

BANKING UNION IN THE EU



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STRUCTURE OF THIS TEACHING MODULE

- **Prior reading**
- **Set of 4 videos (in addition to this introduction)**
- **Questions for discussion**
- **Bibliography of legislation and articles/books written on banking union with links to texts**
- **Teaching aids**
 - **Transcript of videos**
 - **Suggested points for answers to discussion questions**
 - **Copy of these slides**

PRIOR READING

Barbara Casu, Claudia Giradone & Phil Molyneux
Introduction to Banking (2nd end), Harlow: Pearson


Chapter 14 is on Banking in the EU

pp. 461-474 are specifically on Banking Union

THE 4 VIDEOS

- 1. Introduction and the Single Rule Book**
- 2. The Single Supervisory Mechanism**
- 3. Resolution and the Single Resolution Mechanism**
- 4. Problems and Prospects for Banking Union**

WHAT THE VIDEOS COVER

- What is “Banking Union”?
 - Why is it needed?
 - Will it work?
 - What would a full banking union look like?
- 

OBJECTIVES

By the time you have completed this module you should be able to

- *understand what banking union is,*
- *why the EU created it,*
- *what problems it faces and*
- *how it might beneficially evolve in the future*

AUDIENCE

- **This module is designed as a component for courses in banking which need to know what is happening in the EU and for courses in European integration where students need to know about banking**
- **It assumes some knowledge of both banking and the EU but not more than for the well-informed general reader**

***BANKING UNION
VIDEO 1***



***INTRODUCTION
AND
THE SINGLE RULEBOOK***

WHAT IS BANKING UNION?

- **‘Banking Union’ is a set of measures introduced in the EU since the global financial crisis in 2009.**
- **It has 3 main parts:**
 - **A ‘single rulebook’ that seeks to harmonise supervision and improve prudential standards**
 - **A Single Supervisory Mechanism run by the ECB**
 - **A Single Resolution Mechanism run by a new Single Resolution Board in Brussels**
- **Its purpose is to make the chance of further banking crises small and resolving any new crises, easier and cheaper, with no call on the taxpayer**

THE SINGLE RULEBOOK

- **Previously the EU has set minimum standards now it seeks a single standard**
- **Responsibility of European Banking Authority in London (EBA)**
- **Principally enacted by the Capital Adequacy Directive IV and the Capital Requirements Regulation**
 - **This is the EU's version of Basel 3.**
 - **Will be updated as 'Basel 4' is completed**
- **Applies across the whole EU and EEA (European Economic Area)**

QUESTIONS FOR DISCUSSION (1)

- **Is competition among regulators good or bad for prudential management of banks and for financial stability?**
- **Is enough effort being spent on crisis avoidance rather than crisis management?**
- **According to the Financial System Inquiry Australia should aim to be in the top quartile of advanced countries capital standards – i.e. above the EU. Where should New Zealand aim to be?**

