Making Banking Union work
Key objectives of Banking Union

- Restore confidence in the European banking sector
- Halt fragmentation in the eurozone and the single market as a whole
- Restore financial stability and growth
- Break the link between banks and sovereigns

Key elements of Banking Union

- Single Supervisory Mechanism to ensure more effective supervision and oversight
- Single Resolution Mechanism to create an effective resolution regime
- EU-wide Deposit Guarantee Scheme (DGS) directive to create a level-playing field on deposit guarantees
- ...and a Single Rulebook to ensure same rules and their applications throughout the EU
Key features:

- ECB direct supervision of significant banks (around 130) defined on the basis of a number of criteria:
  - Size: total assets > EUR 30 billion
  - Economic importance: the ratio of total assets on GDP > 20%, unless total assets < EUR 5 billion
  - Cross-border activities
  - Public assistance (EFSF or the ESM)
  - Three most significant credit institutions in each participating country

- NCAs to continue supervision of less significant banks but the ECB may at any moment decide to directly supervise any bank to ensure high supervisory standards

- SSM open to all non-eurozone member states: their national competent authorities would have to enter into ‘close cooperation’ with the ECB
SSM governance

- Supervisory Board (with the support of an internal Steering Committee) composed of:
  - Chair appointed for a non-renewable term of five years (Daniele Nouy)
  - Vice-Chair chosen from the members of the Executive Board (Sabine Lautenschlager)
  - ECB Representatives (Sirkka Hämäläinen, Julie Dickson and Ignazio Angeloni)
  - Representatives from NCAs in participating Member States

- Four new Directorate Generals (DG's) for direct (2X), indirect and horizontal supervision within the ECB plus an SSM Secretariat
- Around 1000 new staff being hired by the ECB: recruitment ongoing
SSM decision-making process

• Supervisory Board (SB) proposes draft decisions to the ECB Governing Council
• If the ECB Governing Council does not object the decision is approved. If it does object, within ten working days....
• ...the SB provides new draft decision or Mediation Panel
• The Mediation Panel aims to ensure the proper separation between monetary policy and supervisory task. The Panel is tasked to deal – if requested by an NCA – with an objection of the Governing Council expressed with respect to draft decisions prepared by the Supervisory Board
• If a decision is challenged for review by a legal or natural person once approved, an Administrative Board of Review submits non-binding opinion to the Supervisory Board for submission of new draft decision
Banking Union in the EU Single market

- EBA role and Single Rulebook
- ECB-EBA relationship in the framework of the SSM set up (e.g. changes in EBA voting modalities as a follow-up to the SSM entry into force)
- Participation of non-eurozone Member States in the SSM
- Cross-border supervision and colleges within the EU Single Market
- Macroprudential aspects of Banking Union and macroprudential policy in the EU Single Market (role of ECB, ESRB, NCAs etc)
Joint Supervisory Teams

Key elements of JSTs

- The supervision of significant banking groups by the Joint Supervisory Teams (JSTs)
- The JSTs are responsible for the day-to-day supervision of significant institutions
- NCAs having a bank or a banking subsidiary of a given banking group in their Member States will take part in the respective JST
- JSTs will be coordinated by a JST coordinator from the ECB
- One JST for each of the 14 largest Eurozone banks and one JST for more than one smaller significant institutions
- JSTs composed of of 7/10 ECB staff plus NCAs staff at national level

Relationship between ECB and SSM NCAs

- For significant banks, ECB and NCAs will work together in the JSTs – constant dialogue, coordination, exchange of information
- Non-SSM NCAs will have contact with the ECB primarily via cross-border supervisory colleges, as well as via the EBA
SSM steps forward and timetable

• Consultation on draft SSM Framework Regulation already closed
• Forthcoming consultation on supervisory fees expected
• ECB published final SSM Framework Regulation on 25 April 2014
• ECB to publish (part of) its SSM Supervisory Manual in summer 2014
• SSM supervised firms to know the name of their JST coordinator (key supervisory point of reference) in summer 2014
• ECB to publish the final list of significant, directly supervised banks in summer 2014
• ECB to assume SSM supervisory tasks in early November 2014
Key elements of the ECB comprehensive assessment

