The European Banking Union

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Crisis management in the EU

Europe was the only large economic region without resolution solutions before the last financial crisis

The global financial crisis that began in 2007 revealed significant gaps in the crisis management framework:

- Supervision and regulation of financial institutions in isolation in a purely microprudential perspective insufficient
- Lack of effective tools enabling liquidation of problem banks in an orderly manner forced many jurisdictions to use taxpayer money
- The effective level of support provided by the Member States to the financial sector amounted to EUR 1225.6 billion as of the end of April 2011

Banking union: restoring financial stability in the Eurozone

- As the financial crisis evolved and turned into the Eurozone debt crisis in 2010/11, it became clear that, for those countries which shared a currency, more had to be done, in particular to break the vicious circle between banks and public finances (national taxpayers money)

Banking union: restoring financial stability in the Eurozone

- Increasing debt levels of sovereigns that provided financial support to struggling banks
- Losses for banks from exposures to sovereigns under stress
- Break the correlation between the cost of funding of euro area banks and that of their respective sovereigns
- Need for a common resolution mechanism

Banking union: restoring financial stability in the Eurozone

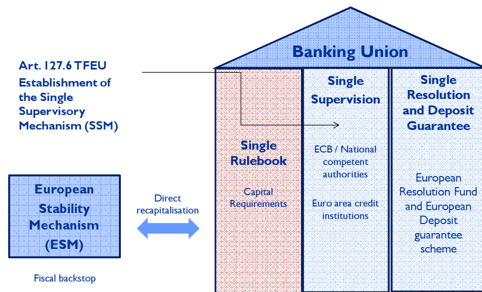
Two main advantages and goals of establishing the Bankig Union

- Try to resolve the so-called "financial trilemma"
  - Impossibility of achieving financial stability, financial integration and maintaining national financial policies in a globalised financial market
- Help to break the negative feedback loops between sovereign debts and banks

Banking union: restoring financial stability in the Eurozone

- Together with the new EU wide regulatory and supervisory framework for the financial market, the European Banking Union is a big step in the economic and monetary integration of the EU. It will put an end to the era of massive bailouts paid for by taxpayers and will help restore financial stability.
- The banking union is an important step towards a genuine Economic and Monetary Union. It allows for the consistent application of EU banking rules in the participating countries.

Banking Union: the three pillars



Legal framework of the European Banking Union; Single Regulation

- **The new regulatory framework with common rules for banks in all 28 Member States, set out in a single rulebook, is the foundation of the banking union. Common rules will help to prevent bank crises in the first place.**
- **All European Banks have to comply with it across the Single Market. This is crucial to ensure that there is strong regulation everywhere, without loopholes, so it guarantees a level playing field for banks and a real Single Market for financial services.**

Single rulebook

- **This set of rules provides legal and administrative standards to regulate, supervise and govern the financial sector in all EU countries more efficiently.**
- **It includes rules on capital requirements, recovery and resolution processes and a system of harmonised national Deposit Guarantee Schemes.**
- **The package on capital requirements for banks, the so called "CRD IV package" (consisting of the Capital Requirements Directive 2013/36/EU and the Capital Requirements Regulation (EU) No 575/2013 (CRR) transposes via a Regulation and a Directive the new global standards on bank capital (commonly known as the Basel III agreement) into the EU legal framework.**

Single Supervisory Mechanism; SSM

- The Single Supervisory Mechanism is based on the Council Regulation (EU) No 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions
- It comprises the ECB and the national supervisory authorities of the participating countries.
- All euro area countries participate automatically in the SSM.

Its main aims are to:

- ensure the safety and soundness of the European banking system
- increase financial integration and stability
- ensure consistent supervision

Legal framework of the European Banking Union; Single Supervision

- Since 4 November 2014, the European Central Bank (ECB) has become the supervisor of all 6000 banks in the euro area in the framework of the Single Supervisory Mechanism.
- The ECB directly supervises of up to 130 significant groups, which represent almost 85% of all banking assets in the euro area.
- Ongoing supervision of the significant banks is carried out by Joint Supervisory Teams (JSTs). Each significant bank has a dedicated JST, comprising staff of the ECB and the national supervisors.

Main features of the SSM

The ECB will take all decisions regarding the banks, banking groups and respective components categorised as “significant” (around 150 banks in the euro area countries)

- Banks with more than €30 billion in total assets
- Banks representing more than 20% of domestic GDP (unless <€5 billion in assets)
- 3 most significant banks in each country (unless justified by particular circumstances)
- Banks receiving direct assistance from the European Stability Mechanism

Main features of the SSM

- The national supervisors will take the decisions regarding "non-significant" banks subject to regulations, guidelines or general instructions
- Close cooperation with non-euro area Member States
  - The ECB can conduct supervision in a non-euro area EU Member State, following a request for close cooperation.
  - At any time the ECB can decide to directly supervise any one of these banks to ensure that high supervisory standards are applied consistently.