***BANKING UNION
VIDEO 2***



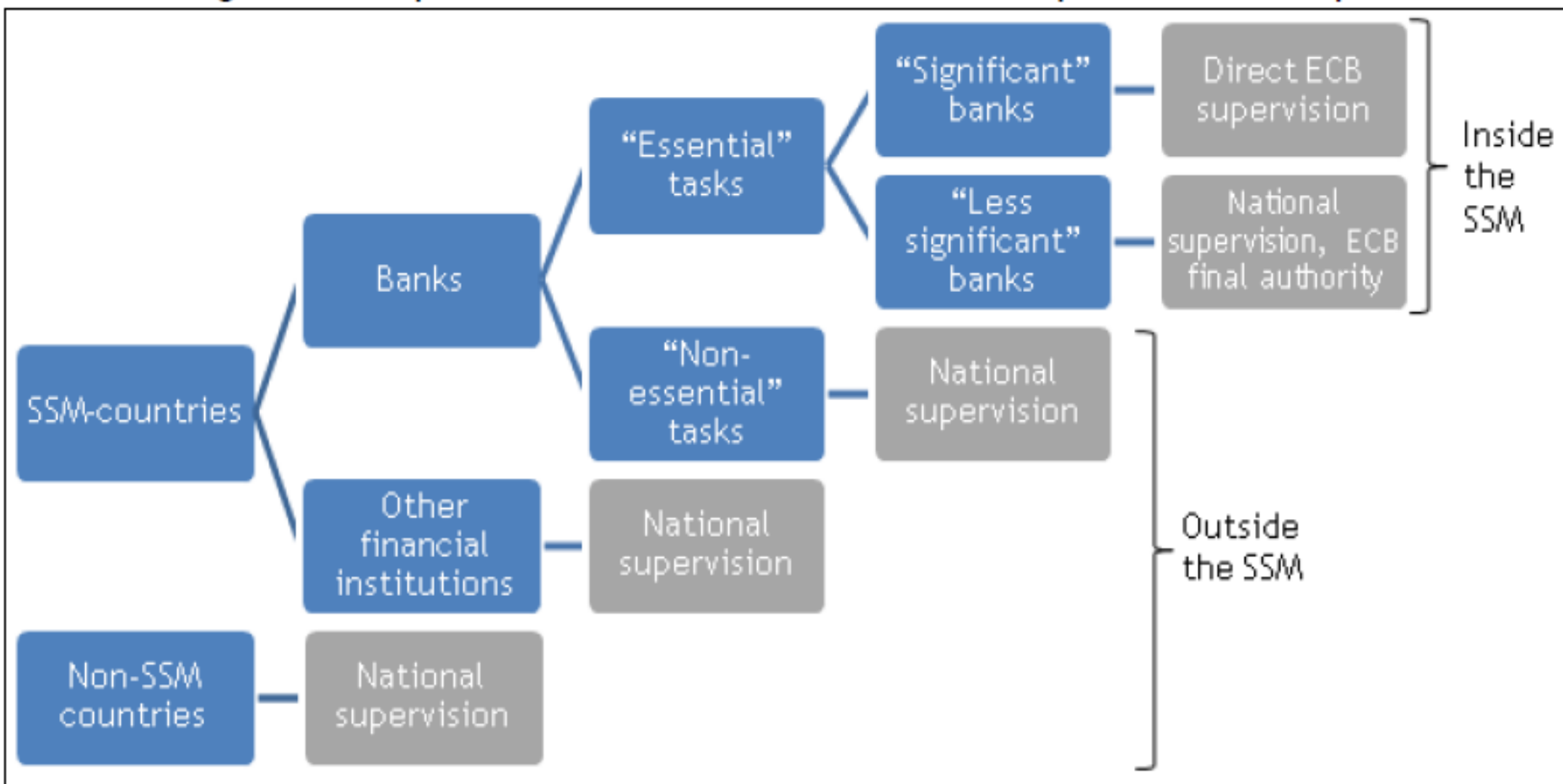
***THE
SINGLE SUPERVISORY
MECHANISM***

SINGLE SUPERVISORY MECHANISM

- **ECB takes responsibility for supervision of banks**
 - **in the euro area**
 - Under Article 127(6) of the Treaty on the Functioning of the European Union (TFEU)
- **Supervising 130 largest banks directly (85% of banking assets)**
 - National authorities responsible for the remainder and for non-banking activities of banking groups
- **UK has the most important banking and financial centre but not participating**

