



The benefits and challenges of the European Banking Union



Conferência Luzes e Sombras da União Europeia
30 anos Portugal na União Europeia
15 November 2016
FCG

Catarina Dantas Machado
European Semester Officer



Banking Union

Outline

- A. Background and goals of Banking Union**
- B. Tenets and structure of Banking Union**
- C. Who gains from the Banking Union?**
- D. Looking ahead – challenges and tasks**

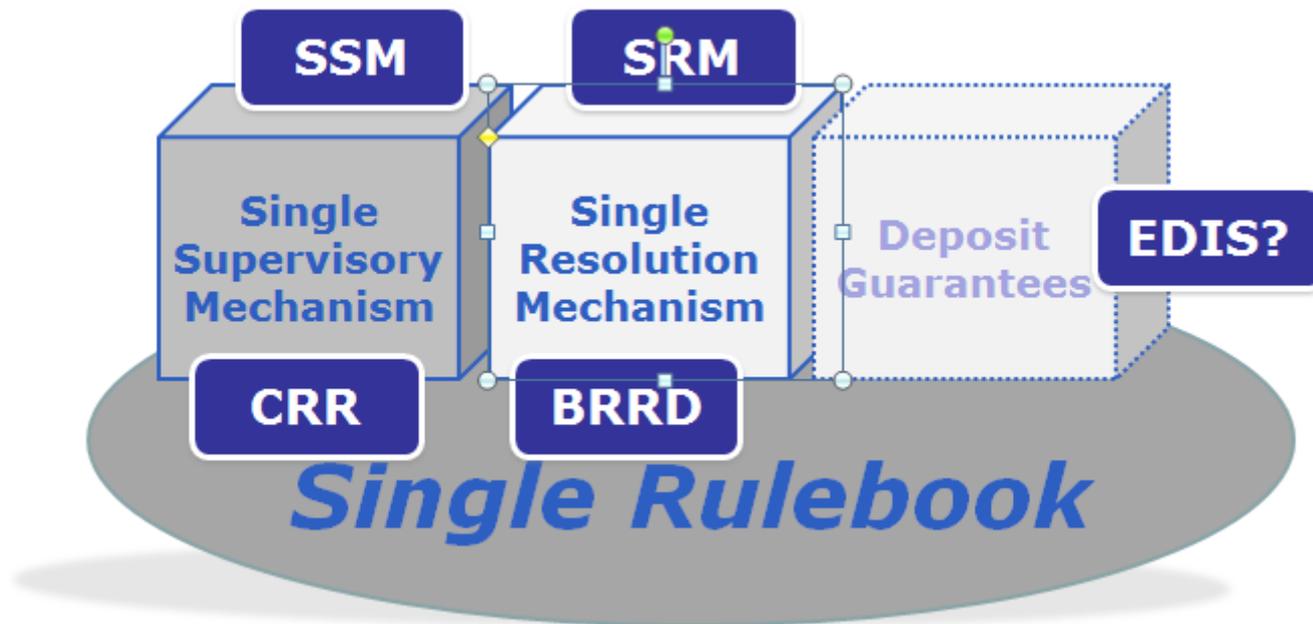
A. Background and goals of Banking Union

Goals of the Banking Union

- ❖ The main objective of the Banking Union is to break the vicious circle between sovereign debt and bank debt
 - ❖ To create a safer and sounder financial sector
 - ❖ More integrated institutional set up and policy coordination for euro area countries
 - ❖ Curtail the risk of fragmentation of EU banking markets
- ❖ Ultimately, to restore the foundations for real growth of the economy

B. Tenets and structure of Banking Union

Pillars of the Banking Union



B. Tenets and structure of Banking Union

Single Supervisory Mechanism – operational

Main tasks:

