



# Banking Union: State of Play and Challenges Ahead

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# Outline

- Overview
- SSM – Single Supervisory Mechanism
- SRB – Single Resolution Board
- EDIS – European Deposit Insurance Scheme
- Outlook



# The Eurozone and the Banking Union

**Single Currency**



**Single Supervisor**

*November 2014, SSM takes over supervision*



**Single Resolution Mechanism**

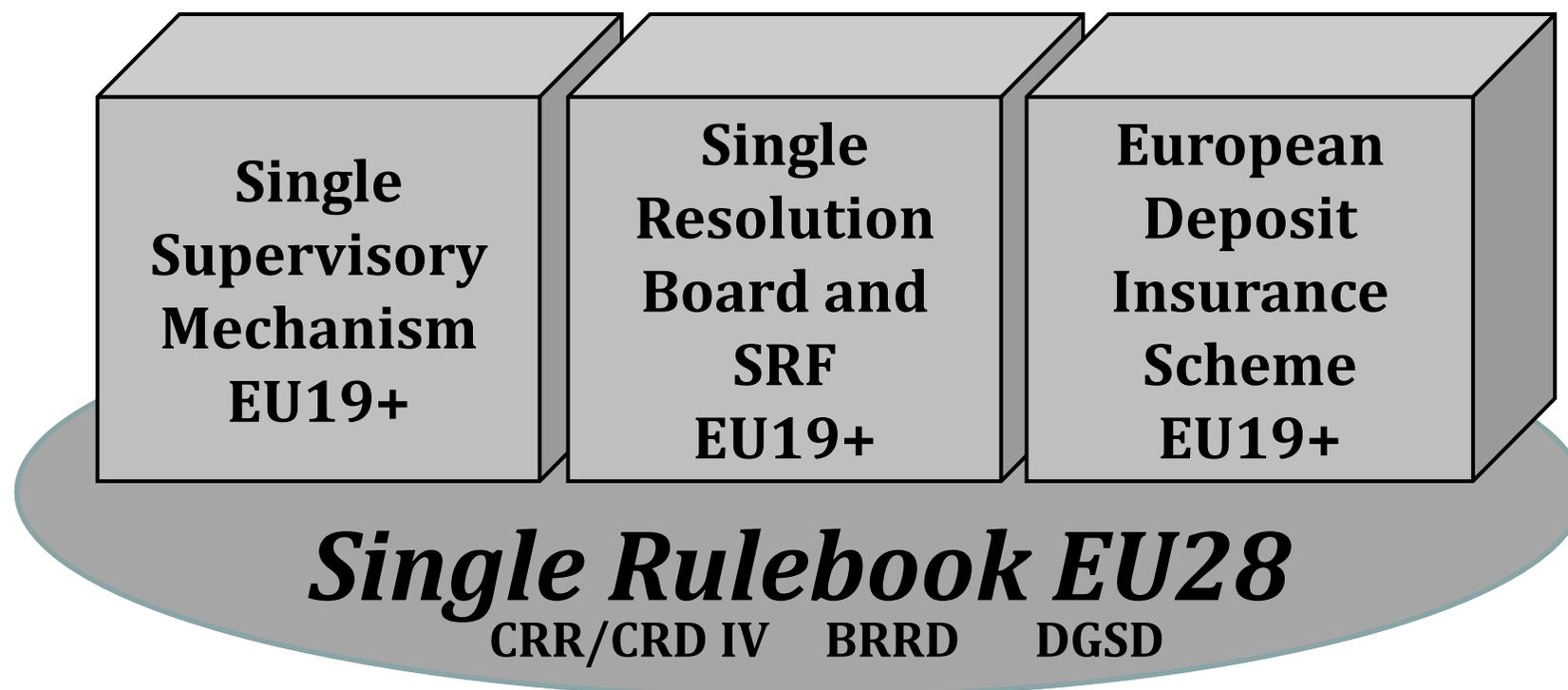
*January 2015, SRM takes over resolution*



