

# **European Banking Union**Key Issues and Challenges

Presented at CIRSF Summer Conference 28th of June

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## **Agenda**

- The need for a Banking Union
- The Single Supervisory Mechanism
- Banking Supervision

Security level: Public 1/15

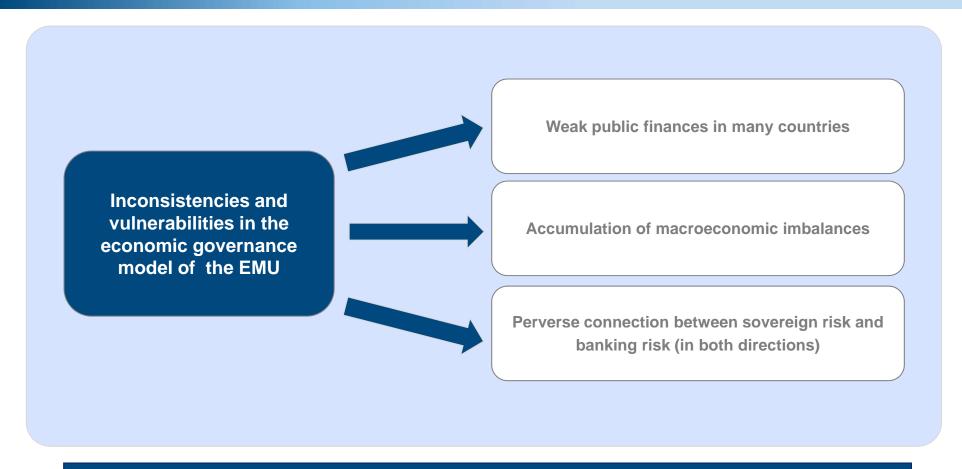


### The need for a Banking Union

Security level: Public 2/15



## The need for a Banking Union as a response to the shortcomings of governance model of the EMU



Shortcomings of economic governance model of the EMU paved the way for the break of financial integration, inhibiting the effective transmission of Monetary Policy, thus becoming a source of systemic risk in the euro area

