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European Banking Union Key Issues and Challenges

Presented at CIRS Summer Conference
28th of June

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Agenda

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

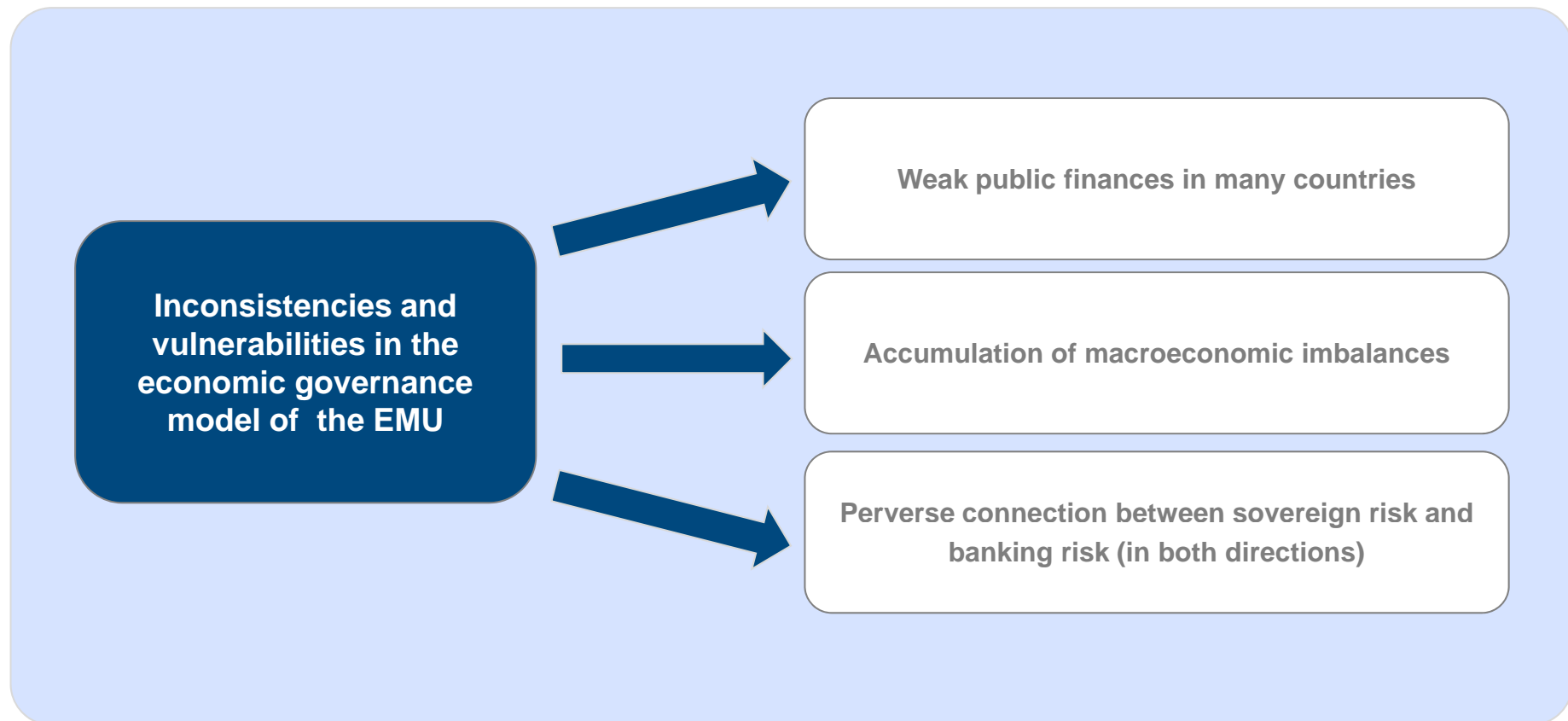


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The need for a Banking Union



