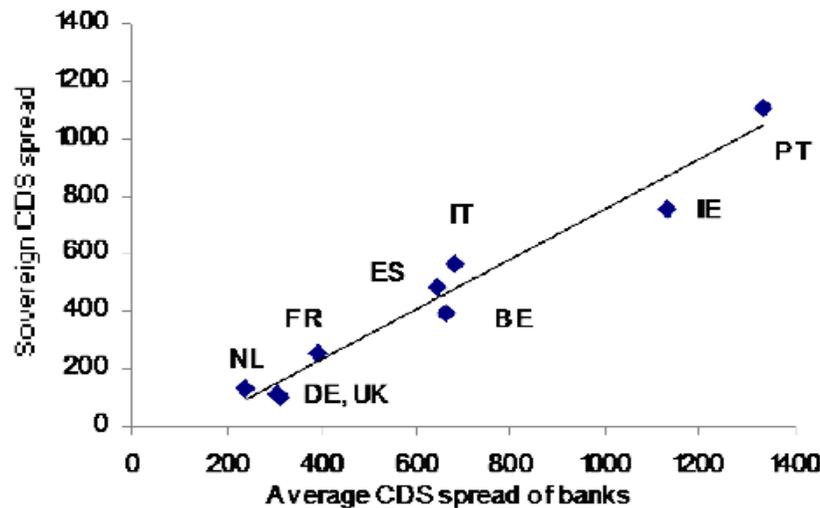


# Banking Union – general issues

# Banking Union – a good idea?

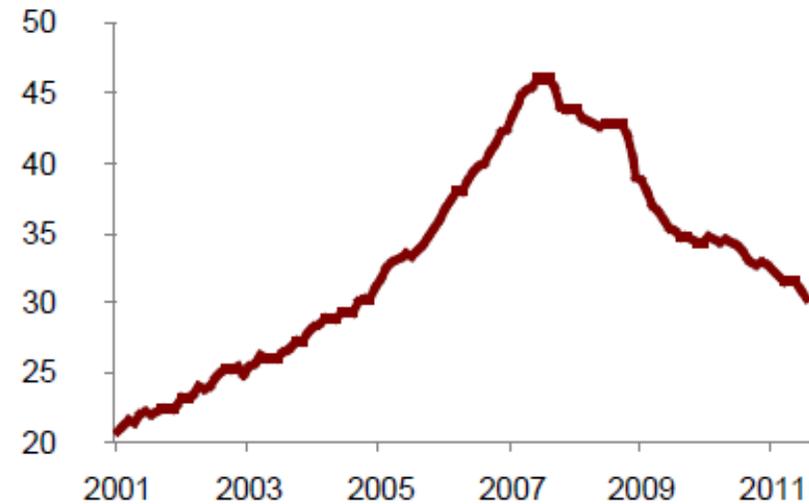
## ■ Current situation: Sovereign bias and partial disintegration of the European banking system?

Chart 1.2.8: 5-year CDS spreads for banks and sovereign debt (basis points)



Notes: 5-year CDS spreads, showing the average for a small sample of banks per country and the sovereign, as of end November 2011. High CDS spreads for Greece are omitted. Source: Bloomberg.

Chart 1.4.7: Cross-border holdings of euro area MFIs of debt securities issued by other MFIs (%)



Notes: Refers to the cross-border holdings of euro-area MFIs of the debt securities issued by other MFIs (in percent of total domestic and cross-border holdings of debt securities issued by MFIs). Only

Source: European Commission (2012): European Financial Stability and Integration, Report 2011, p. 12/ p.21

# Banking Union – a good idea?

- **Interlinkages between the solvency of sovereigns and „their“ banks through:**
  - Home bias – disproportionate direct holdings of „own“ government's debt
  - Collateral – deterioration of quality of sovereign debt
  - Assumed (implicit) government guarantee
- **Incompleteness of European Monetary Union**
  - No centralized responsibility for bank supervision, crisis resolution and deposit insurance
  - Implications for financial integration (public finances, governance, political integration)
- **Inefficiencies of the current European supervisory system**
  - Unresolved issue of burden sharing in case of recovery and resolution
  - National caveats to full sharing of information
  - Different approaches and methodologies
  - **Lack of transparency for markets and policy making.**
- **Banking Union – a good idea?**
  - Given the state of the EU: a necessary idea
  - If well conceived: a good idea

# Key components for the decoupling of sovereign and banking risks

***„We affirm that it is imperative to break the vicious circle between banks and sovereigns.”*** (Euro Area Summit Statement, 29 June 2012)

## ■ **Three pillars** for a viable Banking Union:

- I. **Centralized Supervision:** to prevent failure of cooperation and create transparency
- II. **European Deposit Guarantee Scheme:** to extend confidence of customers in the whole Banking Union
- III. **European Stability Funds:** to create a credible, sufficiently endowed backstop

## ■ Complemented with an appropriate European **Recovery and Resolution Authority:**

- **To properly address the problem of too big to rescue**

## ■ **FMA OeNB position: Roadmap necessary**

# Principal issues: FMA, OeNB position

- **As many banks from as many countries as possible**
  - Possibility of opt-in for countries
  - Congruence with ESM
  
- **Central responsibility but decentralised organisation**
  - Subsidiarity principle: depending on systemic relevance re-delegation of decision making and fact finding to national authorities should be possible
  - ECB should have the capacity to regain decision making when necessary
  
- **Clear segregation between monetary policy and supervisory functions**
  - Inherent conflict of interest?
  - Creating democratic legitimacy for supervisory function

# How to avoid regulatory and competitive distortions?

## ■ Competitive distortions:

- All banks should *in principle* be subject to the same supervisory authority and regime
- All banks should *in principle* be covered by the same safety nets (Deposit Insurance, Stability Fund), but also be subject to the same rules for resolution.

## ■ Regulatory distortions (I):

### ● Within Banking Union:

- Balance between strong, centralized decision making and de-centralization of tasks has to be found – no overly bureaucratic structure
- Clear division of competences: who is responsible for what
- Harmonization of methodology and practice – Common Supervisory Manual

### ● Between Banking Union and the wider EU – the role for EBA:

- To continue the development of EU-wide Single Rulebook – with even more emphasis on maximum harmonization
- To continue its role in colleges, mediation, breach of EU law and crisis management