

The European Banking Union

Origins, state of play and way forward

Martin Sprenger, Deutsche Bundesbank, Frankfurt am Main

The views expressed in this presentation are the views of the authors and do not necessarily reflect the views of the Deutsche Bundesbank.

The European Banking Union

Origins, state of play and way forward

- I. European Banking Union – The big picture**
- II. Focus on the Single Supervisory Mechanism**
 - a. Basic features**
 - b. Ongoing preparatory work**

The European Banking Union

Evolution of the concept

Public discourse started in early summer 2012...

- “Finally, and I think that this point is especially important, we intend to look at the further steps we need to take towards **a full economic union to complete our monetary union**. The Commission will advocate an ambitious approach. The building blocks could include among others a **banking union with integrated financial supervision and single deposit guarantee scheme**.”

Opening remarks on the next steps for stability, growth and jobs, José Barroso, President of the European Commission, Press conference, Brussels, 30 May 2012

...but the idea of a single €-banking supervision dates back much further.

- “I am convinced, however, that in the future the needs will change and the multilateral mode will have to deepen substantially. Over time such a mode will have to be structured to the point of providing the banking industry with a **true and effective collective euro area supervisor**. It will have to be enhanced to the full extent required for banking supervision in the euro area to be as prompt and effective as it is within a single nation. ”

“Opening remarks on the next steps for stability, growth and jobs”, Tommaso Padoa-Schioppa, then Member of the Executive Board of the European Central Bank, London School of Economics, Financial Markets Group, 24 February 1999