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



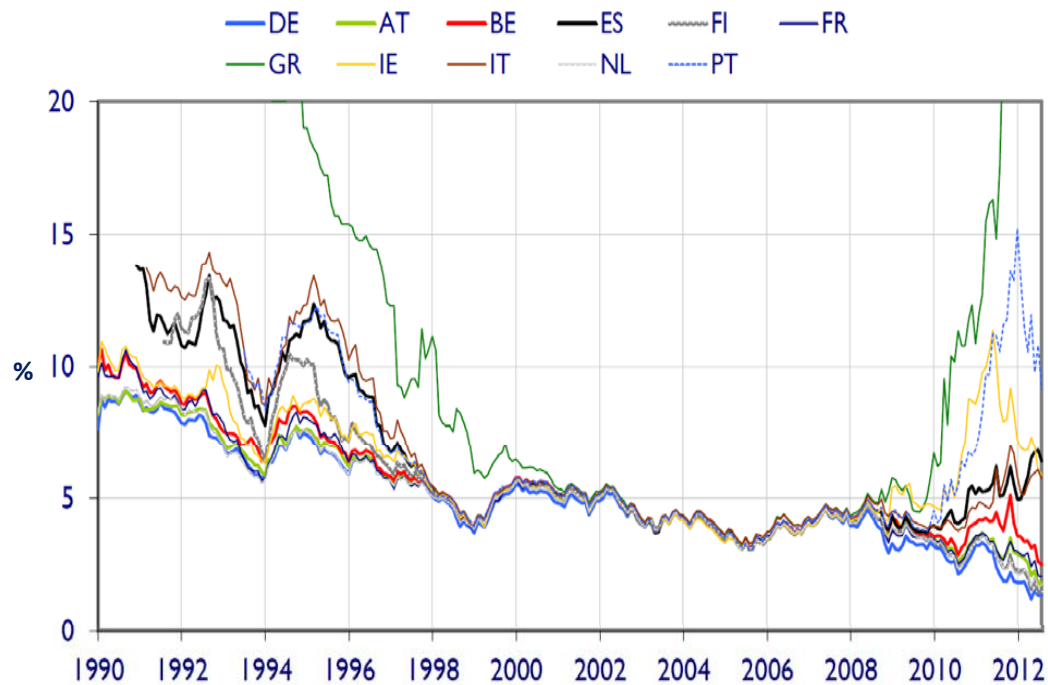
Shortcomings of economic governance model of the EMU paved the way for the break of financial integration, inhibiting the effective transmission of Monetary Policy, thus becoming a source of systemic risk in the euro area



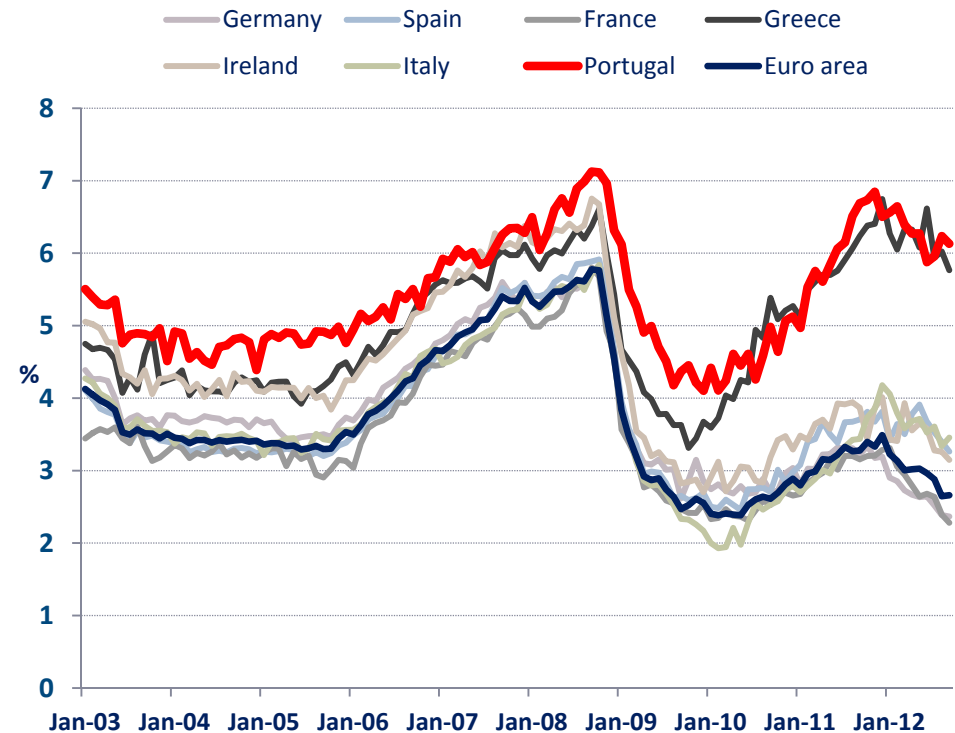
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How financial integration gave way to fragmentation in the wake of financial crisis