ECB's guiding principles for establishing the SSM

- Comprehensiveness and strong institutional framework
- Independence
- Clear separation of monetary policy and supervisory responsibilities
- Decentralisation
- Consistency with the single market
- Accountability (an Interinstitutional Agreement between the European Parliament and the ECB; a Memorandum of Understanding between the EU Council and the ECB)

Legal framework of the European Banking Union; Single Resolution

- Directive 2014/59/EU Bank Recovery and Resolution Directive; BRRD (deadline for transposition in the Member States 31.12.2014)
- Regulation (EU) No 806/2014 establishing a Single Resolution Mechanism (SRM) for the Banking Union
- network of national resolution authorities, a Single Resolution Mechanism with a strong central decision-making body and a Single Bank Resolution Fund

- Directive 2014/49/EU on deposit guarantee schemes
- Deposit Guarantee Schemes Directive; DGSD
- Deadline for transposition in the Member States 3.7.2015 and 31.5.2016

Single Resolution Mechanism

- The BRR Directive relies on a network of national authorities and resolution funds to resolve banks. While this network is a major step forward to minimising different national approaches and fragmentation of the Single Market, it is not sufficient for Member States who share the common currency or are supervised by a single supervisor, the ECB in the Banking Union.
- The Single Resolution Mechanism (SRM) provides for an integrated decision-making structure aligning resolution under the SRM with supervision under the SSM and creates centralised system to deal with banks in distress.
- in the Banking Union, bank supervision and resolution needed to be exercised by the same level of authority.

Single Resolution Mechanism

- The Single Resolution Board is the central decision-making body of the SRM.
- The SRB is the European resolution authority for the Banking Union. It works in close cooperation with the national resolution authorities of participating Member States.
- The Single Resolution Board is a independent agency of the EU.
- The Single Resolution Fund, financed by contributions from banks, will be available to pay for resolution measures.
- The Fund has a target level of €55 billion and can borrow from the markets if decided by the Board. It will reach the target level over 8 years.

Single Resolution Mechanism

- the Single Resolution Board is operational as an independent EU Agency as of 1st January 2015. It starts work on developing resolution plans for credit institutions from January 2015 and will be fully operational, with a complete set of resolution powers, from January 2016.

Single Resolution; crisis management

- The Single Resolution Mechanism is directly responsible for the resolution of all banks in Member States participating in the European Banking Union.
- The Single Resolution Mechanism ensures that if a bank subject to the Single Supervisory Mechanism should face serious difficulties, despite stronger supervision conducted by the European Central Bank, its resolution could be managed efficiently with minimal costs to taxpayers and the real economy.
- It ensures that the complicated decisions which have to be taken when a resolution happens, in particular a cross-border resolution, can be done quickly with binding effect for all Member States in the banking union.

Deposit Guarantee Schemes Directive

- The minimum harmonisation approach introduced in original Directive on Deposit Guarantee Schemes (DGS) – adopted in 1994 has resulted in significant differences between DGS as to the level of coverage, the scope of covered depositors and products and the payout delay.
- The new law – Directive 2014/49/EU confirms the fundamental principle underpinning DGSs: they have to be financed by banks and not by taxpayers.

Single Deposit Guarantee Scheme

- It is not envisaged to equip the banking union with a single supranational Deposit Guarantee Scheme at this stage. The priority is to reach an agreement on a common network of national deposit guarantee schemes. The proposal on DGS once agreed will ensure that every Member State has a deposit guarantee fund which is properly funded, ex ante.
- The pan-European DGScould be a potential option in the future once the current banking reforms (e.g. BRRD Bank Resolution and Recovery Directive) have been implemented and the other elements of the banking union such as the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) are in place.

Common Deposit Guarantee Scheme

- Depositors will continue to benefit from a guaranteed coverage of €100,000 in case of bankruptcy backed by funds to be collected in advance from the banking sector.
- For the first time since the introduction of DGS in 1994, there are financing requirements for DGS in the Directive. In principle, the target level for ex ante funds of DGS is 0.8% of covered deposits (i.e. about € 55 billion) to be collected from banks over a 10-year period.

Common Deposit Guarantee Scheme

- Covered deposits are explicitly excluded from the bail-in regime. This means that covered depositors will never suffer any losses and their deposits will always be protected up to the coverage level of € 100 000.
- Access to the guaranteed amount will be easier and faster. Repayment deadlines will be gradually reduced from the current 20 working days to 7 working days in 2024.