**EDIS / common backstop**



## Key Elements of the Banking Union

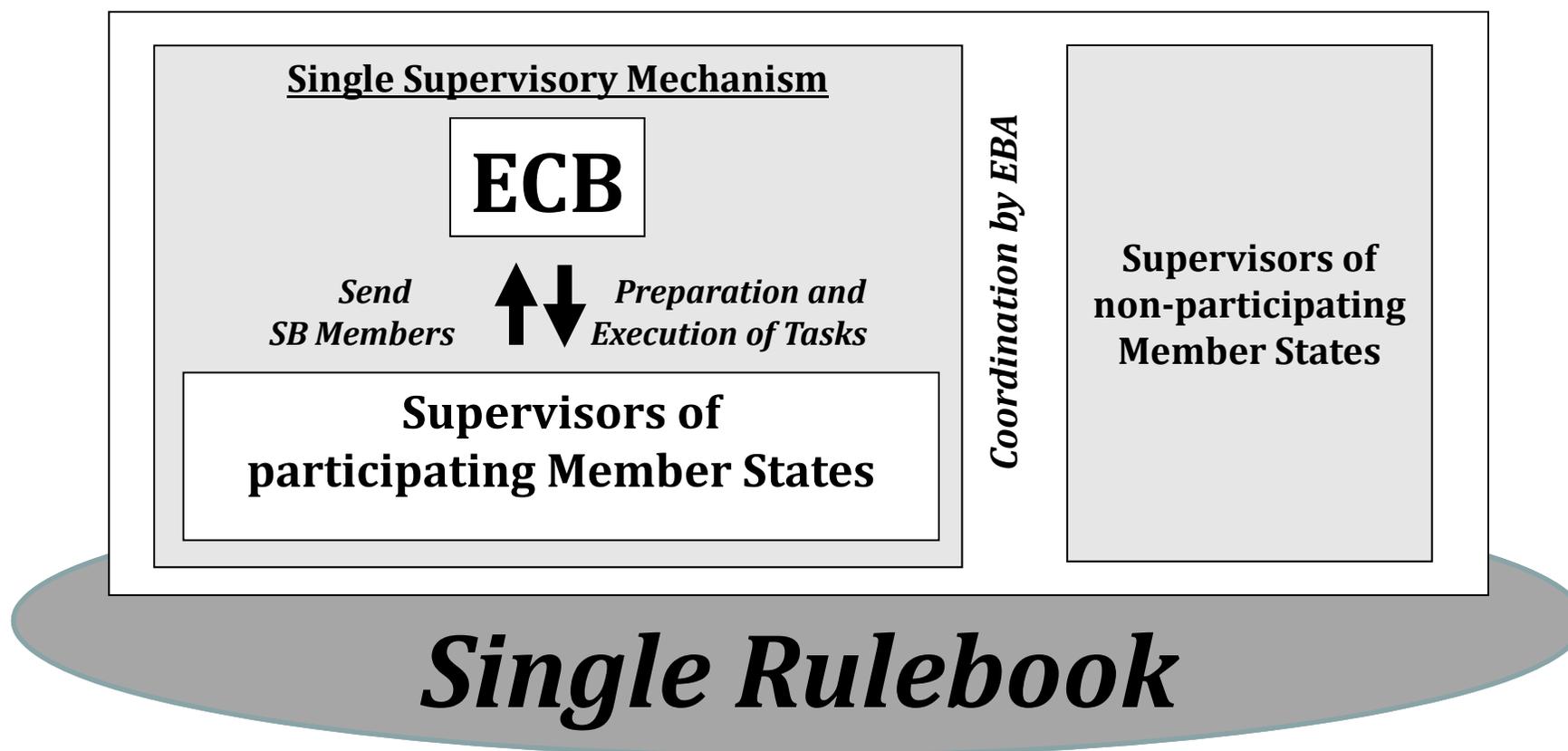




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**SSM**

## Overview of the Single Supervisory Mechanism





## Key tasks conferred on the ECB

**Significant banks** - >30bn assets; >20% national GDP; 3 most important banks, significance of cross-border activities

**Licence authorization** and withdrawal

**Requirements** on capital, leverage, liquidity, and governance

**Consolidated supervision** and supervision of conglomerates

**Intervention measures** where a bank breaches requirements (coordinating with resolution authorities)

**Macroprudential** tasks

**Structural** reforms: Mandate separation of trading activities.

- All tasks not explicitly conferred on the ECB are exercised by national supervisors



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# SRM



# Scope of Single Resolution Mechanism

**Mirrors the SSM:** all banks established in the Euro Area and other participating Member States

## **Distribution of tasks between SRB and NRAs:**

- Board directly responsible for cross-border and significant banks (>30bn; about 200 banks)
