the single market. Trapping liquidity and capital behind national lines goes against the principles of the single market and does not help to foster economic growth in all member states. Introducing a fully-fledged EDIS is also key to solving this issue; in the interim, we welcome the recent ECB's position on the cross-border mergers of banks.

Intertwined with the Banking Union, the EU needs well-functioning and fully integrated financial markets, making the CMU project of paramount importance for the swift recovery from the crisis. CMU is needed to support the EU's Hamiltonian moment, but any future rules and frameworks in place should be outward looking, capital markets should not be ring-fenced across national lines. The EU's capital market should be developed in a global context. The transition to net-zero is also dependent on private finance - which in turn needs fully integrated capital markets to allow money flows to go towards green assets.

The pandemic has also made clear the importance of digital issues for the resilience of the economy and the financial sector. Technological development has also been identified as an essential component for building a solid foundation for long-term growth, supporting the EU's recovery and modernising its economy. In order to achieve these objectives, regulation and supervision should be technology-neutral - in other words it should be principle-based and forward looking. This is why tackling fragmentation is of utmost importance. Europe will not be able to compete globally if it has a fragmented legal and regulatory environment that stifles innovation and undermines scale efficiencies, not to mention an environment that opens the door to regulatory arbitrage. Above all, the EU must promote a level playing field around innovative technologies in financial services, ensuring that the golden principle of "same activity, same risks, same rules" remains the norm throughout the digital transition.

Last but not least, NPLs. With ECB projections showing that the pandemic is likely to lead to a significant proliferation of distressed assets, swift action by the EU must remain a priority. As such, a European unified approach to simplify and potentially harmonise the licensing requirements for third-party loan servicers or some common base parameters, would be a major step forward. Once again, harmonisation of rules and supervisory measures is crucial, and we support the recent plan to tackle Member States' divergences on insolvency, debt recovery and debt restructuring frameworks.

For all of these reasons, it is essential that the EU continues to develop a strong and integrated banking sector alongside deep and liquid capital markets in order to deliver the much-needed finance to support the twin transition of the EU – the digital and the green transformation.