BANCA D'ITALIA
EUROSISTEMA

THE EU BANK RESOLUTION FRAMEWORK AND THE BANKING UNION

Views from a home country authority in the euro area

European Bank Co-ordination (Vienna 2) Initiative
Full Forum
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AGENDA

- Banca d'Italia first assessment of the proposal of the Commission on the SSM – further necessary steps
- Key elements of the Bank Recovery and Resolution Directive
- Conclusions

A Banking Union. Why?

Sovereign debt crisis and contagion to banks

- need for an economic and financial unification of the Eurozone

Three pillars on which the banking union should be built:

- Single Supervisory Mechanism (SSM)
- Crisis resolution system
- European deposit guarantee scheme

Necessary to speed up the pace on all fronts

- objective of breaking the vicious circle linking banks and sovereigns cannot be achieved without consistent connections between supervision and safety nets

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Assessment of the proposal of the Commission on the Banking Union

The implementation of Basel 3 in Europe:

- a European Regulation (CRR) that will regulate prudential requirements in a uniform way, with the purpose of establishing the *single rulebook*
- a European Directive (CRD4), that will need to be implemented by Member States.

- the ECB will be able to perform the tasks the CRR will assign to it without difficulties
- more complex will be the supervisory activity related to aspects regulated by the CRD4 due to national specificities introduced by Member States
- the collaboration of national supervisors will be essential

Legal basis for the new system

Legal basis for conferring supervisory responsibilities on the ECB

- Article 127, paragraph 6 of the Treaty on European Union
- decisions on supervisory issues to be taken by the Governing Council of the ECB

Need for organisational arrangements to ensure that

- countries that are not part of the Eurozone but that decide to participate in the mechanism (opt-in) are adequately represented
- monetary policy functions are properly separate from supervisory functions

Transfer of supervisory tasks to the ECB

Banca d'Italia

- is favourable to the project of transferring supervisory tasks to the ECB
- shares its inspiring principles
- supports the related timeline.

Banca d'Italia agrees on

- the extent of the scope of application (all the banks of the Eurozone and possibly of other countries)
- the final responsibility for supervisory actions should rest on the ECB with regard to all the banks of the Eurozone

A "two-level" system not compatible with the principle of consistency of the supervisory action

Transfer of supervisory tasks to the ECB

It is necessary

- to effectively distribute tasks between the ECB and national authorities
- to harmonise procedures and supervisory information bases,
- to ensure compliance with national regulation
- to implement the integrated use of resources and expertise

It is a priority the implementation of an agreement

- providing for legal certainty
- ensuring the effectiveness of the supervisory action.

Need for a strong involvement of national authorities

- inclusion in the CRR of a formal reference to the delegation of tasks
- Central structures must be granted the right to exercise decentralised powers
- Exercise of sanctioning powers to be defined (ensure consistency with the distribution of supervisory tasks between the ECB and the national authorities

Role of the EBA

- Proposed amendments to voting arrangements within the EBA to ensure that all countries participating in the Authority are represented in a balanced and adequate manner are necessary and reasonable

- Concerns of countries whose currency is not the Euro need to be carefully considered and solved in a balanced way

- Decision-making within the EBA should not become overly difficult due to veto-rights

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The proposal of the Commission on crisis management and resolution

The proposal, drawing on the recommendations of the FSB, involves:

- common regulatory instruments for the effective resolution of crises
- strengthened international coperation
- financial institutions to finance resolution measures

- Banca d'Italia favourably welcomes the proposal of the Commission.
- Its scope of application is wide, extending to LEs belonging to a group
- ackowledges the interest in the financial stability of the group as well as the value of the group as a whole, to be preserved through the coordinated action of the authorities involved in its supervision and, if necessary, through the binding mediation of the EBA.

The proposal of the Commission on crisis management and resolution

The proposal strengthens the powers of the authorities through

- preparatory measures,
- early intervention instruments – e.g. special management;
- crisis resolution measures – e.g. bridge bank.

the authorities can also

- require banking groups to change their legal or organisational structure, contractual terms and business practices;
- authorise intra group agreements to regulate the transfer of assets among the various components of the group

The proposal of the Commission on crisis management and resolution

- Shareholders and creditors will suffer losses according to a specific hierarchy of claims (bail-in).

- Losses allocated across the countries involved according to ex-ante agreements with the purpose of limiting the impact on public finances.

- Member States can maintain specific national regulatory tools provided that they do not hinder the coordinated resolution of the group and are consistent with the general resolution objectives as set out in the Directive.

The proposal of the Commission on crisis management and resolution

The range and extent of proposed measures

- should be able to ensure the orderly exit of banks from the market, minimising the cost for the community.
- in some cases the measures severely encroach on the rights of creditors
- need to be carefully designed, calibrated and chosen according to each specific situation.

BUT the proposal is mainly based on

- coordination among authorities
- on a decentralised approach to resolution funding

In the light of decisions taken with regard to the Banking Union, this approach will need to be reviewed

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Conclusions

Banca d'Italia

- welcomes the process aimed at achieving a European banking union
- is fully committed, contributing resources and expertise.

Points to bear in mind:

- The system must actually be a single one, integrated and extended to all banks
- The ultimate responsibility must rest on a single authority

To ensure an effective and fair supervision it will be necessary to promote

- methods and procedures common to all banks
- mixed supervisory teams
- effective control systems.

The single supervisory mechanism is the first element of the banking union. It must be accompanied by

- a common crisis management and resolution system
- a single deposit guarantee scheme

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