



The Banking Union

Exploring The Road Ahead

Martin Špolc
European Commission
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Overview

1) Why do we need a Banking Union?

2) Single Supervisory Mechanism

3) Single Resolution Mechanism



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Incomplete design of the Economic and Monetary Union

- **Bias towards public finances.** It did not pay enough attention to problems in the private sector and the financial system
- Participating Member States found it too easy to **flout the rules**
- **Inadequate financial-stability architecture**

Loss of discipline among policy-makers, real-economy actors and financial markets led to **accumulation of unsustainable imbalances, fuelled by cross-border financial flows.**

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Consequences of the crisis

- **The capital flows went into sudden reverse**
- Investors initially sought safety in sovereign instruments
- Later, sort of "**flight to quality within a flight to quality**"



- Investors began to **discriminate among sovereigns**
- **Adverse feedback loops between banks and national governments emerged**
- **Trends towards the financial fragmentation along national borders**

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Trends towards financial fragmentation along national borders

- **Renationalisation of euro area banks' funding markets**
- Increased cross-country **dispersion of access to and conditions of financing** for companies and households
- **Cross-border capital flows have fallen sharply**
- National supervisors have tried to introduce prudential measures leading to fragmentation – **ring-fencing**

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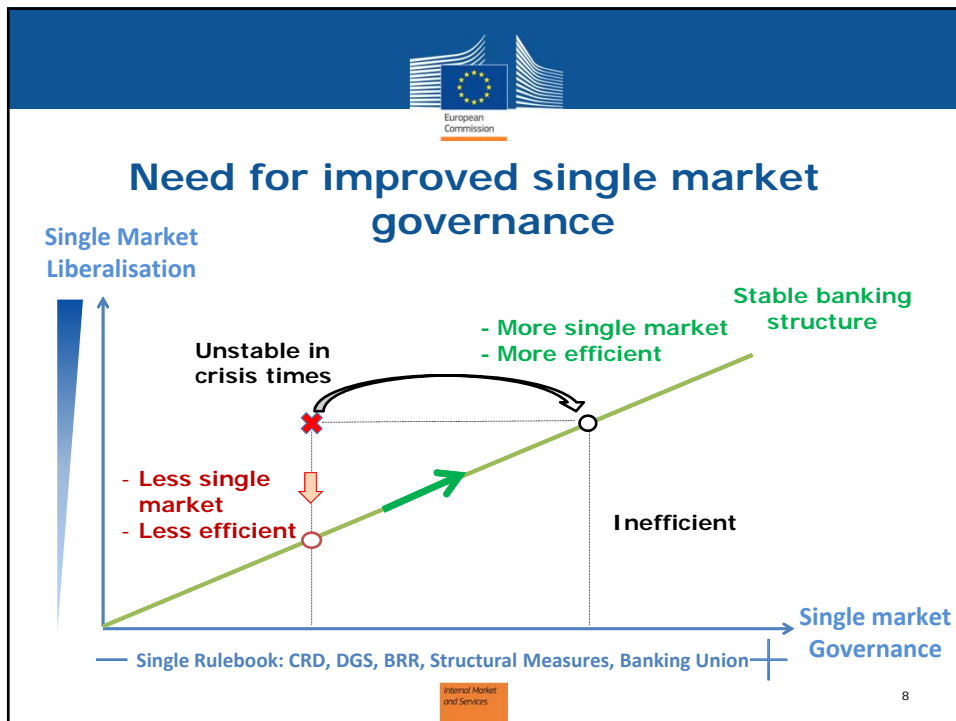
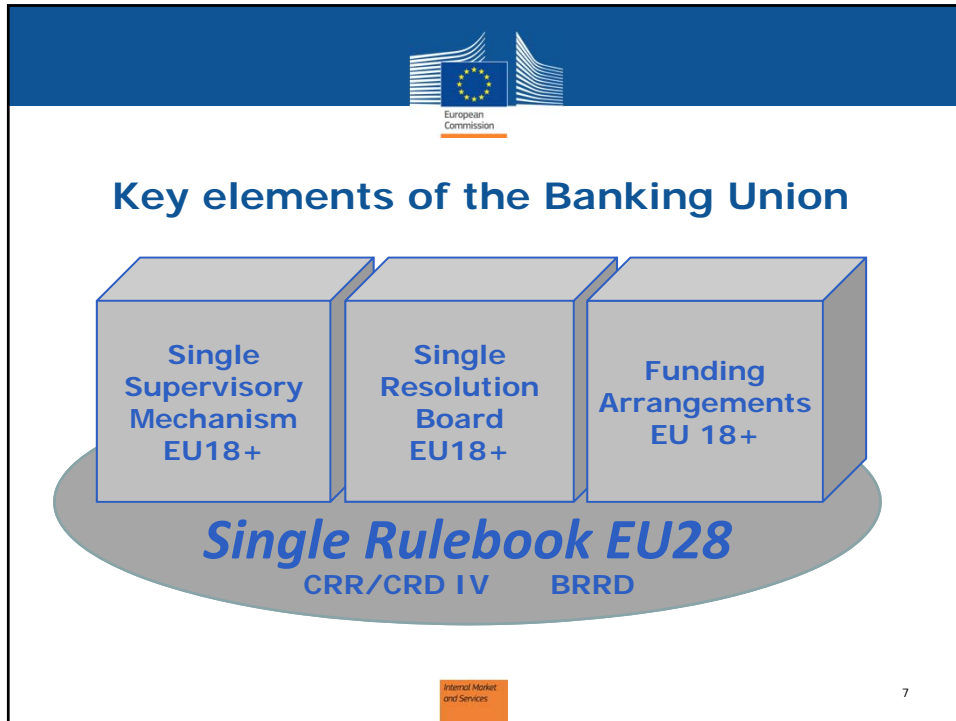