- NRAs responsible for all other banks (also to adopt resolution decisions if no use of the Fund is required)

SRB ultimately responsible for **all banks**



# Single Resolution Fund

**ECB**  
National Supervisors

COM/CON

**Single Resolution Board**

**Owners / creditors**

**National Resolution Authorities**

**Failed bank**

All banks

notify  
supervise

manage

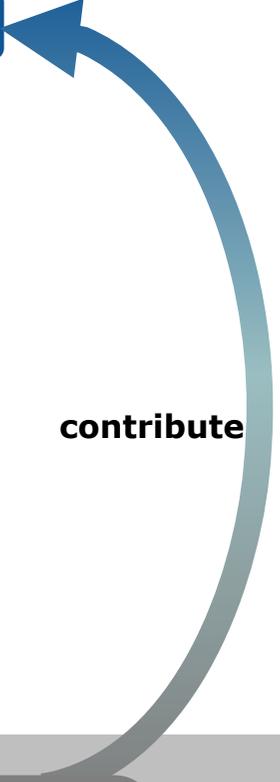
instruct

resolve

bail in

hold shares/claims

contribute



# SRB: Triggering resolution in practice

ECB generally **determines**

- bank is failing/likely to fail
  - Board may also decide if it informed ECB, and ECB has not reacted within 3 days

Board **assesses**

- systemic threat (public interest) and
- no alternative private solution

Board **adopts**

- resolution scheme: necessary resolution and funding measures

Resolution scheme is submitted to Commission/Council (24 hours) for *endorsement or objection*.

## SRF: Bridge financing

- Resolution funding
  - needs to be available immediately,
  - even as long as SRF is still being filled by banking sector contributions
- Each Member State backs the national compartment in the SRF
- No mutualisation
- Commitment to introduce common backstop by the time the SRF is fully mutualised at the latest (2024)



