



# **Internationalisation of financial supervision – The European System of Financial Supervision and the Banking Union**



# The European system of Financial Supervision

# The European System of Financial Supervision (ESFS)

## European Systemic Risk Board (ESRB)

- early identification of systemic risks
- where necessary, issues warning and recommendations to European and national authorities for remedial action

*exchange of information*

*advice and warnings*

## Joint Committee

**EBA**

European Banking  
Authority

**EIOPA**

European Insurance and  
Occupational Pensions Authority

**ESMA**

European Securities  
Markets Authority

*heads are members of the BoS*

*address binding decisions in  
specific situations*

**National supervisors**

## Main tasks and powers of the ESAs (1/2)

- *Guidelines and Recommendations;*
- *Development of technical standards;*
- *Ensure consistent application of EU law;*
- *Resolving disagreements between national supervisors;*
- *Action in emergency situations.*

A green arrow pointing to the right, with the word "MORE" written in bold black capital letters inside it.

**MORE**

## Main tasks and powers of the ESAs (2/2)

- ▶ Guidelines and Recommendations
- ▶ Development of technical standards
- ▶ Ensure consistent application of EU law
- ▶ Resolving disagreements between national supervisors
- ▶ Action in emergency situations

### ***Plus:***

- *Consumer protection and control of financial products;*
- *Monitoring systemic risk of cross-border financial institutions;*
- *Supervision of credit rating agencies (ESMA).*

## Achievements of the ESFS so far...

- System in place since 2011.
- ESAs were established quickly.
- ESAs have rapidly asserted their independence from the Commission and have not hesitated to input their views in the legislative process.
- Active engagement in international bodies.
- Each of the ESAs has also delivered individual achievements:
  - **stress testing and recapitalisation exercise (EBA),**
  - **assuming the role of the EU's supervisor of CRAs (ESMA), or**
  - **providing detailed advice on the reform of occupational pensions (EIOPA)**

## ... but also challenges

- need to ensure good cooperation between the ESAs and the ESRB;
- The ESAs have relatively few resources for a growing number of tasks;
- The ESAs have yet to use their power to adopt binding decisions;
- The development of the ESAs' competences in respect of consumer protection and product supervision;
- The functioning of the Board of Supervisors as a body to take decisions in the sole interest of the Union.

**→ ESFS review next year will have a closer look at the functioning of the ESAs and the ESFS.**

# The single supervisory mechanism (SSM) and the Banking Union



# European Council on 28/29 June asked for a SSM

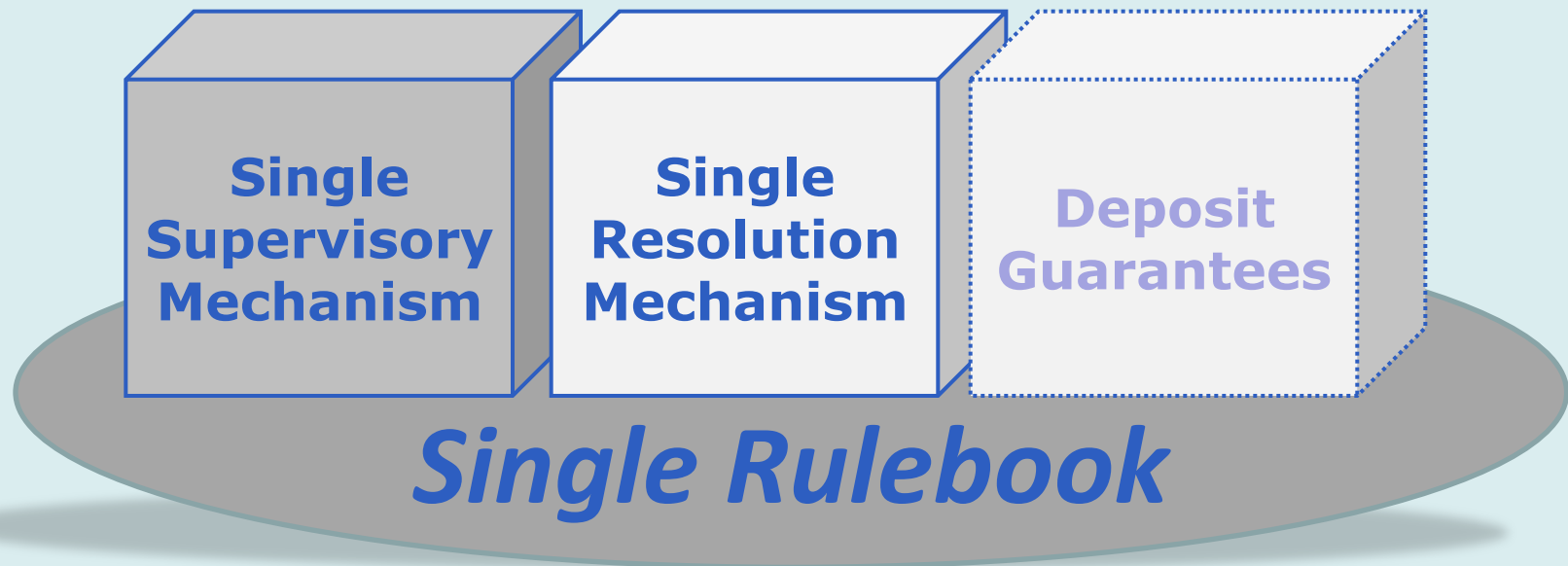
- Euro area Heads of State or Government statement of 29 June

