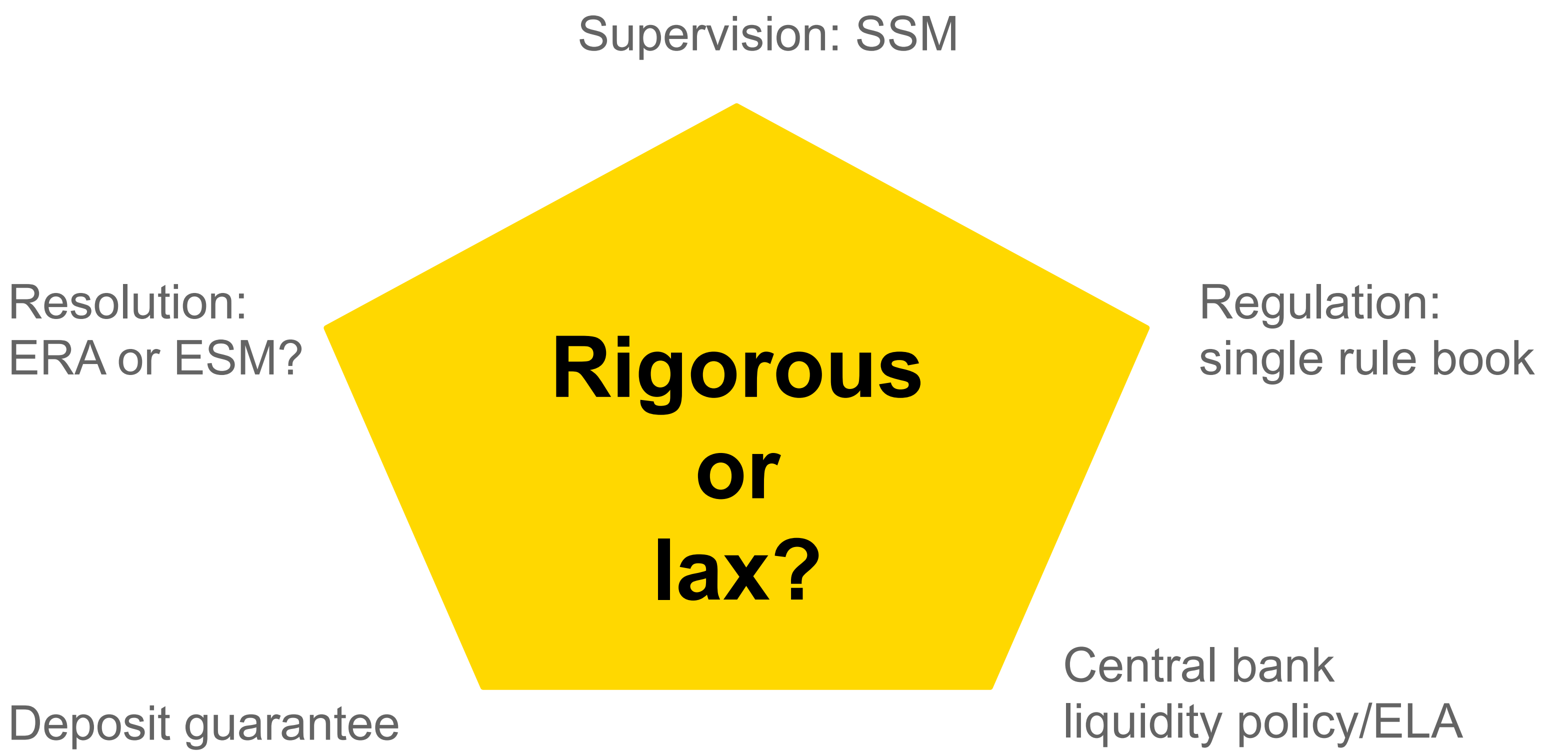
Banking Union:
Not a panacea, but a good idea if done well



Regulation will remain an EU matter

- Commission, Council and European Parliament will continue to make EU law via regulation and directives
  - CRD IV will implement Basel III within the EU and set minimum standards for capital and liquidity within global framework established by Basel Committee
- These acts will delegate certain matters to European Banking Authority (EBA) who will develop binding technical standards applicable across all Member States.
- Banking union will make adjustment to voting within EBA and will introduce (if approved by Parliament) a requirement for a “double majority” of (1) states within SSM and (2) states outside SSM
- But national initiatives (e.g. Vickers/ICB) with respect to banking structure are front-running EU decisions (on basis of Liikanen report) in this area, and US requirements with respect to foreign banking organisations will also shape environment in which EU banks must operate.