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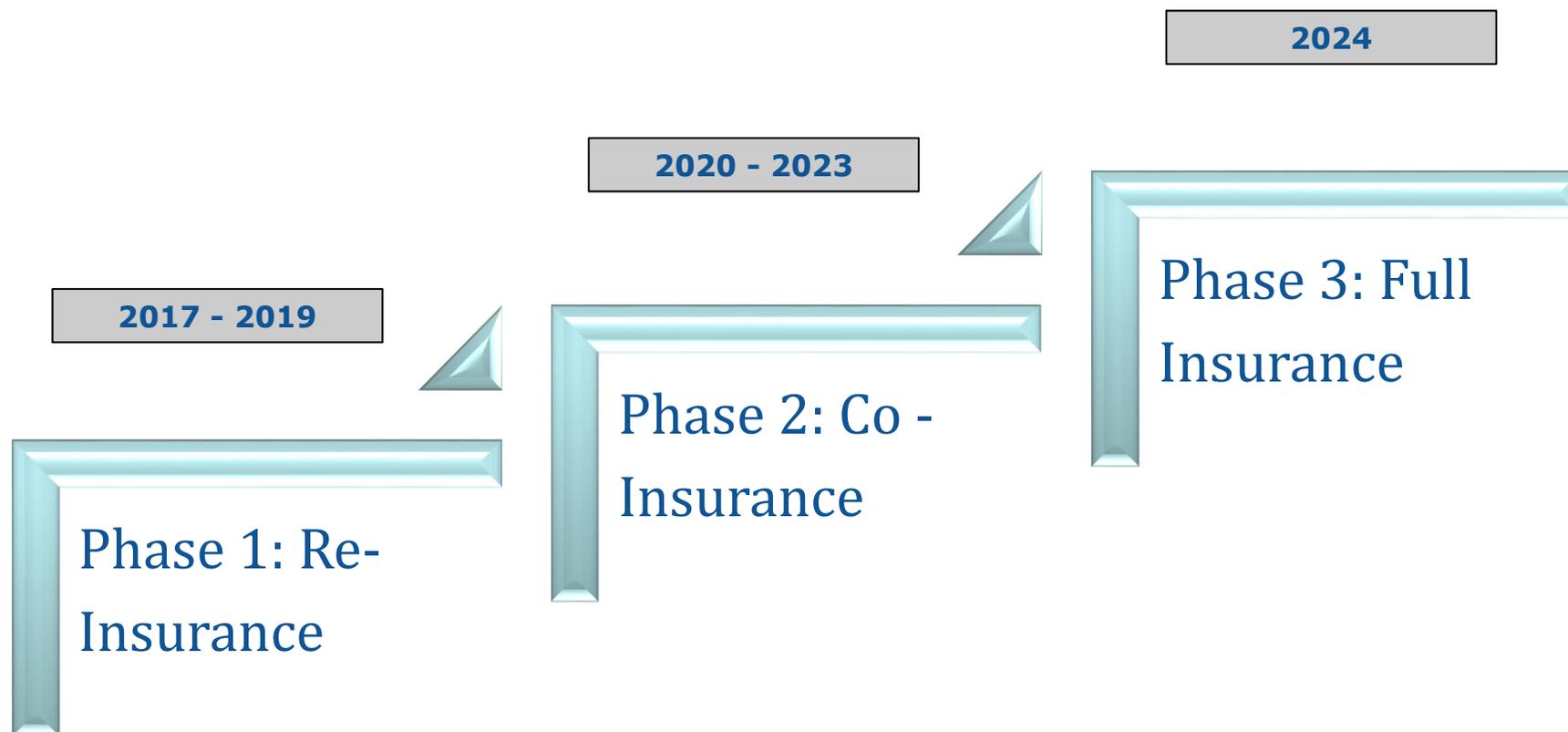
# EDIS



## Key Principles of the Proposal

- ⇒ No claim from EDIS unless DGS ok on DGSD obligations
- ⇒ Switching to EDIS won't imply higher costs for the banking sector overall
- ⇒ All banks in BU covered, but risk-based contributions after Year 3
- ⇒ Risk sharing to go along with risk reduction
- ⇒ Gradual approach: necessary to address legacy issues and avoid moral hazard

## Gradual approach for EDIS



## Re-Insurance

- ❑ Risks remain largely national. This reduces moral hazard and addresses legacy.
- ❑ EDIS would only provide liquidity if the national DGS has exhausted its own resources and complies with DGSD obligations (e.g. capitalisation).
- ❑ There are other caps and safeguards to protect EDIS.

