The European Banking Union
Origins, state of play and way forward

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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

Banking Union

<table>
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<th>Single Supervisory Mechanism</th>
<th>Restructuring and Resolution Regime</th>
<th>Single Deposit Insurance Scheme</th>
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<td>Legal basis entered into force</td>
<td>On its way</td>
<td>Not of high priority</td>
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Sound and sustainable public finances

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The Single Supervisory Mechanism
Timeline

- Euro Area Summit statement of heads of states: 06/29/2012
- Political compromise at EU Council level: 12/12/2012
- Final vote of EU Parliament: 09/12/2013
- Operational launch of SSM: Not before 12 Months after entry into force of SSM regulation (probably 11/2014)

- EU Commission submits proposal for SSM regulation: 09/12/2012
- Agreement between EU Parliament and Council: 03/19/2013
- Entry into force of SSM regulation: 11/3/2013

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Basic features of the SSM
Geographical Scope

EU

SSM

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**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

- **National Supervisory Authorities**
  - Primarily responsible for supervision of less significant banks under ECB oversight

**Significant banks**

**Less 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
- [...]
Basic features of the SSM Governance

ECB Governing Council
(Chair + Vice Chair + Euro Area NCBs + ECB Directors)

Draft Decision

Non-Objection

Objection

Supervisory Decision

Mediation Panel
(Representatives of SSM Member States)

Supervisory Board
(Chair + Vice Chair + Representatives of SSM Member States + four ECB-Representatives)
Prepatory work of SSM through *ad hoc* committees of ECB and NCAs/NCBs – Kick-of 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 | • 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 | • 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 | • 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 | • Development of a reporting system for the RAS of SSM  
• Problem: heterogeneous reporting standards and definitions  
• Pilot data collections ongoing |
| Comprehensive Assessment | • 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

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### 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

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Thank you for your attention!