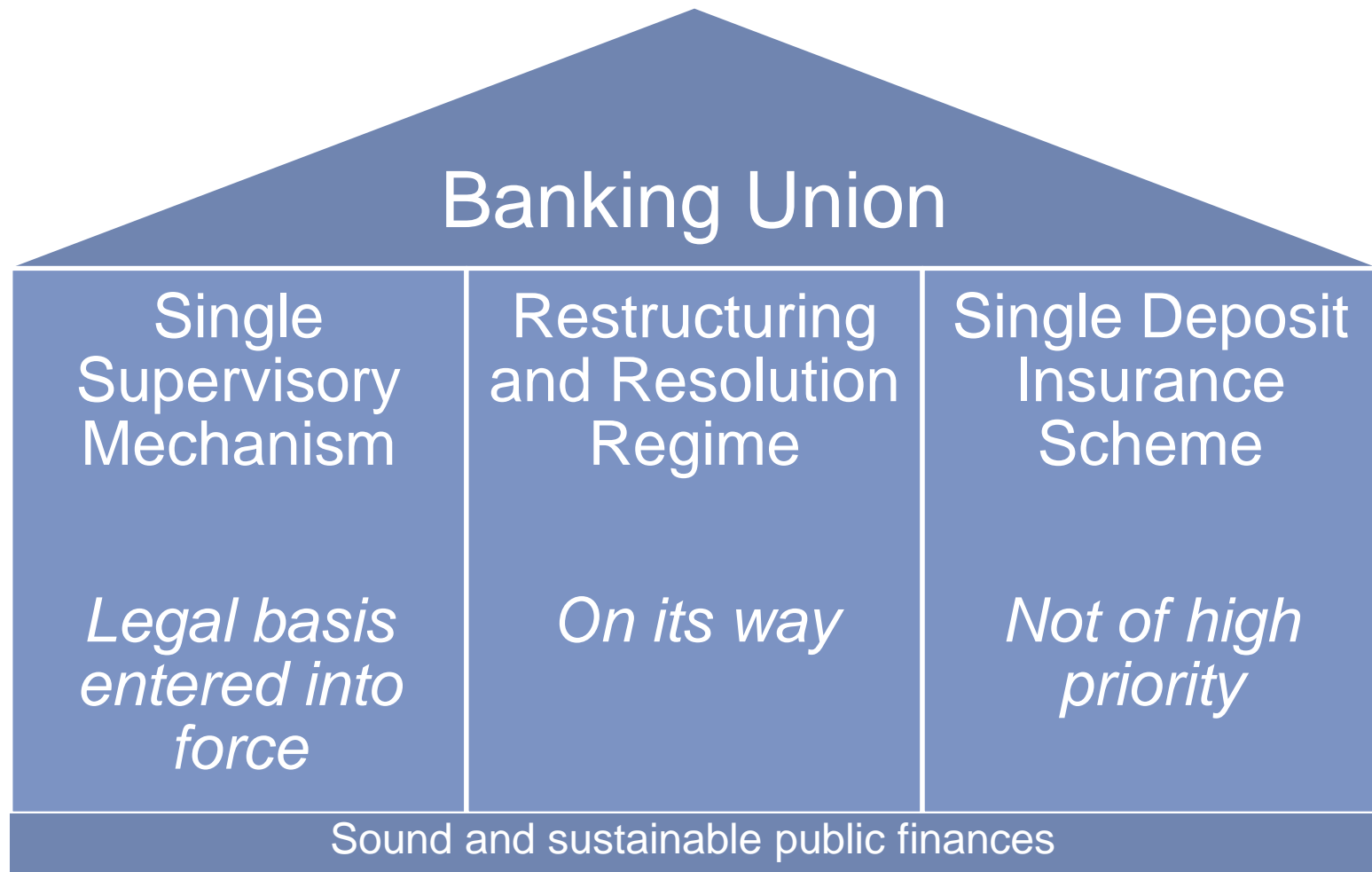
The European Banking Union

General objectives

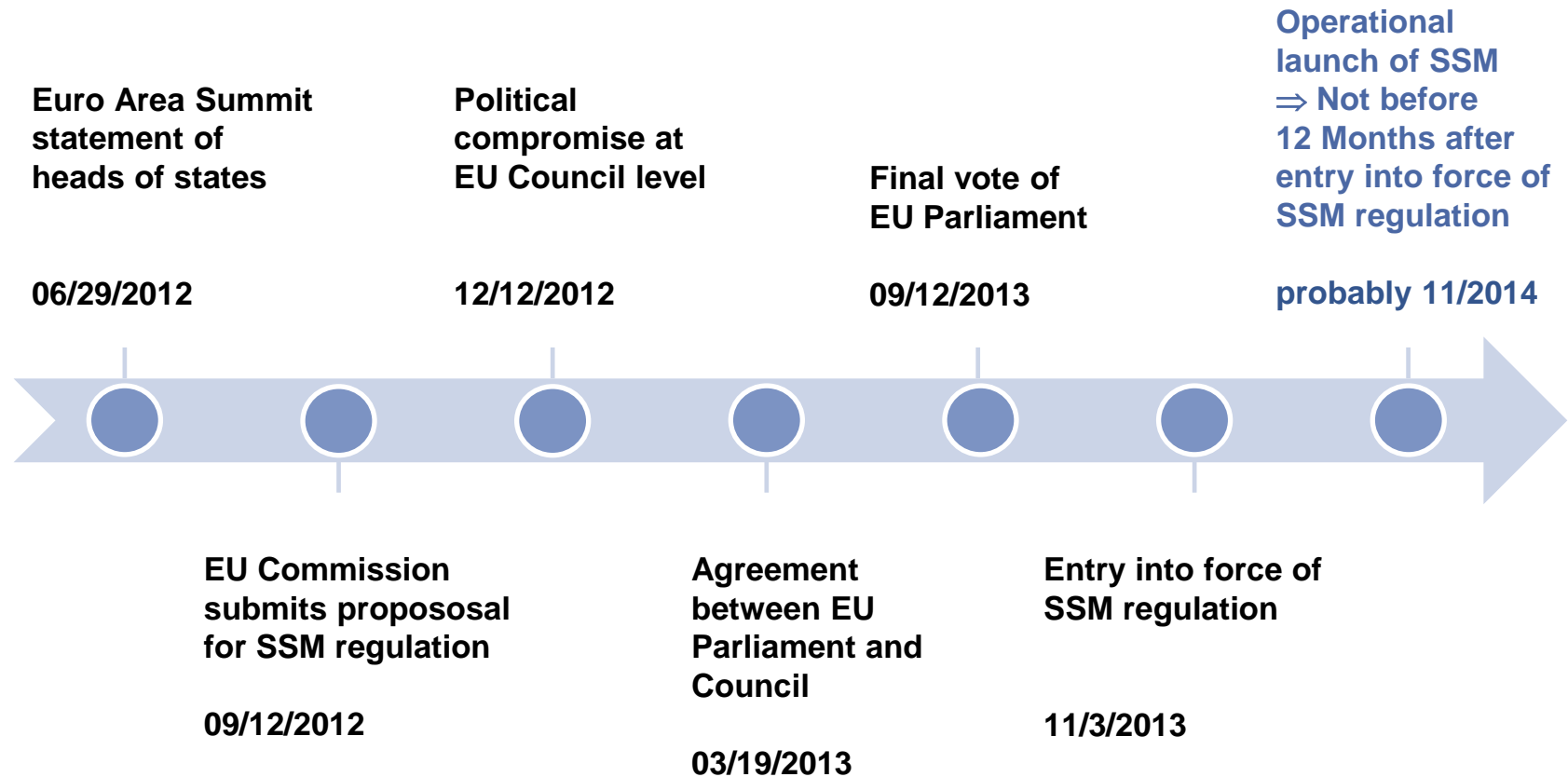
- Break the link between sovereigns and banks
- Strengthening of a European level playing field
- Avoid undue leniency by national supervisors
- Provide some relief to ECB as regards crisis management
- Counteract disintegration of European financial markets