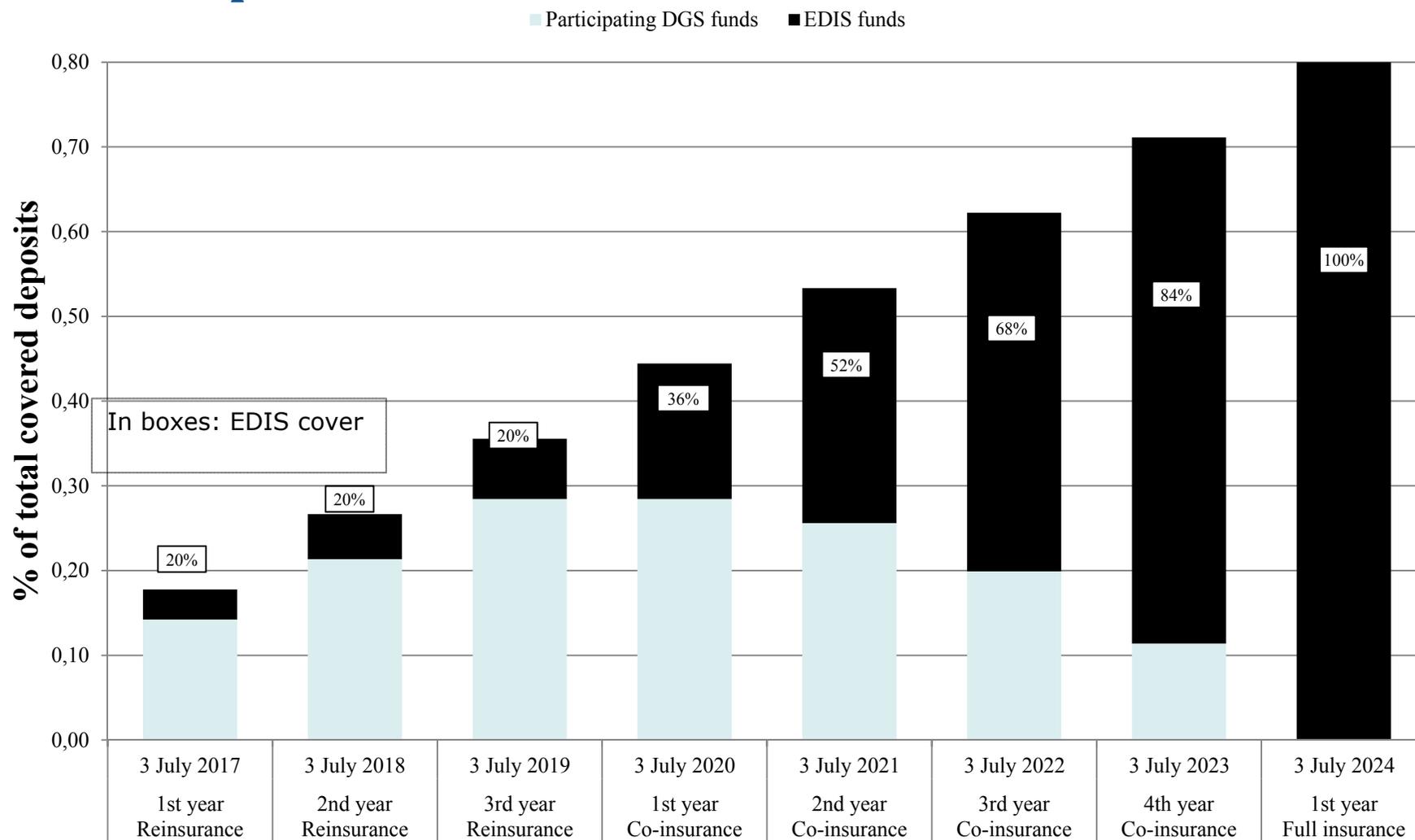
## Co-Insurance

- ❑ Co-Insurance is a further development of re-insurance.
- ❑ Main difference: The national DGS would not have to be exhausted before it can access EDIS.
- ❑ EDIS will cover some amount from the first euro that the national DGS pays out to its depositors. Risk is therefore partially mutualised.
- ❑ The degree of available EDIS cover would increase over four years until it is fully mutualised.