Euro Area 10Y sovereign bond yields



Commercial interest rates on new operations

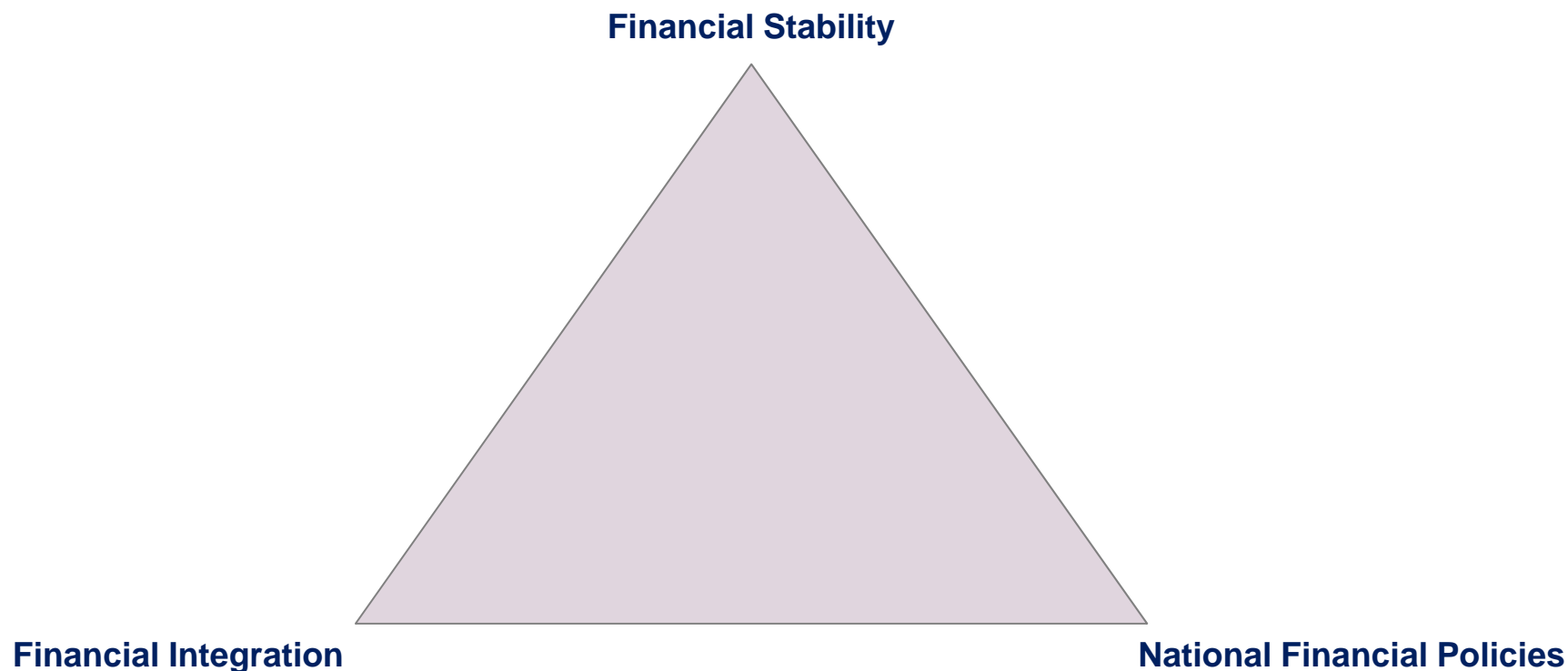


Source: Thomson Reuters and ECB and BdP



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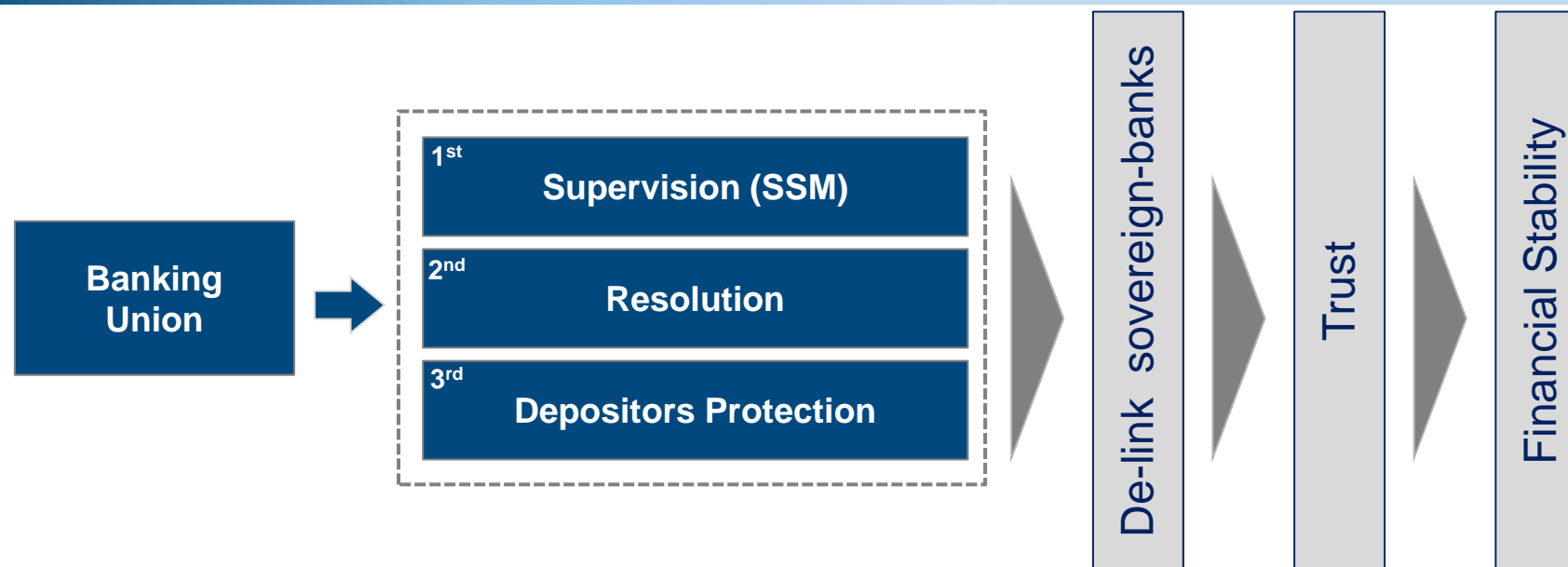
The financial trilemma and the impossibility of achieving three core objectives simultaneously



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



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*”
 - 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*”.

