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The Single Supervisory Mechanism **(SSM)**

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FACTSHEET Single Supervisory Mechanism (SSM)

What is it?

The SSM is one step (of three) in achieving a full European banking union, a key part of the EU Single Market in financial services. The others are the **Deposit Guarantee Scheme** (DGS) and the proposal on **Banking Resolution and Recovery** (BRR). More about them in other PIIGSty Tidbits...

Why is it needed?

The European economic crisis was preceded by a crisis in the banking sector. Many over-sized and highly vulnerable European banks, many of which fuelled speculative housing/ construction booms in their home economies, ran out of money when the European economy nosedived and teetered on collapse. Many of those who had a share/part ownership of the bank (bondholders) stood to lose their entire investment, a move that was viewed as too disruptive to the overall EU economy. The euro was also in grave danger of breaking apart as governments panicked and looked for quick-fix solutions.

With close ties between the financial sector and national economies, national governments (like Ireland) had little choice but to bailout (recapitalise) banks in their jurisdiction using public funds (paid for by government borrowing). This meant that private banking debt became public debt. Bailing out the banks caused problems balancing the books in those economies (budget deficits) and resulted in policies based on 'reigning in spending' and tax increases (so called 'austerity' economics).

To avoid a repeat of the current crisis and return a sense of confidence to the markets, there needs to be a common, politically neutral eurozone-wide supervisory regime to strengthen European banking (and the euro) with an opt-in option for non-eurozone members, through a shared set of 'single rulebook' conditions and a single supervisor through the European Central Bank (ECB).

What will it do?

The proposed single eurozone supervisor will mean:

- **Stronger role for the European Central Bank** (ECB) to authorise and supervise deposit-receiving eurozone banks (or deposit-receiving arms of a wider financial company) through a **'single rulebook'**. National Authorities (NAs) will complement the ECB by maintaining supervisory roles but ultimate authority rests with the ECB.
- **Only 'credit institutions' will be supervised** by the ECB not the entire financial sector. Non-deposit-receiving bodies such as insurance firms, investment banks, pension funds, hedge funds and broker-dealers among others are not covered. NAs will continue to supervise these.
- **Accountability and scrutiny on behalf of citizens** through enhanced roles for the European Parliament (elected MEPs), the Council (EU Prime Ministers/Presidents) and national parliaments.
- First step to a deal on a **eurozone wide bailout fund** (European Stability Mechanism – ESM) and next step in the **completion of Economic Monetary Union** (EMU).

Timeline

June 2012	The European Council (Prime Ministers/Presidents) agree to direct European recapitalisation of banks where a Member State cannot do so in exchange for centralised ECB supervision of European banking – the Single Supervisory Mechanism (SSM). Despite earlier signs of swift agreement and implementation, Members agree that SSM be agreed by year end and gradually implemented over 2013. The sticking point for Member States is over the role of the ECB and National Authorities (Central Banks) in supervising eurozone banks.
September 2012	European Commission (EU executive arm) unveils SSM proposal.
December 2012	Member States agreed on design of SSM. 'Trilogue' negotiations with European Parliament (EP), European Commission (EC) and rotating Council Presidency begin.
January 2013	Ireland assumes Presidency of the Council of the EU (also known as the Council of Ministers). Irish Finance Minister, Michael Noonan, begins term as President of ECOFIN Council of EU finance ministers. Noonan thanks previous Cyprus Presidency for work on SSM. Irish Presidency will now lead 'trilogue' negotiations with EP and EC. Control of some banks supported by European bailout fund (EFSF) is handed over to ECB.
March 2013	Irish Presidency reaches provisional compromise agreement with EP on SSM. Proposals goes to Member States for agreement and further technical work starts. Germany raises concerns over the now envisaged dual role for the ECB **(a)** supervise banks and **(b)** its traditional role as steward of eurozone monetary policy focused on maintaining price stability/controlled inflation. The prospect of the necessity of a treaty change is raised – seen in some quarters as a political tool to extract concessions to further Berlin's drive to separate the new functions of the ECB.
12/13 April 2013	Further discussions and significant progress is made on SSM at Informal meeting of ECOFIN Council in Dublin where leaders reach informal political agreement. Germany signs off on the deal.
18 April 2013	Member States agree on SSM proposal. EP now must approve before final sign off by European Council (Member States heads of state/government)