Crisis follow-up: Dual Process

- G-20 led: international & technocratic
  - FSB (central banks) in command
  - EU followed
- Further institutionalisation and centralisation in EU
  - More tasks for committees
  - ESAs (Delarosière), but too intergovernmental and limited means (single rule book)
  - Banking Union: SSM, SRM, (DGSs)

Financial re-regulation (in a nutshell)

item	before	now
Capital	Basel II/CRD (Solvency II)	Basel III/CRDIV: more and better quality capital (more than double)
OTC derivative markets	Bilateral, no EU rules	Central clearing (about 2/3rds in CCP, EMIR rules) and trading (MiFID II)
Rating agencies	‘freedom of speech’	Licence and supervision (CRA regulation)
Hedge funds	No EU rules	Licence and supervision (AIFMD)
Resolution	No EU rules	Resolution authority and fund, mandatory bail-in, single resolution authority (SRB)
Deposit protection schemes	Min level €20,000 (later €100,000)	Pre-funding (0.8% deposits) and quick pay-out

Characteristics

- Process led by **central banks in FSB**
- **Safety** at all costs (capital, bail-in, resolution fund, participation in CCPs)
  - Are we de-risking?
- More EU **regulations** (compared to directives), directly applicable
  - Unstoppable rulemaking process at level 2
  - ‘**Too small to comply**’
- More **centralisation** and intrusive supervision
  - ECB sets the tone
- But EU markets remain very national and **fragmented**

Not many really internationally active banking groups in SSM

Foreign subsidiaries		Foreign branches 0	1	2	3	4	5	5+	Total
	0	968	79	22	16	8	4	4	1,101
	1	40	16	12	3	2	2	3	78
	2	13	8	4	1	3	1	4	34
	3	5	3	1	3	3	2	2	19
	4	1	4	3	0	0	3	5	16
	5	0	1	0	1	0	3	0	5
	5+	3	0	5	1	2	3	7	21
	Total	1,030	111	47	25	18	18	25	1,274

86%

173 (14%)

62 (5%)

244 (19%)