SINGLE SUPERVISORY MECHANISM

Figure 1: The place of the SSM in the EU's financial supervision landscape

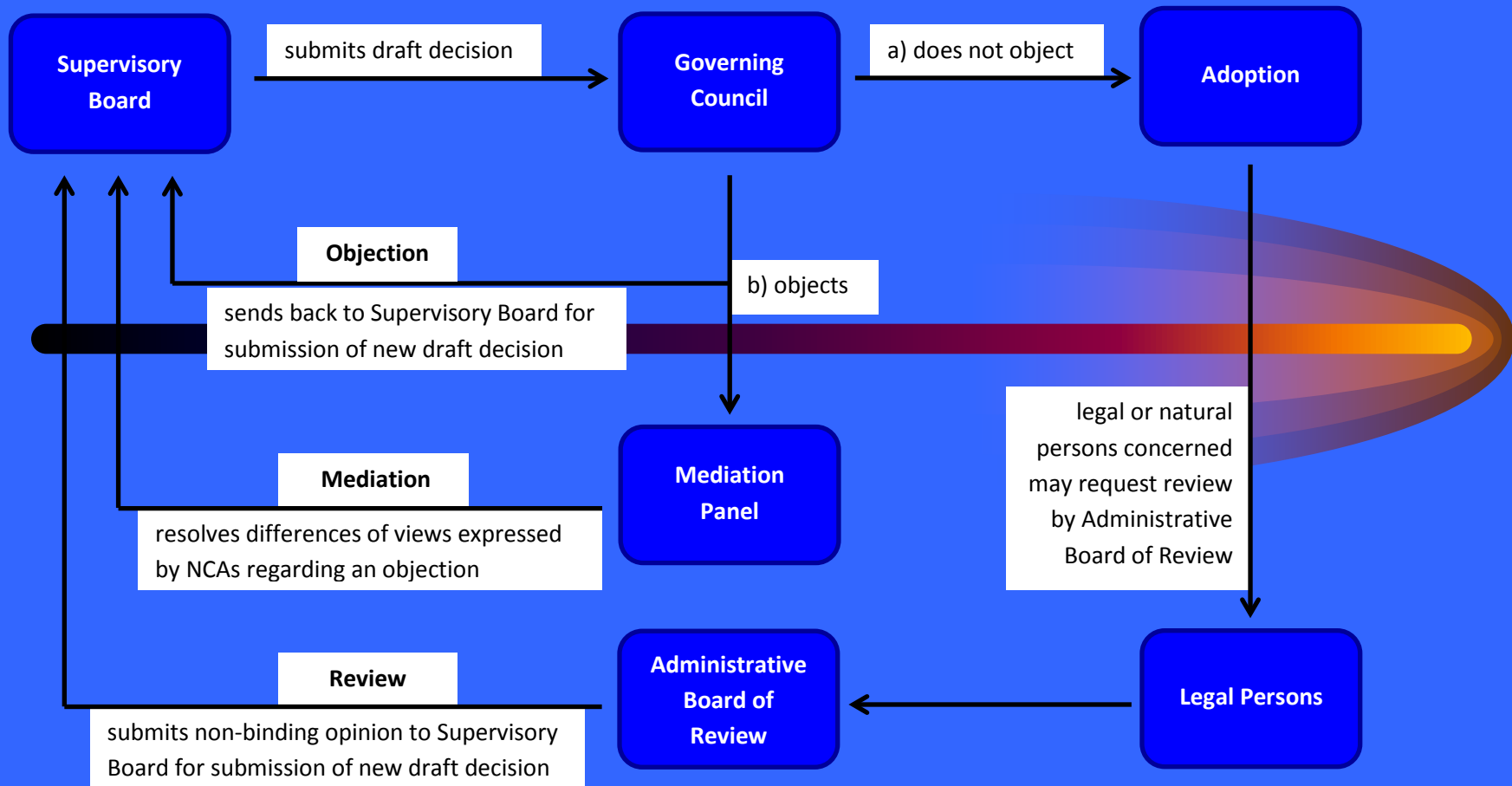


SINGLE SUPERVISORY MECHANISM

- **Why so complicated?**
 - Existing treaty has clause permitting ECB to supervise banks only
 - Any other change, say, creating a new EU supervisor would have required a treaty change
 - This not only requires unanimity but any other issue could be added to negotiation
 - So politically impossible

SSM (2)

- **Other member states can choose to join**
 - **But complex decision-making structure as non-euro countries not on Governing Council**
 - **Supervisory Board (not double majority like EBA)**
 - **If over-ridden non-euro country can withdraw**