Single supervisory mechanism

- ECB shall have power to authorise banks and to remove such authorisation

  - removal of authorisation should initiate handover to resolution authority (see below)

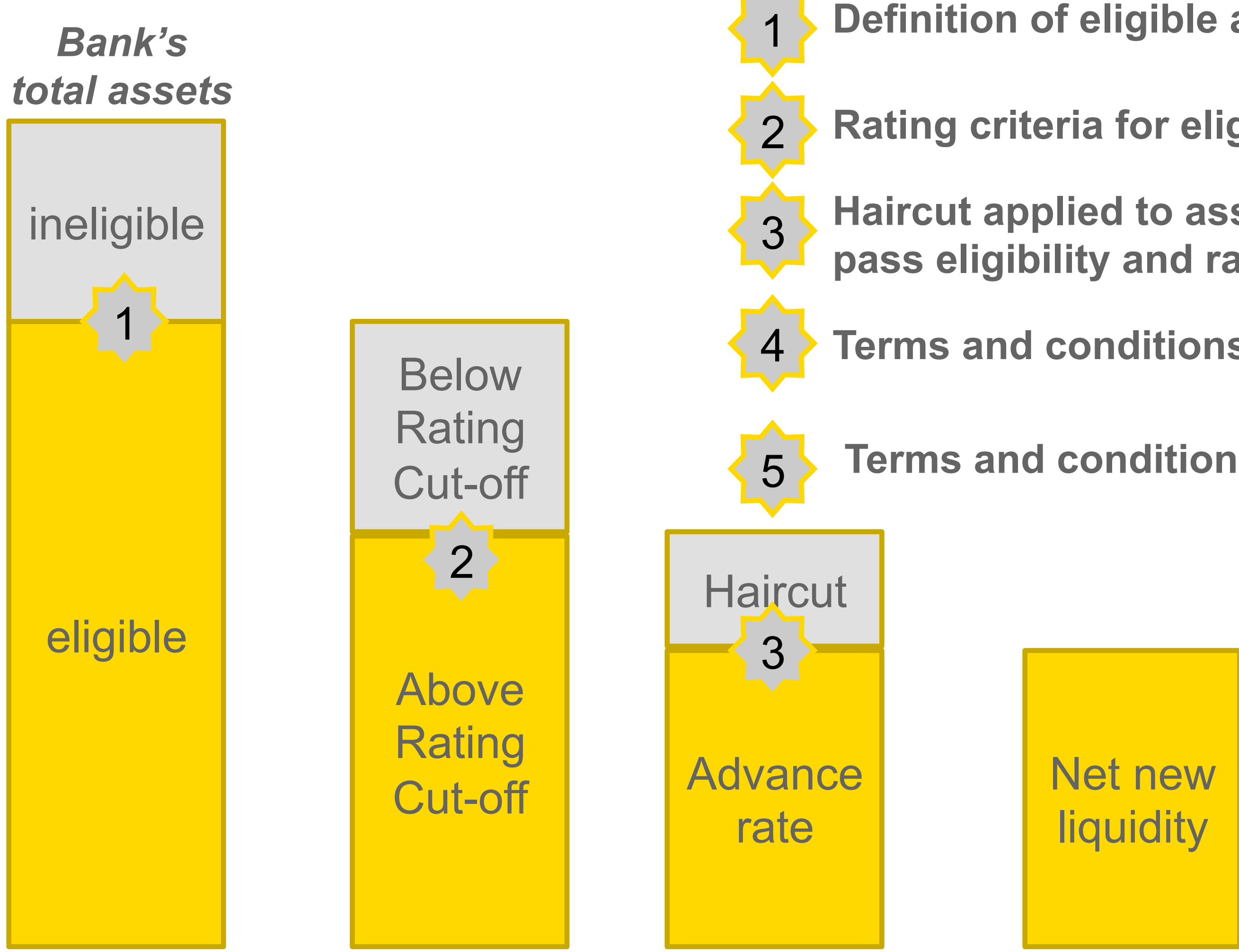
- ECB shall supervise Euro-zone banks' adherence to prudential regulation, via
- - writing supervisory handbook for use with all banks;
- - exercising direct supervision over all banks headquartered in a Euro-zone member state with assets greater than €30 billion or assets greater than 20% of a Member State's GDP
- **How will ECB exercise such supervision?**