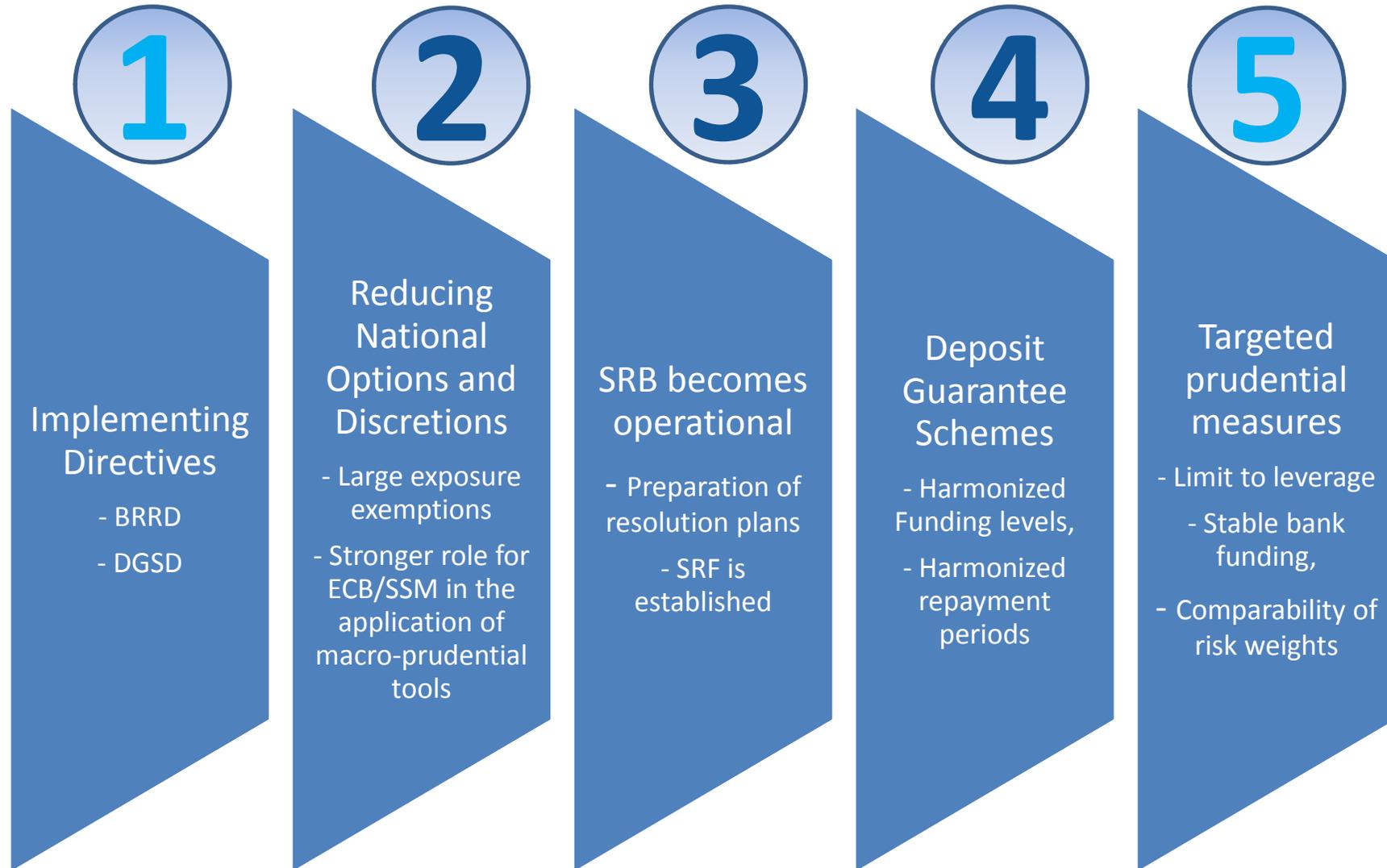


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## Development of EDIS and national funds



# Summary: Risk-reduction in the Banking Union





# Outlook

Discussions on banking union ongoing in Council and EP

- EDIS proposal
- SRF backstop
- further measures to reduce risk including tackling bank-sovereign link



Thank you very much!