The European Banking Union

The big picture

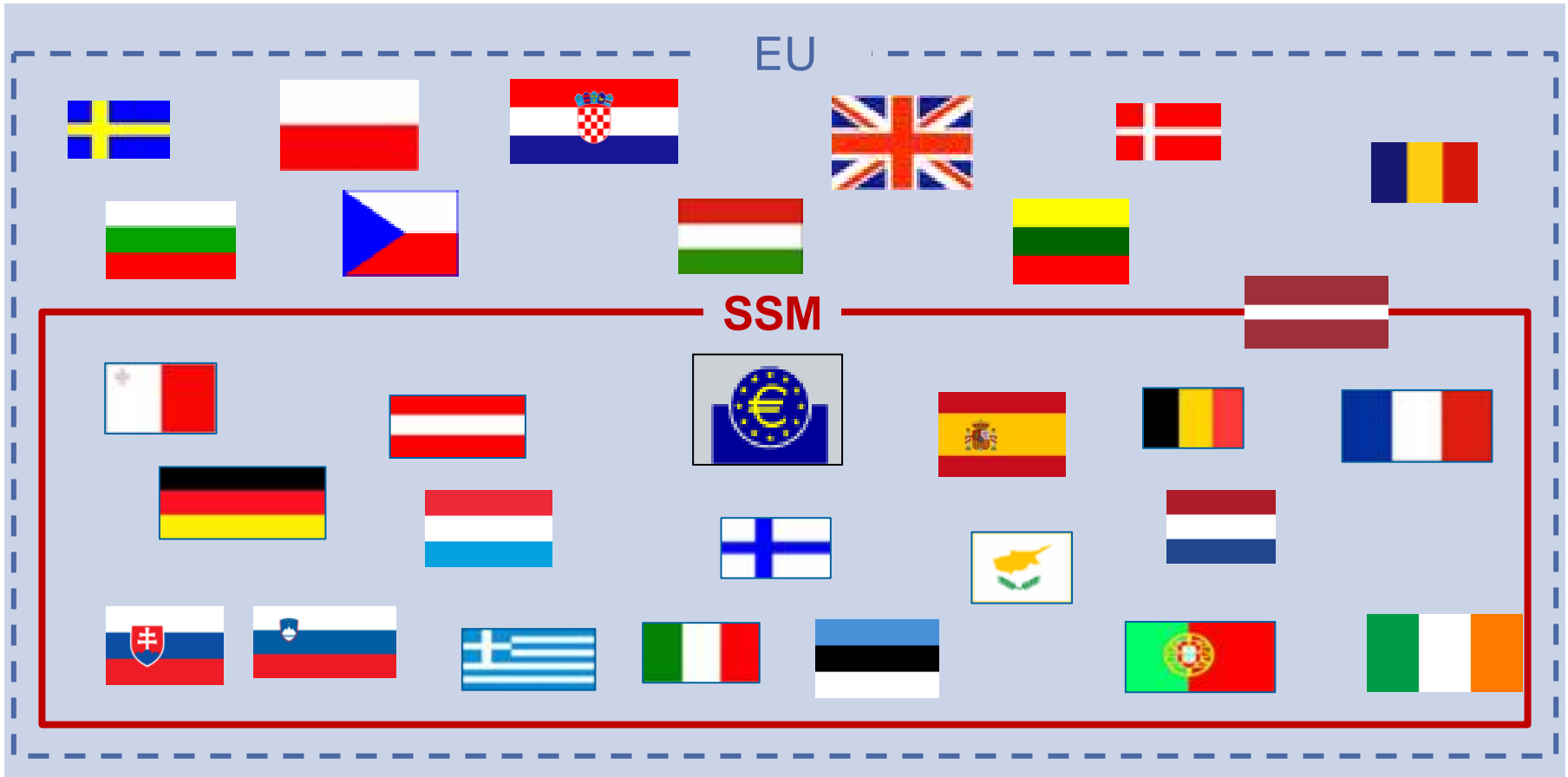


The Single Supervisory Mechanism Timeline



Basic features of the SSM

Geographical Scope



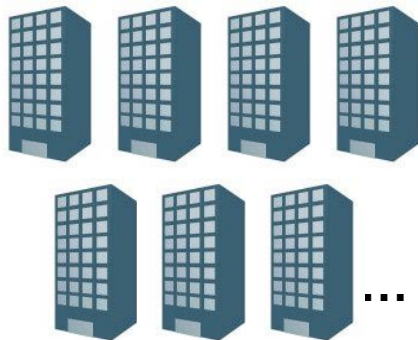
Basic structure of the SSM

Cooperation in the SSM

Single Supervisory Mechanism

ECB

- Direct supervision of significant banks
- Responsible for functioning of the whole SSM



Significant banks

Assisting ECB with supervision of significant banks

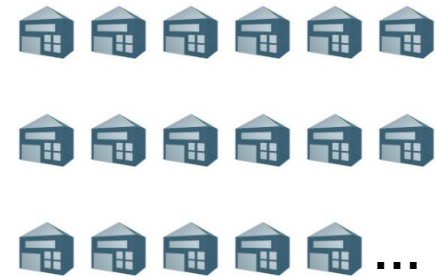
Indirect supervision

Criteria

- Total assets > 30 bn. €
- > 20 % of GDP (and > 5 bn. €)
- 3 most significant banks
- [...]