Security level: Public 3/15

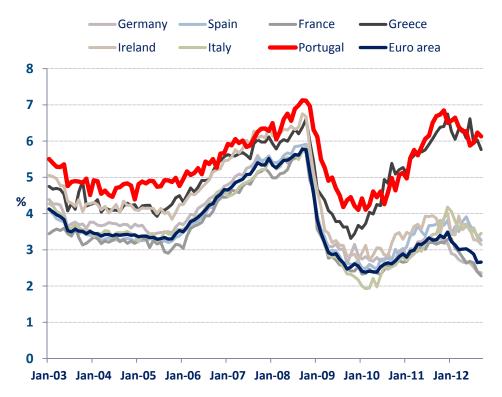


## How financial integration gave way to fragmentation in the wake of financial crisis

#### **Euro Area 10Y sovereign bond yields**

# DE AT BE ES FI FR -GR IE IT NL PT 20 15 % 10 1990 1992 1994 1996 1998 2000 2002 2004 2006 2008 2010 2012

#### Commercial interest rates on new operations

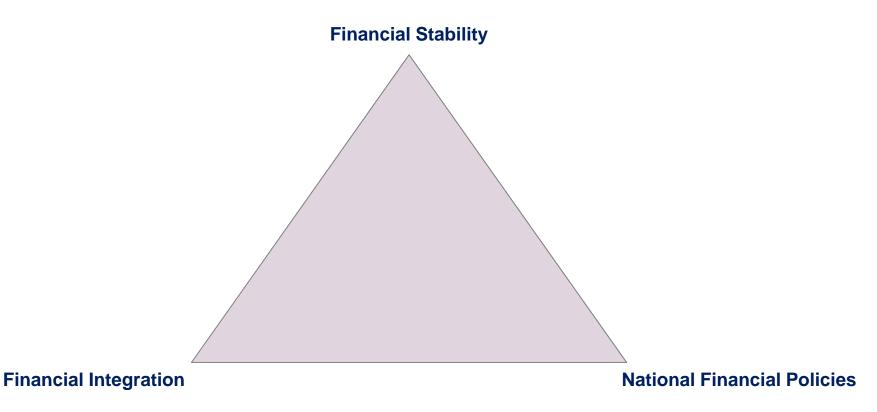


Source: Thomson Reuters and ECB and BdP

Security level: Public 4/15



## The financial trilemma and the impossibility of achieving three core objectives simultaneously

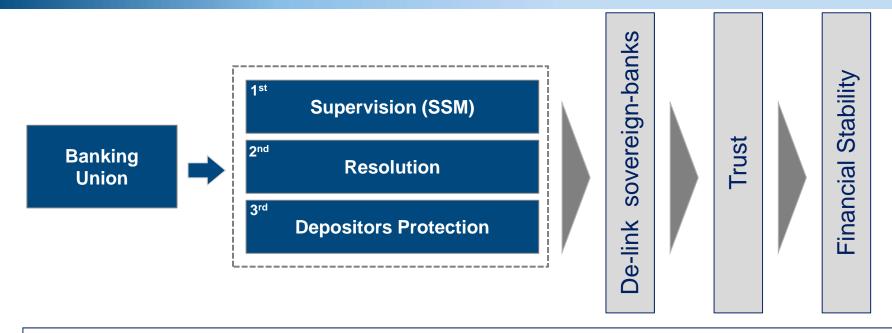


With increasing financial integration, pursuing national financial policies will generally not lead to financial stability, because national policies seek to benefit national welfare, while not taking into account externalities of their supervisory practices on other countries

Security level: Public 5/15



## Currently the implementation of a Banking Union is set to occur step by step



#### Political Response (29th of June 2012):

- Report: "Towards a genuine Economic and Monetary Union"
- Euro Area Summit decisions:
  - Mandate to the European Commission to present proposals for creating a Single Supervisory Mechanism (SSM), based on the Article 127 (6) of the Treaty and the EU Council "to consider these Proposals as a matter of urgency by the end of 2012"
  - o Commitment to: "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".

Security level: Public 6/15



### **The Single Supervisory Mechanism**

Security level: Public 7/15



# The Single Supervisory Mechanism in the context of the Banking Union

#### Single Supervisory Mechanism (SSM)

**ECB** 

+

National Competent Authorities (NCA) Euro Area



NCA other Member States (optional – close cooperation agreement)

Responsibility for the oversight of the SSM functioning and for ensuring supervisory consistency



Supervisory Decisions over All Banks: exclusive competence or use of specific powers

**Decision to Directly Exercise Supervision** 

Direct Supervision of Significant Banks **Direct Supervision of Less Significant Banks** 

Assistance to the ECB in the Supervision of Significant Banks

Exclusively Competent for Supervisory Tasks not conferred on the ECB

The supervisory framework will mirror the one applied within the Euro Area, but the ECB will exercise its tasks indirectly always through instructions to the NCA

Security level: Public 8/15



# Single Supervisory Mechanism impacts for the Portuguese financial sector

Allocation of supervisory tasks depends on the significance of the institution.

Scope – Tasks Conferred on the ECB by the SSMR

Microprudential Supervision

Macroprudential Supervision

#### **Significant institutions**

#### Quantitative Criteria

 Assets in excess of 30 bn euros or in excess of 20% of GDP (except if assets are less than 5bn euros)

## Qualitative Criteria

- Institutions considered by national authorities relevant in the national economy, with the consent of the ECB;
- The ECB, in its discretion, considers the institution relevant in the face of cross-border activity
- Institutions with direct public funding of the EFSF or ESM

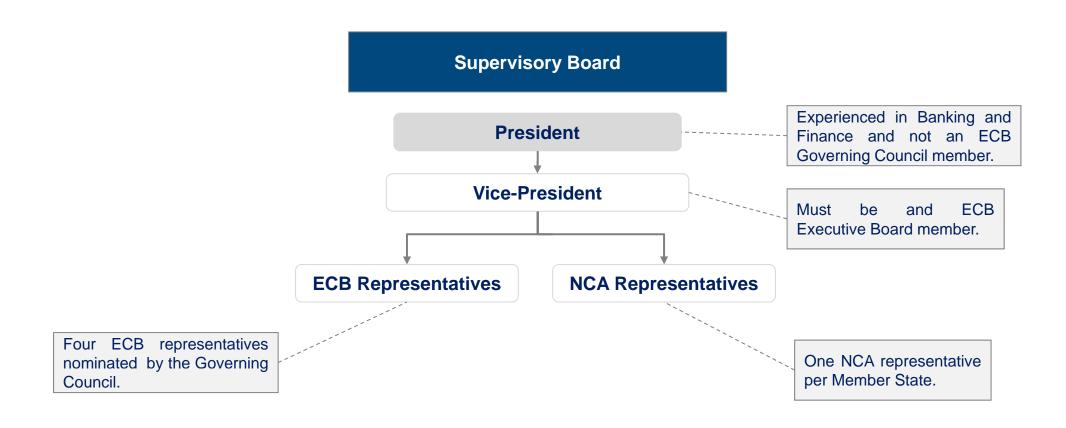
#### Less significant institutions

Other Institutions (falling within the SSM scope)