***"The Commission will present Proposals on the basis of Article 127(6) for a single supervisory mechanism shortly. We ask the Council to consider these Proposals as a matter of urgency by the end of 2012. When an effective single supervisory mechanism is established, involving the ECB, for banks in the euro area the ESM could, following a regular decision, have the possibility to recapitalize banks directly."***

## Why do we need a Banking Union?

- *Necessary for achieving a genuine EMU.*
- *Break the negative feedback loop between sovereigns and banks.*
- *Prevent bank runs and strengthen overall financial stability.*
- *Preserve the single market.*
- *Single supervision is the precondition for the introduction of potential direct recapitalisation of banks by ESM.*

# Key elements of the Banking Union



# Roadmap towards the Banking Union

12 Sep 2012

- Communication on Banking Union;
- Proposal for a Council Regulation establishing the SSM;
- Proposal for a Regulation amending the EBA regulation.

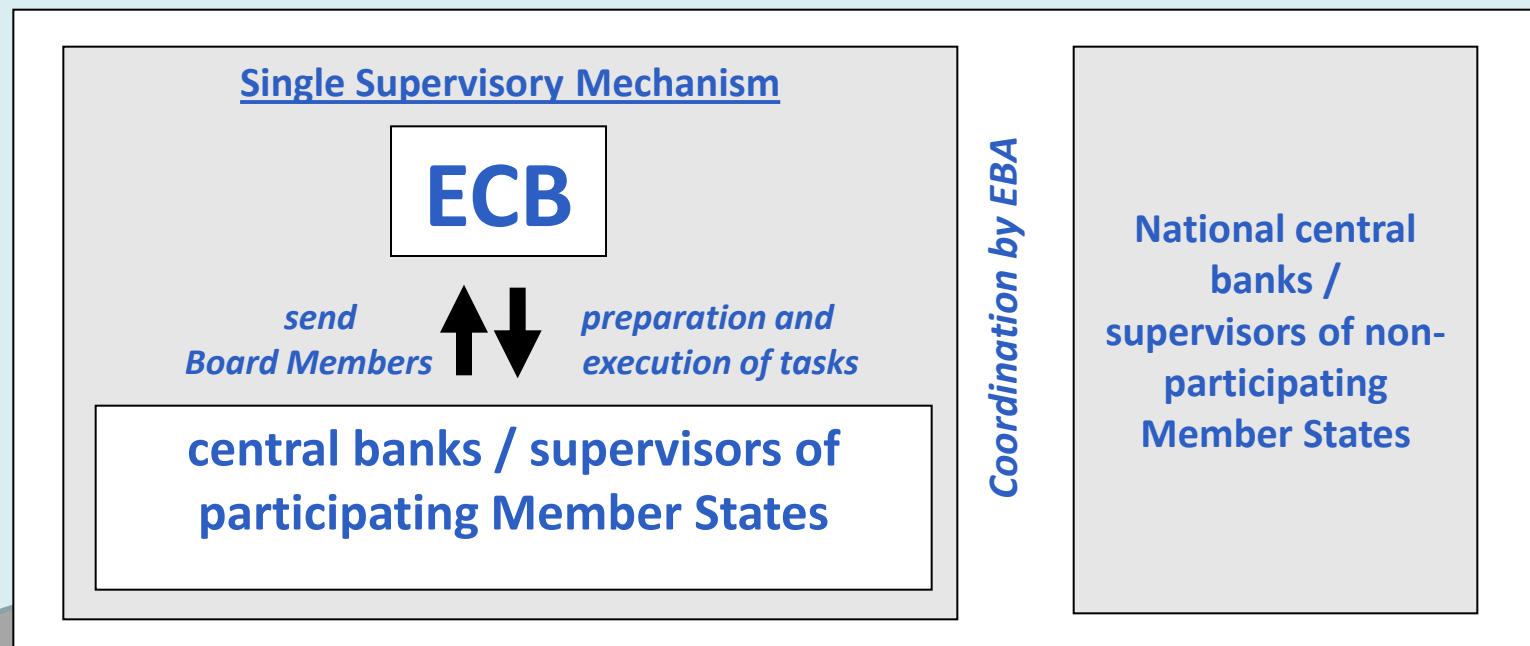
By end 2012

- Reach agreement on:
  - SSM and EBA regulation;
  - Existing DGS proposal;
  - CRR/ CRD IV;
  - Existing crisis management proposal.
- Report of the four presidents for the "achievement of a genuine EMU".

2013

- Entry into force of SSM, phasing-in of ECB supervision.

# Single Supervisory Mechanism



*Single Rulebook*

# Internal market dimension

- *Banking union must not compromise the unity and integrity of the single market based on the single rulebook.*
- *Proper functioning of EBA to further develop the single rulebook and support convergence of supervisory practices.*
  - **Modification of EBA regulation to ensure EBA powers apply also to ECB, while taking into account ECB status.**
  - **Amendments of voting modalities (simple majority) to affirm the integrity of the internal market and balanced decision-making.**
- *SSM will not alter balance between home and host MS*
  - **Powers of non-participating MS are not affected (e.g. colleges)**
  - **For participating MS, ECB tasks include both current home and current host tasks**

## Scope and organisation

- *SSM covers all banks in the euro area.*
  - **Even smaller banks can pose threat to financial stability.**
  - **A two-tier system would introduce asymmetries in the internal market and be inherently unstable.**
  - **Phase in:**
    - 1/1/2013 – start;**
    - 1/7/2013 – major cross-border banks;**