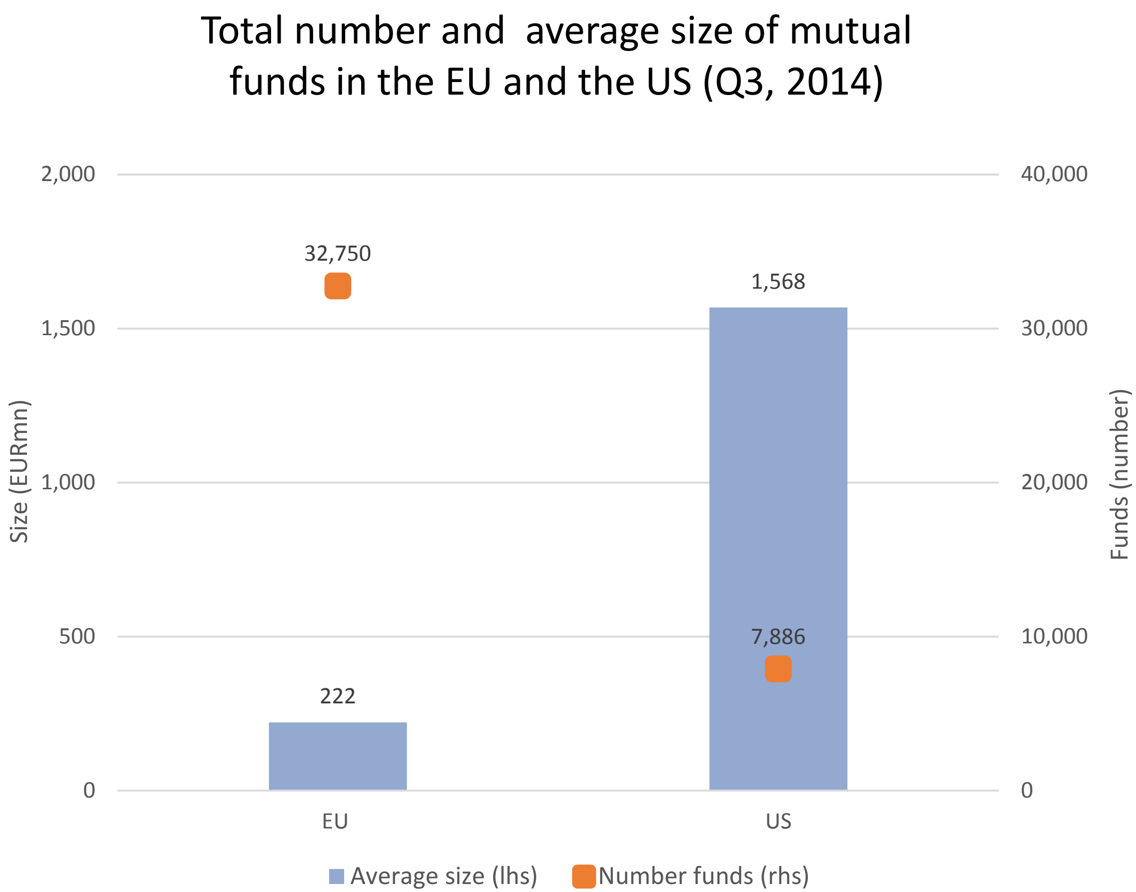
Subject to supervisory colleges

Note: The number of subsidiaries and EEA branches in the above table expresses the number of unique countries in which the banking group is active outside their EEA home market. When a banking group has a both branch and subsidiary in a single country it is presented as subsidiary in the table, since it is the strongest form of internationalisation.

Market integration like in 1999

The price-based FINTEC aggregates ten indicators covering the period from the first quarter of 1995 to the fourth quarter of 2014, and the quantity-based FINTEC aggregates five indicators available from the first quarter of 1999 to the third quarter of 2014. The FINTEC is bounded between zero (full fragmentation) and one (full integration). Increases in the FINTEC signal higher financial integration. For a detailed description of the FINTEC and its input data, see the Statistical Annex ECB integration report 2015.

EU vs US mutual fund market



TER 1.5% in EU, 1% in US

Supervisory structure remains complex

Type of bank	Area in which credit institution/branch is located				
	Euro area	Other EU		Other EEA	Third
	(SSM)	SSM	Non-SSM	(Non-SSM)	(Non-SSM)
Parent credit institution domiciled in SSM area					
Significant (Group)	ECB	ECB	..	..	..
- **Subsidiary**	ECB	ECB	NCA	NCA	NCA
- **Branch**	ECB	ECB	ECB	ECB	NCA
Less significant (Group)	NCA/ECB	NCA/ECB	..	..	..
- **Subsidiary**	NCA/ECB	NCA/ECB	NCA	NCA	NCA
- **Branch**	(F)NCA/ECB	(F)NCA/ECB	FNCA/ECB	FNCA/ECB	NCA
Parent credit institution domiciled in non-SSM EEA area					
Signif. & less-sign. (Group)	..	..	NCA	NCA	..
- **Subsidiary (Signif.)**	ECB	ECB	NCA	NCA	NCA
- **Subsidiary (Less-signif.)**	NCA/ECB	NCA/ECB	NCA	NCA	NCA
- **Branch**	FNCA	FNCA	(F)NCA	(F)NCA	FNCA
Parent credit institution domiciled in non-EEA area					
Signif. & less-signif. (Group)	..	..	..	..	NCA
- **Subsidiary (Signif.)**	ECB	ECB	NCA	NCA	NCA
- **Subsidiary (Less-signif.)**	NCA/ECB	NCA/ECB	NCA	NCA	NCA
- **Branch**	..	..	..	..	NCA

