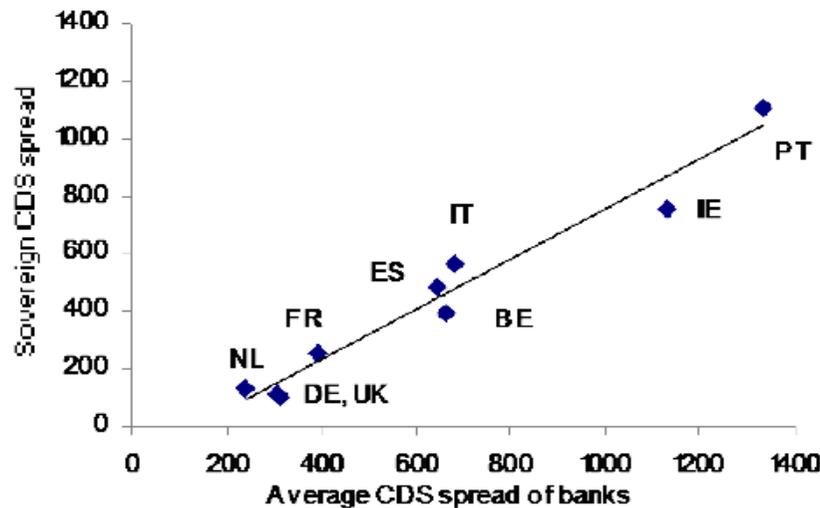


Banking Union – general issues

Banking Union – a good idea?

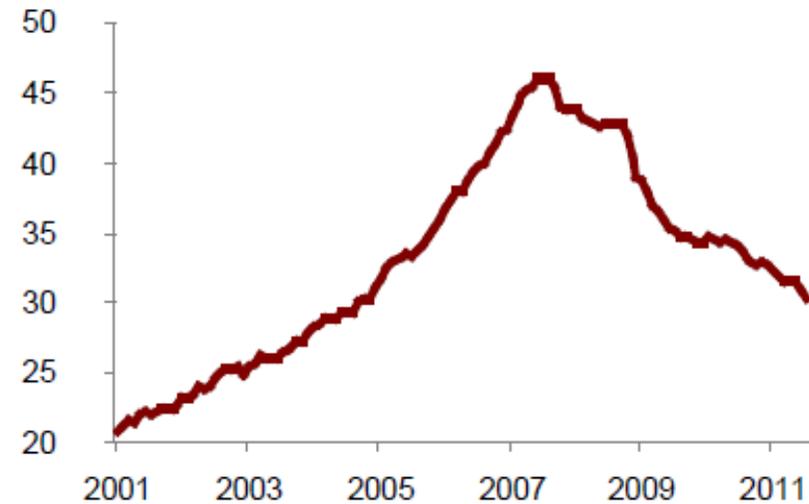
■ Current situation: Sovereign bias and partial disintegration of the European banking system?

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