  - will ECB take a pro-active approach to supervision?

  - can/will ECB restrict large exposures to governments; require banks to put government bonds into trading book (where they would be subject to capital requirements for interest rate risk)

- **- how will ECB interact with national supervisors?**

Central bank liquidity:
ECB has multiple levers to pull.
Can these be the basis for macro-prudential supervision?

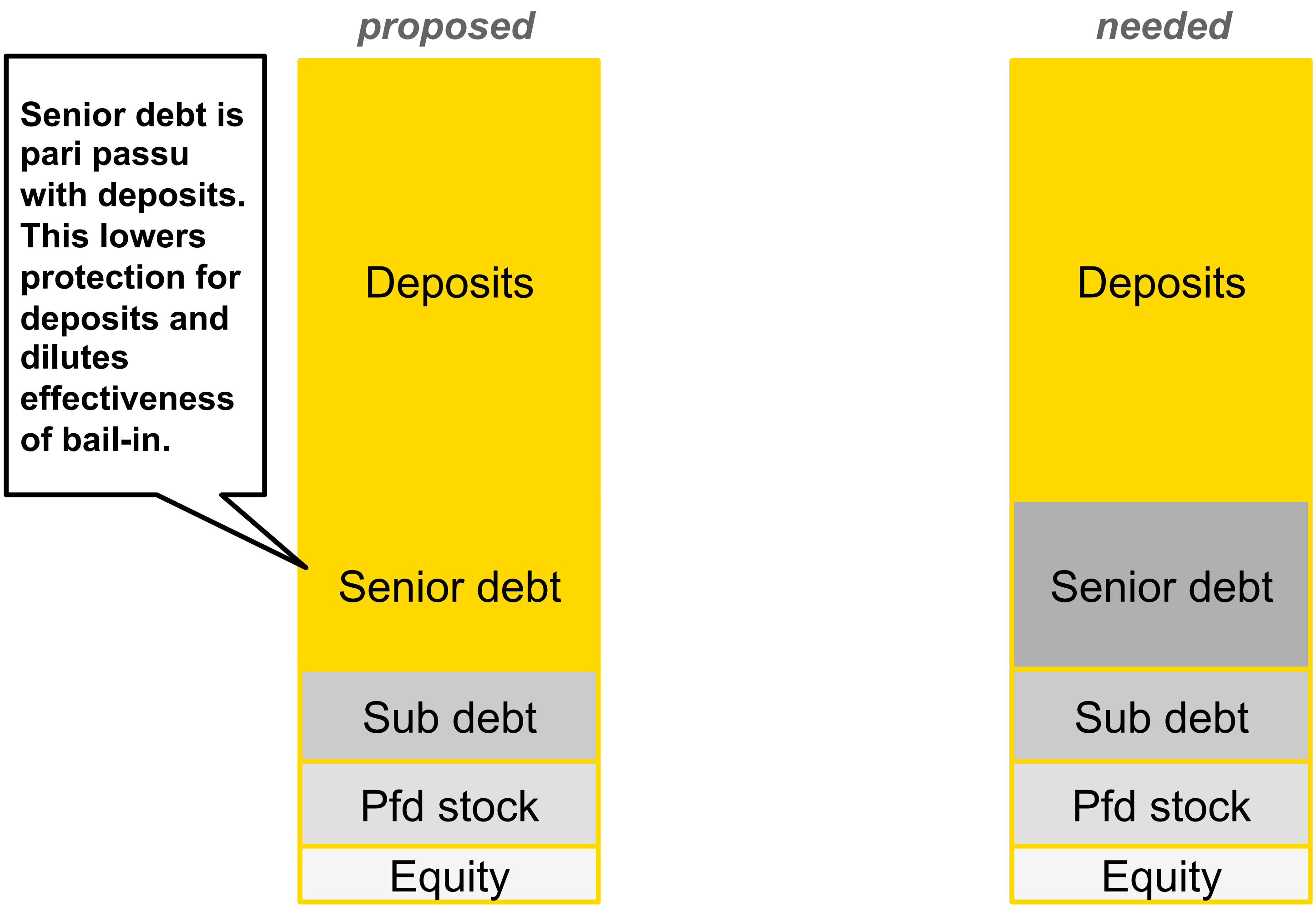


1. Definition of eligible assets
2. Rating criteria for eligible assets
3. Haircut applied to assets that pass eligibility and rating screens
4. Terms and conditions for OMO
5. Terms and conditions for ELA

Without credible resolution banking union will fail to achieve its objectives

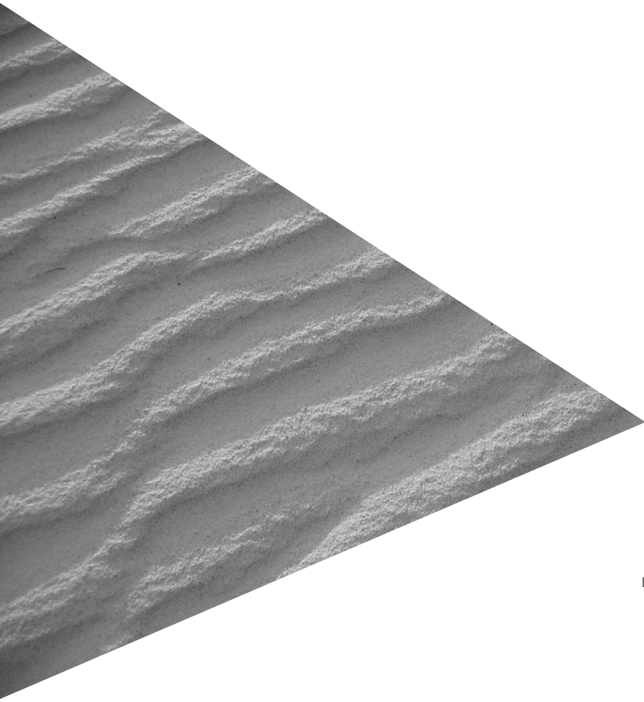
	Proposed	Needed
Basis for resolution	Harmonisation via directive of national resolution regimes with national resolution authorities mandated to cooperate with one another	Single resolution authority for Member States that are part of SSM
Trigger	Failure to meet threshold conditions as determined by supervisor	
Bail-in	Envisaged for all capital instruments plus long-term senior unsecured debt + possibility of bailing in deposit guarantee fund	Establish clearer order with respect to bail-in/require minimum amount of bail-in debt to be outstanding
Depositor preference	Not proposed	Should be included
Role of ESM	Source of recapitalisation of failed banks	Investor capital should be primary source of recap. ESM should backstop resolution fund
Provision of liquidity to bank in resolution	Unclear how this will happen	ECB needs to provide what amounts to DIP financing

Resolution matters



Deposit guarantee schemes:
Should single scheme be the capstone of banking union?

	Proposed	Needed
Basis	**Harmonisation via directive of national DGS with national schemes mandated to cooperate with/lend to one another**	**Single deposit guarantee scheme for Member States that are part of SSM**
Coverage	**€100,000 per depositor per insured bank**	
Funding	**Each DGS to build up fund equal to 1.5% of insured deposits via ex ante contributions with potential for additional ex post contributions**	**Single fund for SSM banks**
Exposure of DGS to loss	**Relatively high, given that deposits remain pari passu with senior debt.**	**Much lower if deposits are given preference**
Speed of payout	**Banks to take measures to facilitate rapid payout.**	
Provision of liquidity to DGS	**National basis**	**Should come from ECB or ESM**



Thank you