Security level: Public 9/15



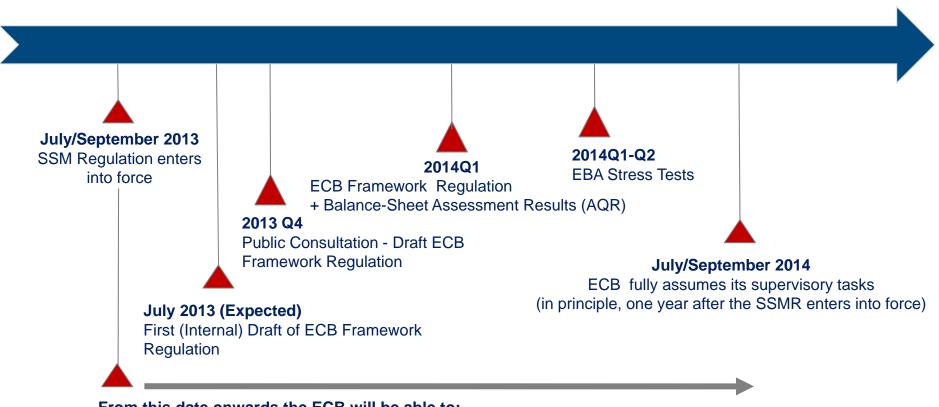
# The Single Supervisory Mechanism Organization and Structure



Security level: Public 10/15



## Roadmap for the Single Supervisory Mechanism implementation (I/II)



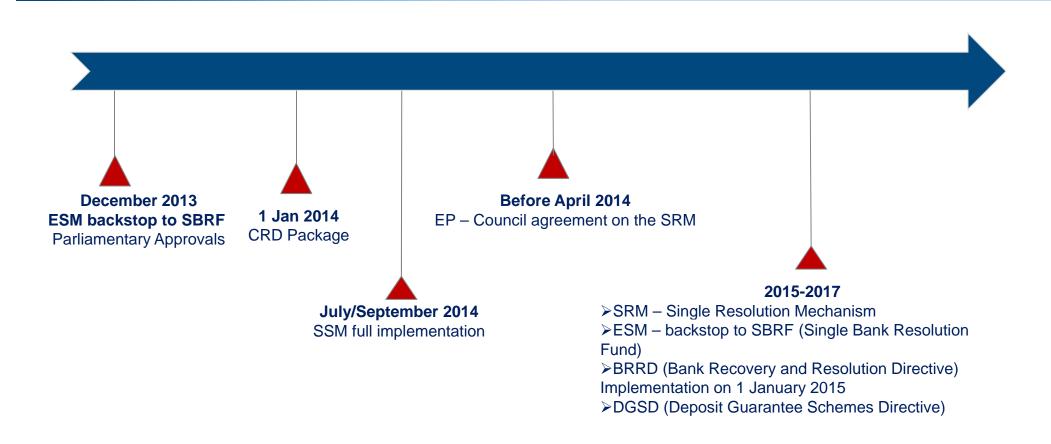
#### From this date onwards the ECB will be able to:

- Request to national supervision authorities information, including asset quality evaluations, in particular for those institution subject to ECB's direct supervision;
- Start supervising institutions on request of the European Stability Mechanism (ESM), as a prerequisite for recapitalization processes

Security level: Public 11/15



# Roadmap for the Single Supervisory Mechanism implementation (II/II)



Security level: Public 12/15



## **Banking Supervision**

Security level: Public 13/15



#### What model for banking supervision?

- 1 Permanent on-site presence
- 2 Horizontal asset quality and RWA reviews through on-site inspections
- 3 Forward looking approach
- 4 Straight ties between micro and macroprudential supervision
- 5 Strengthen the role of internal and external auditors

Security level: Public 14/15



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