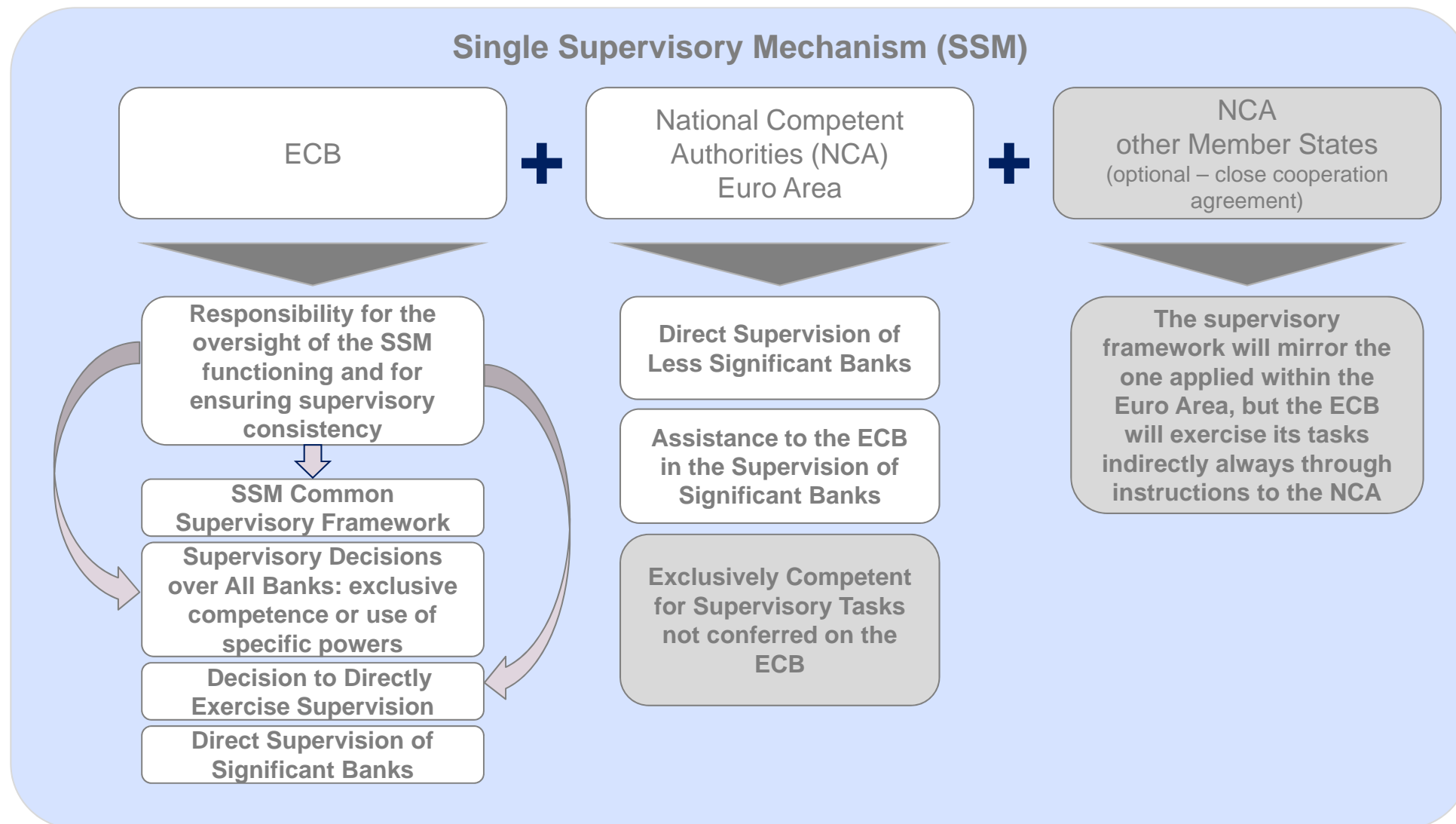


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The Single Supervisory Mechanism