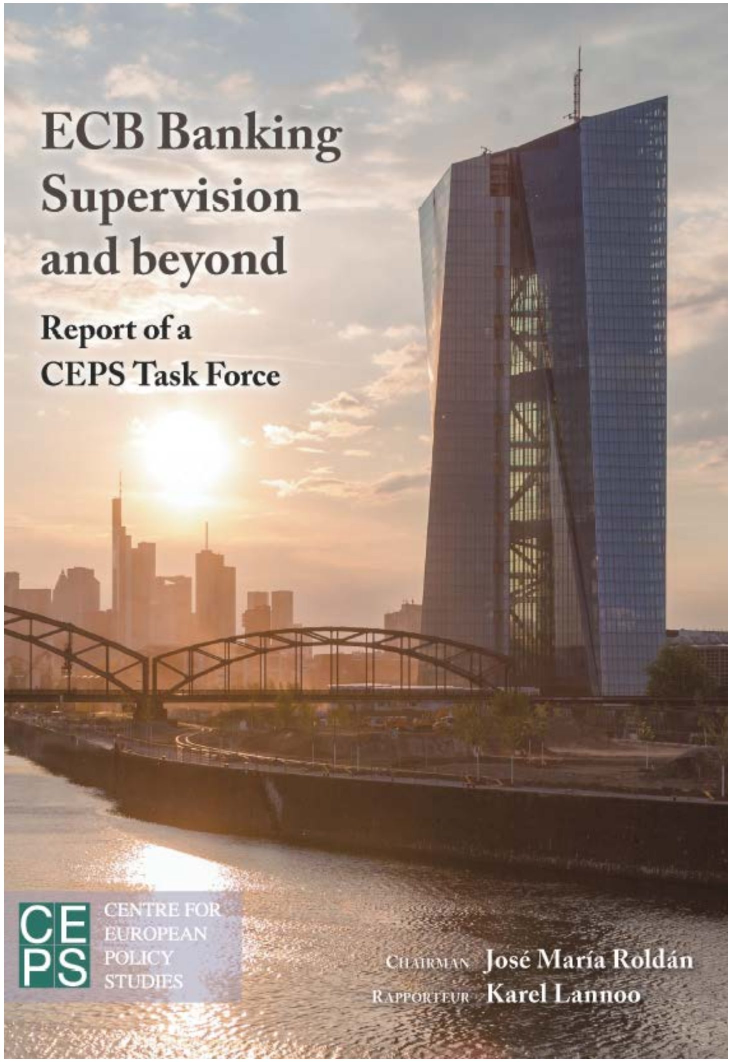
Note: Significant institutions are credit institutions that have more than €30 billion assets; represent more than 20% of GDP and at least €5 billion assets; are among three largest credit institutions in the member state; or have more than significant cross-border assets. The grey coloured parts indicate the areas in which the SSM contributed to a change in supervision. NCA = National Competent Authority; FNCA = Foreign National Competent Authority.

Layers of defence

	What minimum?	Before
Capital (risk-weighted)	8% Total capital ratio, 6% Tier 1	8% Total capital ratio, 4% Tier 1
Capital buffers (risk-weighted)	G-SIIs (up to +3.5% CET1)/ O-SIIs (up to +2% CET1) buffer Capital conservation (+2.5% CET1)/ Countercyclical (up to +2.5% CET1)/ Systemic risk buffer (>+1%)	Only in some member states
Leverage ratio	3% of total exposures	NA
Bail-in (and other resolution tools)	Minimum 8% of total liabilities and own funds	NA
Deposit guarantee schemes	0.8% of covered deposits (pre-funded)	Diversity, pre and post-funded
(Single) Resolution funds	1% of covered deposits (pre-funded)	NA
European Stability Mechanism	€55bn direct recap facility	NA

Weaknesses and queries

- ECB TBTF?
- Confusion of roles in ECB
  - See Greek situation today
  - Where is macro-pru? Who is in charge?
- Where does supervision end and resolution start
  - Will MREL become the benchmark?
  - How intrusive will SRB (and resolution bodies) be?
  - Will resolution and bail-in work?
- Continuing role of MS in CRDIV
- SSM for insurance and capital markets?
- Non-harmonisation of accounting (and taxation)



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