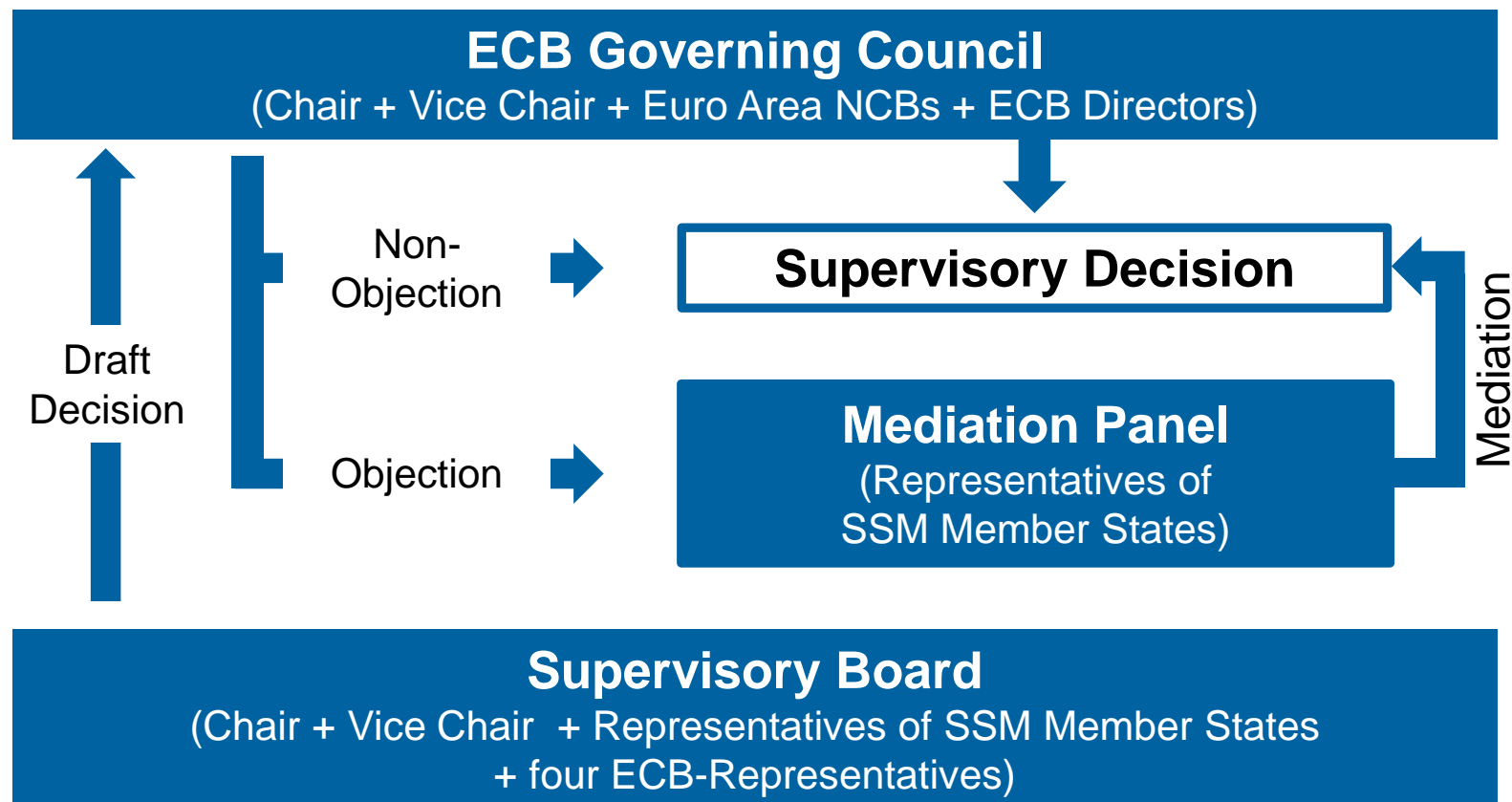
National Supervisory Authorities

- Primarily responsible for supervision of less significant banks under ECB oversight