- The ECB is running a comprehensive assessment of the banking system before the start of the SSM – mainly to deal with ‘legacy assets’

  → 128 institutions undergoing the comprehensive assessment
  → The exercise has three strands i) an asset quality review (AQR); ii) a supervisory risk assessment; and iii) a stress test

- The EBA will run an EU-wide stress test in summer – there will be a partial overlap within the SSM between the conduct of AQR and stress test
- Close ECB-EBA collaboration on the stress test element of the comprehensive assessment
- Stress test capital adequacy thresholds: 8% CET1 for baseline scenario and 5.5% CET1 for adverse scenario
Comprehensive assessment developments

- Asset Quality Review ‘phase 1’ (portfolio selection) is now completed and ‘phase 2’ (execution) has started over recent weeks
- ECB AQR manual published in March
- AQR exercise to be completed by July
- The ECB hired Oliver Wyman (‘OW’) consultants to design and run the AQR exercise for them
- OW developed a so-called Challenger Model on which the AQR exercise is largely based

On stress tests
- EBA to publish stress test methodology in late April and run stress tests after that. ECB, in coordination with EBA, will run the stress test exercise for the SSM firms
- EBA and ECB to publish jointly the results of AQR and stress tests in October, ahead of the entry into force of the SSM. Questions remain in cases where the AQR will find problems/issues which will need to be acted upon timely. How will this kind of situation be dealt with/communicated?
Single Resolution Mechanism (SRM)

Objective
• To centralise decision-making on the resolution of banks within the Banking Union on the basis of the framework established in the BRRD
• Implemented via a regulation and an inter-governmental agreement (“IGA”)

Timeframe
• Following political agreement, Parliament adopted preliminary text on 15 April. Jurist-linguist process due to finish mid-May.
• First plenary session of new Parliament to vote on final text in July and then final adoption by Council.
• IGA still under negotiation and will require ratification by national Parliaments.
• Board established following publication of regulation.
• From 1 January 2015, Board to cooperate with NRAS on resolution planning.
• Board to obtain powers and establishment of a Single Resolution Fund (“Fund”) on 1 January 2016 (or later if conditions in the IGA are not satisfied).
SRM: scope and governance

Scope

• All banks within Banking Union are covered by the SRM. However, decisions are centralised only for banks directly supervised by the ECB under the SSM and those operating in >1 participating Member State

• National resolution authorities (NRAs) prepare resolution plans and resolve other banks unless the resolution involves the use of the Fund

The Board

• The Board is new agency with a Chair plus 4 full-time members and representatives of each NRA.
• Executive session (full-time members plus relevant NRA representatives) takes most decisions relating to a specific bank, save where a resolution involves the use of the Fund above €5bn (€10bn for liquidity)
• Plenary session
Decision-making

1. ECB determines whether bank is failing or likely to fail
2. Board adopts a resolution scheme (executive session unless use of Fund >€5bn)
3. Commission has 24 hours to endorse or object to proposed scheme
4. Commission may propose to Council within 12 hours to object on grounds of public interest or amount of the Fund to be used. Council vote by simple majority.
5. Scheme is adopted if Commission endorses or modified if Commission objects or Council proposes change to amount of the Fund. If Council decides no public interest → winding up.

NRAs implement the scheme once adopted. Question mark around how detailed the scheme will be and how much scope NRAs will have for embellishment.
SRM: Decision-making (2)

ECB: Failing or likely to fail?

Board: resolution conditions met?

Board adopts draft scheme (plenary if use fund > €5bn)

Commission reviews proposed scheme

No objection within 24 hours

COM proposes objection public interest

COM proposes change to amount of Fund

COM proposes other change

Scheme adopted

Council decides

Council votes

Board modifies scheme

Modified scheme adopted
The Fund

- Target level of 1% of covered deposits (€55bn) to be met in 8 years.
- Ability to borrow from the markets; debate remains over a public backstop.
- During the 8 year period, the Fund would be made up of national compartments corresponding to each participating Member State and progressively mutualised.
- Contributions based on total liabilities excluding covered deposits and own funds pro rata to total of banks in all participating MS, partially subject to a risk adjustment.
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Questions and answers