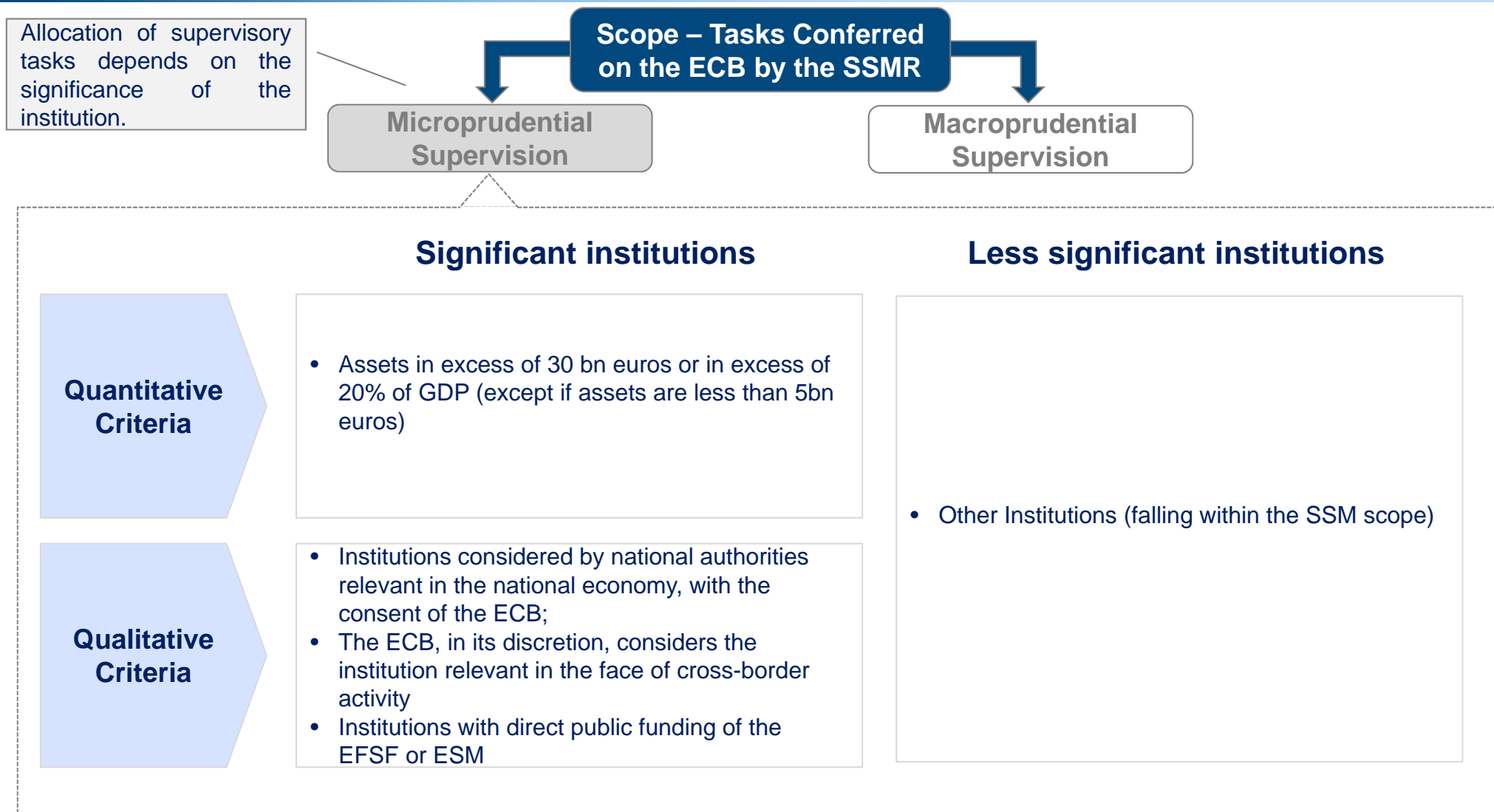


The Single Supervisory Mechanism in the context of the Banking Union

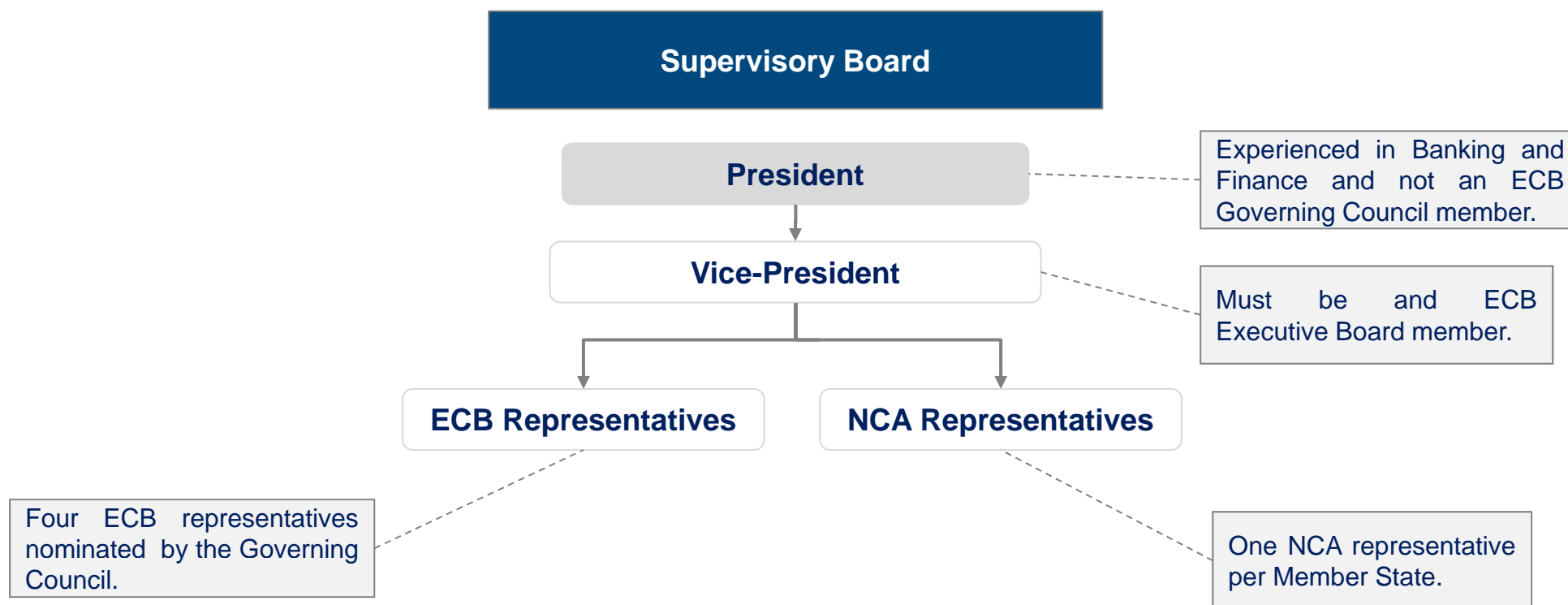




Single Supervisory Mechanism impacts for the Portuguese financial sector

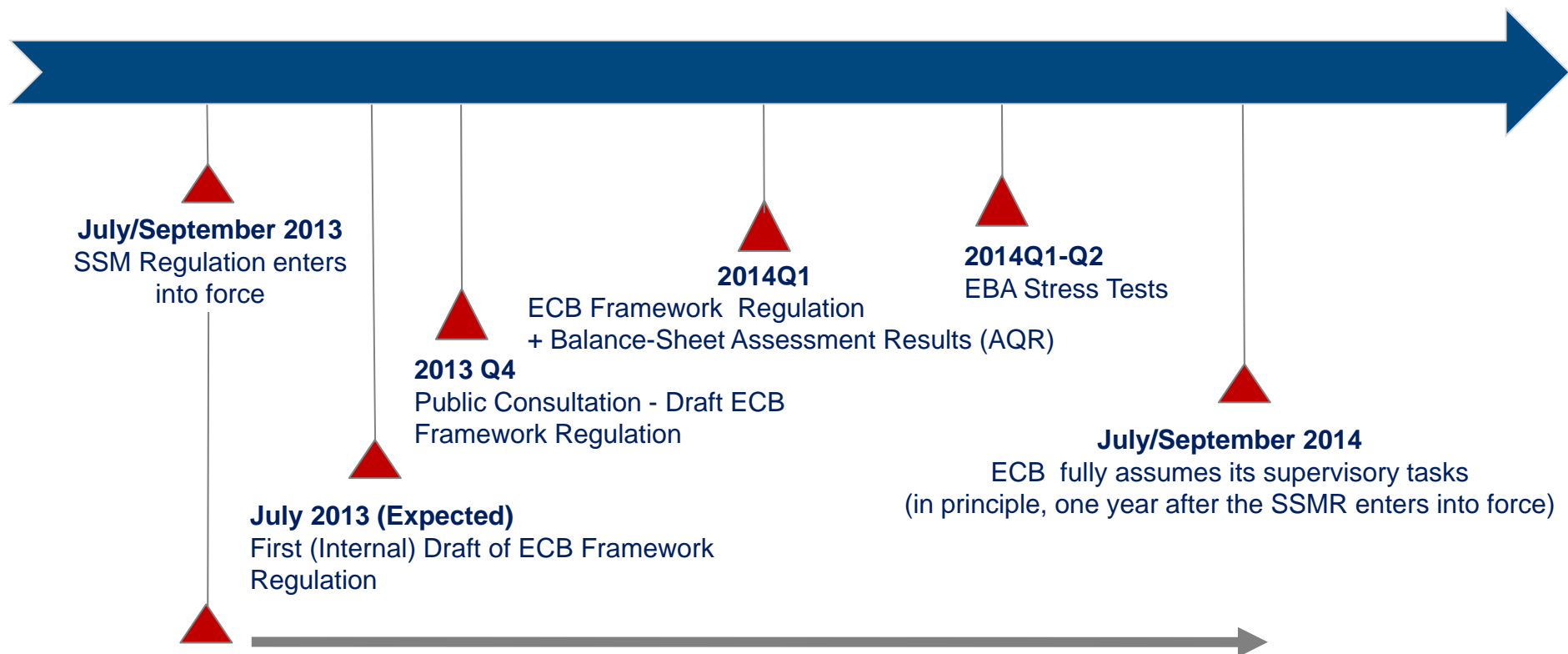