QUESTIONS FOR DISCUSSION (2)

- **Will omitting the UK from the SSM help the SSM succeed or lead to a greater split in Europe?**
- **Is there a better system that could be envisaged?**
- **Is it a mistake to have the ECB running banking supervision?**
 - **Will it conflict with monetary policy?**
 - **Could it damage the ECB's reputation?**
 - **Will it politicise the ECB?**

***BANKING UNION
VIDEO 3***

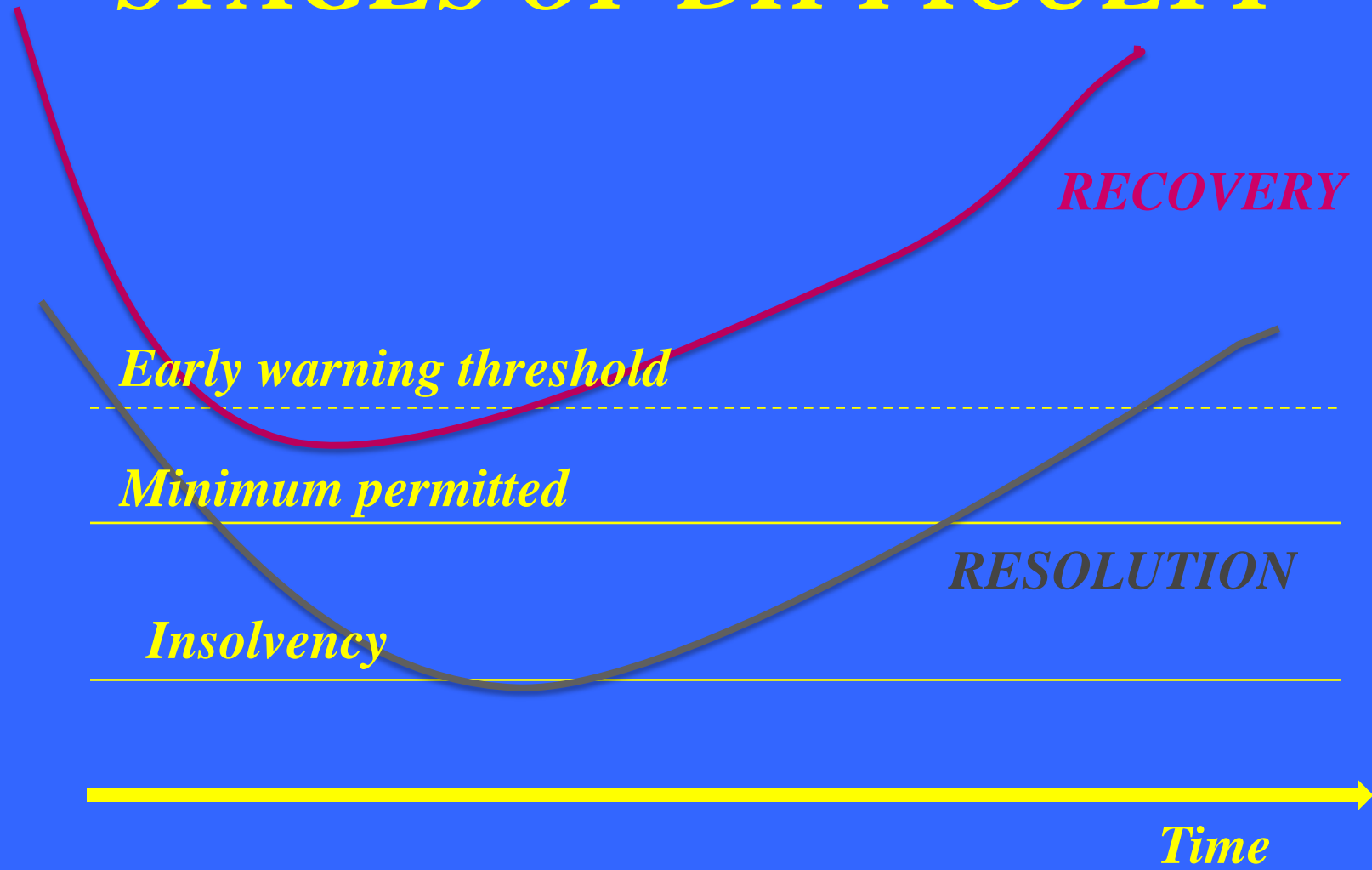


***BANK RESOLUTION
AND THE
SINGLE RESOLUTION
MECHANISM***

RESOLUTION

- **Bank Recovery and Resolution Directive (BRRD)**
 - Applies to whole EEA/EU
 - Provides resolution tools and powers not available under standard insolvency law (Resolution Authority)
 - Appointment of special manager
 - Separation of business
 - Sale of business
 - Bridge bank
 - Bail in
 - Resolution funds (1% of covered deposits)
 - Depositor preference
 - Recovery and Resolution Plans

STAGES OF DIFFICULTY



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RESOLUTION (2)

- **Single Resolution Mechanism**
 - Covers euro area and those who join SSM
 - Implemented by Single Resolution Regulation
 - Run by new Single Resolution Board in Brussels working with national resolution authorities
 - Creates Single Resolution Fund (intergovernmental agreement)
 - Progressively mutualised over next 8 years
 - 55bn euro

QUESTIONS FOR DISCUSSION (3)

- **Does the BRRD give resolution authorities enough tools?**
- **Can recovery plans be realistic?**
 - **Can authorities intervene early enough?**
 - **Will there be enough loss absorbing capacity?**
 - **Will bail ins generate a collapse in confidence?**
- **Will resolution through the SRB work?**
 - **Will national governments still bail out their main banks?**
- **Are the resolution funds large enough?**
 - **Should the ESM be used?**

***BANKING UNION
VIDEO 4***



***PROBLEMS AND PROSPECTS
FOR
BANKING UNION IN THE EU***

STRUCTURE

This appraisal covers

- 1. What is missing from the current banking union**
- 2. Why banking union is needed**
- 3. Will it work?**
- 4. What would a full banking union look like?**

MISSING PARTS

- (In addition to non-euro countries and lack of unified responsibility for whole financial conglomerates)
- **No agreement on Liikanen Report on bank structure (no Volcker Rule equivalent – separation of high risk activities)**
- **No harmonisation of deposit insurance beyond 100,000 euro coverage**