- ❖ Authorisation/withdrawal of all credit institutions in the BU
- ❖ Qualifying holdings for all credit institutions in the BU
- ❖ Governance/Fit and proper for significant institutions (SIs)
- ❖ Ensure compliance with EU prudential rules for SIs
- ❖ Supervisory review for SIs
- ❖ Supervisory tasks related to recovery plans and early intervention for SIs
- ❖ Macroprudential tasks only to SIs

Powers:

- ❖ ECB investigatory and supervisory powers, administrative penalties
- ❖ Sanctioning powers (shared between ECB and national level)

B. Tenets and structure of Banking Union

Single Resolution Mechanism – operational

Tasks:

- ❖ Resolution planning
- ❖ Resolution decisions/resolving institutions that is failing or likely to fail
- ❖ Application of EU resolution and State Aid framework (bail-in tool)
- ❖ Acts on basis of early warning

Powers:

- ❖ Resolution powers: restructure failing banks to preserve critical functions; i) sale of business; ii) bridge bank; iii) asset separation; iv) bail-in

B. Tenets and structure of Banking Union

Single Resolution Mechanism – operational

Single Resolution Board (SRB)

- ❖ Executive Agency of the Commission (est. 2014)
- ❖ National Resolution Authorities execute the resolution scheme (at national level)

Single Resolution Fund (SRF)

- ❖ Common backstop for bank crisis management financed by the industry (after to 8% bail-in and up to max 5% of bank liabilities)
- ❖ To be funded over 8-year period with contributions from banks (until 2023) to reach 1% of all covered deposits
- ❖ Only to resolution scheme: shall not be used to absorb the losses of an institution or to recapitalise an institution

B. Tenets and structure of Banking Union

European Deposit Insurance Scheme (EDIS)

- in process

Commission proposal for a deposit guarantee mechanism at European (Nov2015): Board+Fund

- ❖ Ensures protection of deposits below EUR 100,000 of all institutions across the euro area/BU when failing banks is liquidated or resolved
- ❖ First, national deposit guarantee schemes and EDIS will intervene
- ❖ At the final stage of the EDIS set up, the protection of those deposits will be fully financed by EDIS (2024)
- ❖ Methods re-insurance (MS); co-insurance (MS/EU); fully fledged coverage (EU)
- ❖ Industry financed on a risk and size basis (0,8% covered deposits =+/- EUR 43 bn)

B. Tenets and structure of Banking Union

Single Rule Book – EU 28

- ❖ Stronger prudential requirements for banks, introduced under the Capital Requirements Directive (1) and Capital Requirements Regulation (CRDIV/CRR)
- ❖ New recovery and resolution framework for banks, established under the Bank Recovery and Resolution Directive (BRRD)
- ❖ The functioning of national Deposit Guarantee Schemes (DGSs), enhanced by the Deposit Guarantee Scheme Directive (DGSD)⁸
- ❖ Delegated and implementing acts by the Commission
- ❖ Technical Standards (EBA role)

(1) National law transposing the directive

C. Who gains from the Banking Union?

- Economic agents
 - ❖ Increased financial stability
 - ❖ legal certainty at national and EU levels
- Consumers of financial services/depositors
 - ❖ Sounder and safer financial system
 - ❖ Increased financial stability (e.g. depositor protection)
 - ❖ Enforcement of supervisory and resolution frameworks promotes integrity in the banking industry
 - ❖ Fairer intra-EU competition

C. Who gains from the Banking Union?

- Financial sector players
 - ❖ Progressively, elimination of the negative feedback loop between sovereign risk and banking sector risk
 - ❖ Efficient, open and competitive internal market via coherent cross border legal and supervisory environment and level playing field
- EU taxpayers
 - ❖ Enhanced scrutiny on national state aid measures in support of the banking system via EU-wide framework
 - ❖ Bail-in tool minimizes expenditure from the public purse to support banking institutions