The Single Supervisory Mechanism Organization and Structure





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

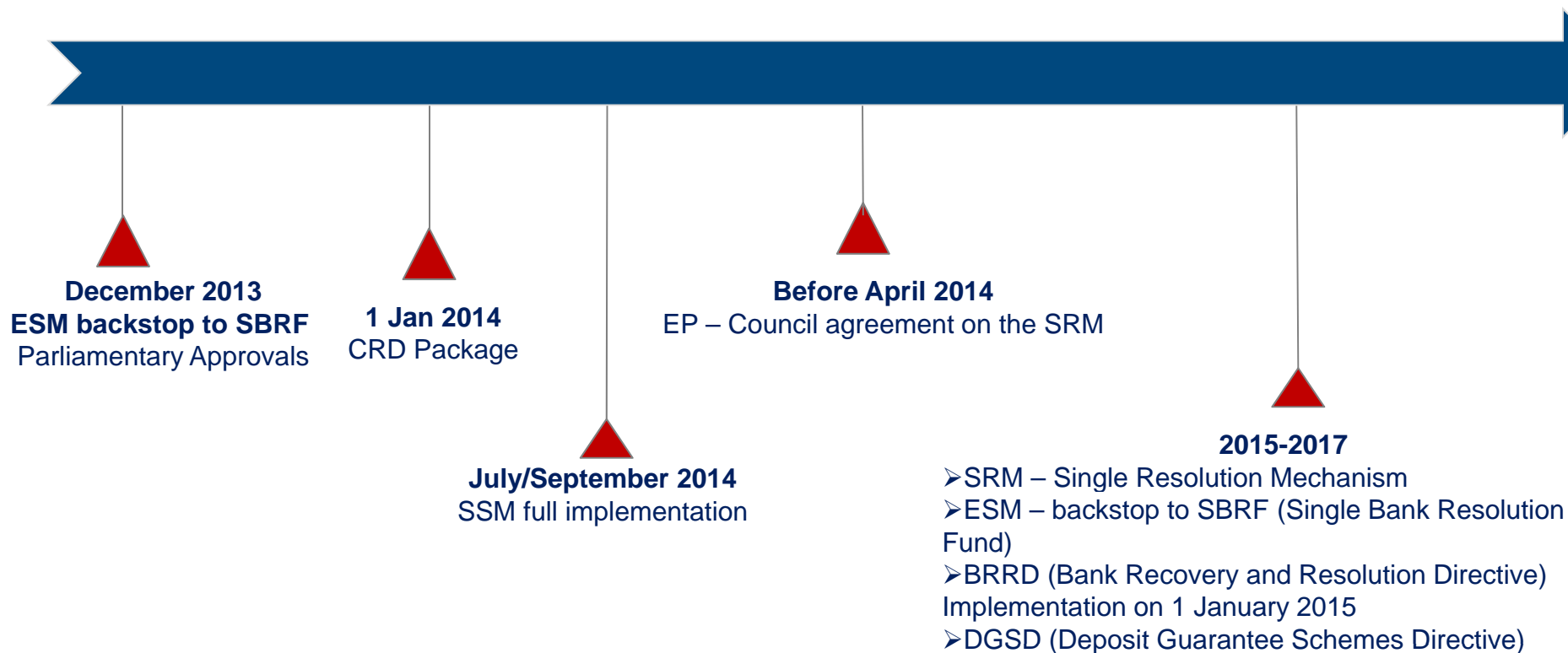


From this date onwards the ECB will be able to:

- 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



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





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Banking Supervision



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**



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