Policy priority - urgent measures needed to:

- **Reverse the continued fragmentation of the single market**
- **Break the link between sovereigns and banks**
- **Prevent bank runs and bail-outs, restore confidence, strengthen financial stability and boost economic recovery**

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Key principles of the Banking Union

Internal market must not be impaired:

- Single rulebook applicable to all 28 MS
- The European Banking Authority (EBA) will continue to fulfil its mission as regards all Member States

Openness:

- Open to all MS; mandatory for Euro area MS

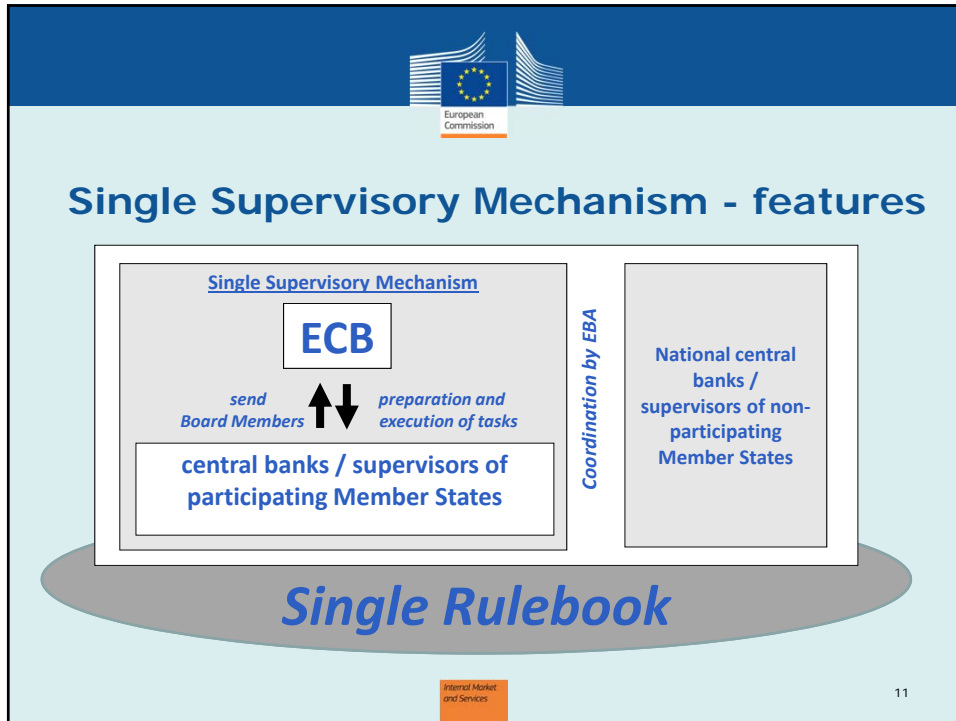
Material scope:

- All banks in participating MS

No cherry-picking:

- All MS participating in the SSM will also participate in the remaining elements of the banking union.

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- ### Distribution of work between ECB and national supervisors
- **SSM composed of ECB & national supervisors**
 - ECB responsible for supervision of **ALL** banks
 - **National supervisors assist ECB** with preparation and implementation of its tasks
 - For **less significant banks** national supervisors take most supervisory decisions
 - However, **ECB can take over any bank** at any time "to ensure consistent application of high supervisory standards"
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Comprehensive assessment by the ECB

Three elements:

- **Supervisory risk assessment**
- **Asset quality review**
- **Stress test**

*Started in Nov '13, results to be communicated in Nov '14
(when the ECB assumes its supervisory tasks)*

Capital Threshold: 8% of CET1

Banks covered: 128 banks, 85% of bank assets in the euro area

Ex-ante backstops should be available



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Commission's proposal for a Bank Recovery and Resolution Directive (June 2012)

- Common rules to ALL failing EU banks – **legal certainty**
- **Prevention:** banks & authorities prepare plans for a crisis
- **Early intervention powers**
- **Resolution:** tools & powers to restructure a failing bank
- **Bail-in:** Losses and costs allocated to shareholders and creditors instead of to taxpayers
- **Ex ante resolution funds** to support the costs of resolution beyond those borne by shareholders and creditors

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Single Resolution Mechanism - features

- **Legal basis:** Article 114
- **Scope:** all banks. Systemic importance & interconnectedness matter, not size. Level playing field
- **Decision-making structures** must be effective in times of crisis – not a mere network of national authorities
- **Single Resolution Board** and **the role of the Commission**
- **Funding arrangements:** bail-in first
- **Single Resolution Fund:** all into one, one for all

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