D. Looking ahead – Challenges and tasks

Completing the Banking Union

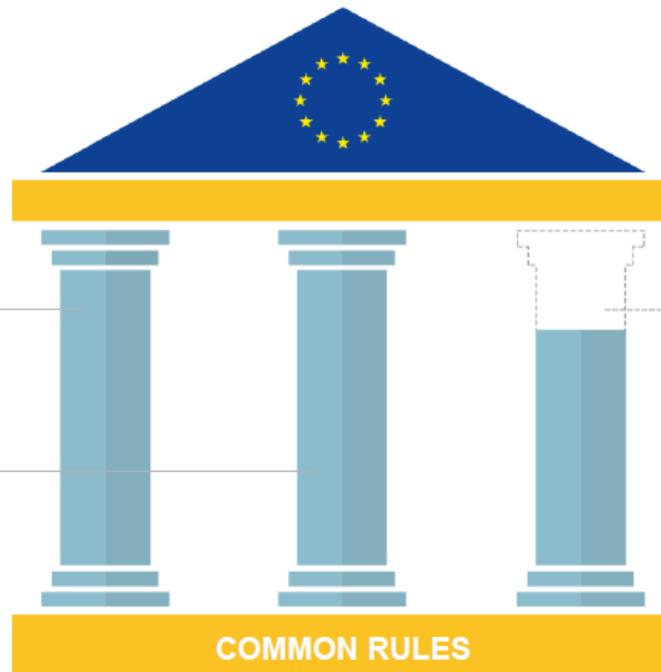
Additional steps to identify and address systemic risk

1st PILLAR

Single Supervisory Mechanism (SSM) — together with the National Competent Authorities (NCAs)

2nd PILLAR

Single Resolution Mechanism (SRM) together with the National Resolution Authorities (NRAs)



3rd PILLAR

European Deposit Insurance Scheme (EDIS) (under construction)



D. Looking ahead – Challenges and tasks

Completing the Banking Union

- ❖ Functioning European Deposit Insurance Scheme
- ❖ Genuine common backstop
- ❖ Further measures to reduce risk (TLAC/MREL and other)

Ongoing implementation of the Banking Union

- ❖ Transposition of BRRD and DGSD (one MS missing)
- ❖ Continued and continuous work on the Single Rule Book
- ❖ Single Resolution Fund Loan Facility Agreement (14/19 MS)
- ❖ Developing and reinforcing European supervisory culture
- ❖ Industry response to the changing environment and challenges
- ❖ Other...

D. Looking ahead – Challenges and tasks

EMU deepening - Financial Union

Juncker Commission priorities:

- ❖ Completing the Banking Union
- ❖ Accelerating the Capital Markets Union
- ❖ Completing Europe's Economic and Monetary Union



#BankingUnion
#deepeningEMU

Bank Recovery and Resolution Directive (BRRD)

Narrow exceptions to the bail-in principle:

- ❖ State guarantees to emergency liquidity assistance from central banks
- ❖ State guarantees of newly issued liabilities
- ❖ Precautionary recapitalisations (restricted to cover capital shortfalls arising under adverse scenario of a stress test)

Public support available under the BU but clearly as the last resort

E. Backup slides

Significant Institutions in Portugal

Portugal		
Name	Country of establishment of the group entities	Grounds for significance
Banco BPI, SA		Size (total assets EUR 30-50 bn)
Banco Português de Investimento, SA	Portugal	
Banco Comercial Português, SA		Size (total assets EUR 75-100 bn)
Banco ActivoBank, SA	Portugal	
Banco de Investimento Imobiliário, SA	Portugal	
Caixa Geral de Depósitos, SA		Size (total assets EUR 100-125 bn)
Caixa – Banco de Investimento, SA	Portugal	
Caixa Leasing e Factoring - Instituição Financeira de Crédito, SA	Portugal	
Banco Caixa Geral, SA	Spain	
Novo Banco, SA		Size (total assets EUR 50-75 bn)
Novo Banco dos Açores, S.A.	Portugal	
BEST – Banco Electrónico de Serviço Total, SA	Portugal	
Banque Espírito Santo et de la Vénétie	France	