    - 1/1/2014 – all banks.**
- *SSM can only work based on a strong role for national supervisors.*
  - **National supervisors are an integral part of the SSM**
  - **Can carry out day-to-day verifications and other supervisory activities to prepare and implement ECB acts.**
  - **All tasks not conferred on the ECB will remain with national supervisors.**

# A Euro area SSM open to other MS

- *All Euro-area Member States shall participate.*
- *Non-Euro area countries may join by establishing a close cooperation between their competent authorities and the ECB.*



## Tasks of the ECB

- *Specific key supervisory tasks will be conferred on the ECB. Notably:*
  - **Authorize** banks;
  - Ensure compliance with **minimum requirements on capital, leverage and liquidity**;
  - **Supervisory review** of banks' risk profile ("**Pillar 2**");
  - Apply **capital buffers and other macro-prudential measures**;
  - **Early intervention measures** where a bank breach requirements (coordinating with resolution authorities).
- *Other tasks remain with national supervisors.*

# Independence and accountability

- ***Independence*** of the ECB when carrying out banking supervision is balanced by strong ***accountability*** provisions.
- ***Separation*** of monetary policy tasks from supervisory tasks
  - All preparatory and executing activities will be carried out by bodies separated from those responsible for monetary policy.
  - Supervisory board will be set up. ECB Governing Council can delegate certain tasks and decision-making powers to this board.

## European Council from 18 October confirmed main elements of COM proposals

- Reach agreement on legislative proposals by 1 January 2013;
- Clear separation of monetary policy from supervision;
- Ensure equitable treatment and representation of both euro and non-euro area Member States participating in the SSM;
- Distribution of tasks between national supervisory authorities and the ECB. ECB will be able to carry out direct supervision
- Balanced solutions needed for voting modalities in EBA.

## Next steps

- Reach agreement on the SSM proposals before the end of the year to stabilise situation in the Eurozone.
- Agree on single rulebook (CRR/CRD IV).
- Agree on crisis management and DGS proposals.
- The Commission will present a legislative proposal establishing a Single Resolution Mechanism.
- We rely on the Presidency to conduct effective negotiations in full cooperation with the European Parliament.