

# Banking Union - The Single Supervisory Mechanism

A view on non-Euro Member States topics of interest

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**BANCA NAȚIONALĂ A ROMÂNIEI**



# Outline

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1. Banking Union – reasons and implementation
2. Single Supervisory Mechanism – framework and tasks distribution
3. Topics remained under discussion
4. Issues of particular interest for non-euro Member States

## Reasons for a Banking Union

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- consolidating the single market
- single supervision is required for ESM direct recapitalization of banks
- strengthen financial stability
- dealing with moral hazard financing effects between Member States and banks
- reducing regulatory and supervisory arbitrage

# The legislative proposal of the European Commission

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12 September 2012 – The European Commission issued proposals for:

- Council Regulation conferring specific tasks on the **European Central Bank** concerning policies relating to the prudential supervision of credit institutions
- Regulation of the European Parliament and of the Council amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (**European Banking Authority**) as regards its interaction with Council Regulation (EU) No.../... conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions
- Communication from the Commission to the European Parliament and the Council - **A Roadmap towards a Banking Union**

## Banking Union – the proposed framework

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The Banking Union is to be based on the Single Rulebook and refers to three main pillars:

- shifting the supervision of banks to the European level – The Single Supervisory Mechanism (SSM)
- setting up a common system for deposit protection – Directive on Deposit Guarantee Schemes (DGS)
- integrating bank crisis management – Directive on Bank Recovery and Resolution (BRR)

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# Single Supervisory Mechanism

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## **Jurisdiction:**

- all Euro Member States
- opt-in mechanism for non-Euro Member States

## **Composition of the SSM:**

- ECB – consistent supervision across the Euro Area
- National supervisory authorities – benefitting of local and specific know-how

## **Scope:**

- all banks within the banking union – single rulebook
- phased-in supervision
  - 1 January 2013 – ECB decision, mainly banks receiving public support
  - 1 July 2013 – most significant European systemically important banks
  - 1 January 2014 – all other banks

## Main supervisory tasks granted to the ECB

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- authorization of credit institutions
- assessing qualifying holdings
- ensuring compliance with minimum capital requirements
- ensuring Pillar 2 capital adequacy
- conducting supervision on a consolidated basis
- supervisory tasks in relation to financial conglomerates
- ensuring compliance with provisions on leverage and liquidity
- applying capital buffers
- early intervention measures, in coordination with resolution authorities, when a bank is in breach of, or is about to breach, regulatory capital requirements



## Tasks left with the national supervisors

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- supporting ECB's supervisory tasks
- consumer protection
- combating money laundering
- supervision of third country banks establishing branches or providing cross-border services within a Member State

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## General topics remaining under discussion

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- clear separation of supervisory and monetary policy tasks of the ECB – an agreement is emerging: the Supervisory Board - Governing Council decision making process
- equitable treatment of participating euro and non-euro Member States
- distribution of tasks between the ECB and NCAs
- phasing in of the SSM

## Equitable treatment of participating euro and non-euro Member States

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- Status and role of participating non-euro Member States
  - unclear status of NCAs in the ECB Supervisory Board
  - ECB could unilaterally initiate the termination of the close cooperation

Expected amendments:

- non-euro MS to be voting members in the Supervisory Board
- non-euro MS to may initiate the termination of the close cooperation (after 3 years)

Compromise for decision-making process – Governing Council may only object and not amend draft decisions prepared by the Supervisory Board

- Changes to the voting in the EBA
  - needed political guidance from the Council to ensure non-discriminatory but effective decision-making process in the EBA Board of Supervisors – in particular for binding mediation decisions

## Distribution of tasks between the ECB and NCAs

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Most exclusive tasks assigned to the ECB – uncontroversial

- exception: macroprudential tools and coordination of a single position of NCAs from participating Member States

Expected compromise:

- ECB – central role in the European System of Banking Supervision
- ECB instructs and is assisted by the NCAs – the framework to be elaborated in consultation with the NCAs of participating Member States
- ECB has direct investigatory powers but consults NCAs on draft decisions, stating reasons for not considering their proposals or advice
- in the EBA, the ECB will act as a regular competent authority

## Phasing in of the SSM

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Commission Proposal is phasing-in the ECB supervision:

- 1 January 2013 - any bank in participating Member States, based on ECB decision
- 1 July 2013 - most significant European systemically important banks
- 1 January 2014 - all other banks

Need for more flexible phasing-in – better preparing for the ECB to take over the new supervisory tasks

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## Potential drawbacks for non-euro MS

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- segmentation of the European banking sector between participating and non-participating Member States – inclusion of non-euro Member States after a reasonable transition period
- possible transformation of local subsidiaries into branches, limiting information and tools available to national competent authorities
- possible incentives of cross-borders groups to deleverage local entities
- impact on prudential indicators – higher levels currently working as buffers in preserving financial stability at national level



## Topics under discussion of particular relevance for non-euro MS

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- the balance of powers and obligations for participating non-euro Member States, ensuring the access to the decision making process within the ECB Supervisory Board – voting rights
- both effective opt-in mechanism and decision over the close cooperation – to be possible after 3 years
- access to macroprudential tools – through a flexible mechanism such as co-decision or propose-consult-and-explain
- avoiding dilution within the EBA decision process, particularly in binding mediation decisions – change in the proposed ECB status in the EBA

Thank you!