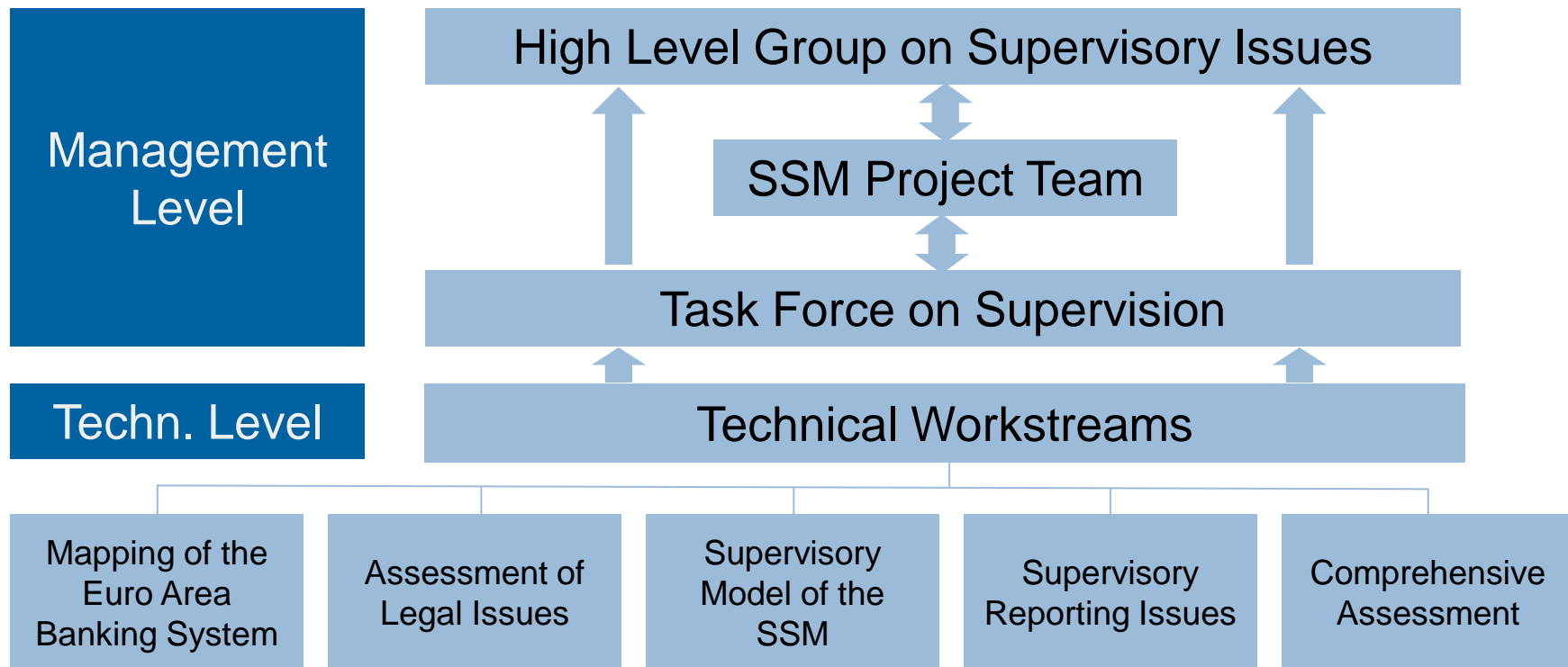
Less significant banks

Basic features of the SSM Governance



Preparation of the SSM Temporary Governance Structure

- Preparatory work of SSM through *ad hoc* committees of ECB and NCAs/NCBs – Kick-off meeting of the High Level Group in August 2012



- Staff support through short-term secondments of employees of NCAs/NCBs

Preparation of the SSM

Overview of technical workstreams

Mapping of the Euro Area Banking System	<ul style="list-style-type: none">• Develop a „map“ of the euro area banking sector• Data collections regarding size and cross-border structure of banks• Data basis for identification of significant banks
Assessment of Legal Issues	<ul style="list-style-type: none">• Framework regulation: Practical cooperation between ECB and NCAs• Main topics (amongst others): Methodology for identifying significant institutions, organization of joint supervisory teams, language regime• Public consultation and subsequent publication
Supervisory Model of the SSM	<ul style="list-style-type: none">• Develop a supervisory manual for the SSM• Aim: coherent and high-quality supervisory approach within the SSM• Description of main standardized processes for ongoing supervision and on-site inspections, SREP and risk assessment system (RAS)
Supervisory Reporting Issues	<ul style="list-style-type: none">• Development of a reporting system for the RAS of SSM• Problem: heterogeneous reporting standards and definitions• Pilot data collections ongoing
Comprehensive Assessment	<ul style="list-style-type: none">• Art. 33 (4) SSM reg.: comprehensive assessment at least for sign. banks• Objectives: Clear picture of risk situation of banks before transfer of supervisory responsibility, identification of balance sheet legacy assets• Three-stage process : RAS / AQR / stress test

SSM Supervisory Model

Significant and Less Significant Institutions

- Joint Supervisory Teams (JSTs) will be responsible for supervision of significant institutions
 - One JST for each significant bank / banking group
 - Composition of JSTs:
 - Headed by an ECB Coordinator
 - Supervisors from ECB and NCAs/NCBs
 - National sub-coordinators
- Supervision of less significant Institutions remains in responsibility of NCAs, but under ECB oversight
 - Regular reporting requirements
 - Central analysis of reports and data from national supervisors
 - Regulatory powers:
 - issue regulations, general instructions, guidelines
 - assume direct supervision

Comprehensive Assessment Overview

■ Art. 33 (4) SSM Regulation

“...the ECB may require the national competent authorities... to provide all relevant information for the ECB to carry out a **comprehensive assessment, including a balance-sheet assessment**, of the credit institutions of the participating Member State.”

- Scope: 124 banking groups from 18 €-countries (by 2014),
...of which 24 banking groups are from Germany

■ Project organization

- Centrally developed design and strategy, methodology, data requirements
- NCA execute on national level
- External expert involved

Comprehensive Assessment

Key component parts

Risk Assessment System

- Analysing key risks and vulnerabilities on banks' balance sheets
- Supervisory judgement on key risk factors, such as liquidity, leverage and funding
- Judgement based on quantitative and qualitative criteria

Asset Quality Review

- Phase 1: Selection of risky portfolios
- Phase 2: Execution of asset quality reviews
- Phase 3: Collation and quality assurance

EBA/ECB Stresstest

- Forward-looking view of banks' shock-absorption capacity under stress
- Conducted in close collaboration of ECB and the European Banking Authority (EBA)

Single Supervisory Mechanism Challenges and Outlook

- Ensure effective separation of monetary policy and banking supervision
- Timely and lean decision making-processes despite complex governance-structures
- Implement a genuinely coherent supervisory approach
- Management of a supervisory system across 18 jurisdictions
- Logistical and organizational challenges in the preparatory phase
- SSM needs Restructuring & Resolution Regime as a counterpart

The European Banking Union

Origins, state of play and way forward

Martin Sprenger, Deutsche Bundesbank, Frankfurt am Main

Thank you for your attention!