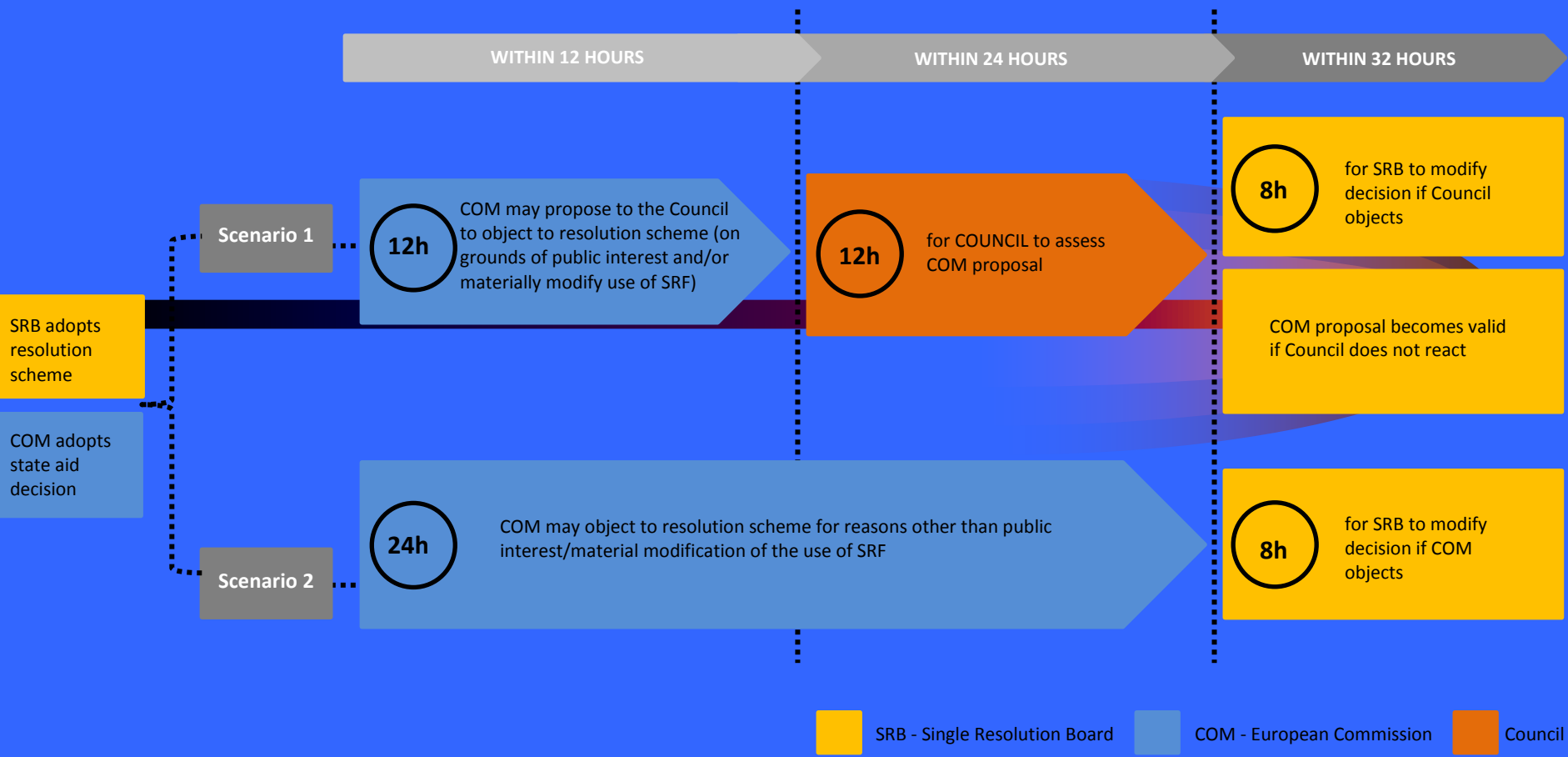
WHY IS IT NEEDED?

- **Too hard to resolve cross-border banks without a taxpayer bail out**
- **Countries cannot agree on a strategy fast enough**
- **Fortis example**
- **Do not have adequate powers to step in or tools to achieve it**
- **UK took lead with 2009 Banking Act following Northern Rock collapse in 2008**

WILL IT WORK?

- **Complicated**
- **Most think Single Point of Entry in parent country or Multiple Point of Entry into each systemically important country will work**
 - Not EU, which has a hybrid
- **UK and US have agreed on SPOE**
 - Loss absorbing capacity mainly in parent
- **A major bail in has never been tried**
- **Resolution funds too small**
 - Cannot be used until creditor bail in of 8% of liabilities

Resolution procedure in the banking union



WHAT WOULD A FULL BANKING UNION IN THE EU LOOK LIKE?

- **Full access for customers to banking services in and from any part of the EU(EEA)**
- **Open competition for all providers on an equal basis – i.e. for customers and providers it looks like a normal national system**
- **All main institutions - Supervisor/regulator, Resolution agency, Lender of last resort, Deposit insurer, Government backstop – operating simply and effectively – i.e. needs hierarchy and cooperation**
- **No examples of such a multi-currency system among independent countries exist**

QUESTIONS FOR DISCUSSION (4)

- **Should banking union be completed by harmonising deposit insurance and introducing a directive separating risky activities from retail banking?**
- **Should the EU take the opportunity of the Treaty renegotiation required by the UK to complete banking union with a new independent supervisor who can cover the whole EU?**
- **Are bail ins realistic as a resolution tool?**
 - **Will they avoid a systemic crisis?**