Impact of Supervisory Reform: Cooperation between centre and nationals?

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1. Banking Union: The idea + unfinished business

2. SSM: Supervision in practice
   - Joint Supervisory Teams
   - Consolidated approach vs ring fencing

3. SRM: Resolution – just started
   - Start with group resolution plans
   - Need for single entities?
Nationalism
“My country is my castle”
1. Diabolic loop: solvency of banks and nation states intertwined

2. Resolution (rescues and liquidations) of banks to Euro area level
   - Risk sharing

3. Then also supervision (ex ante) to Euro area level
   - Risk reduction
The Idea – An integrated framework

- Rule-Making
- Supervision
- Lender of Last Resort
- Deposit Insurance & Resolution

Categories:
- EC/EBA
- ECB
- EDIRA
- ESM
But some unfinished business

- **EC/EEBA**: largely done
- **ECB**: done
- **ECB**: still NCBs
- **EDIRA**: SRB, No EDIS yet
- **ESM**: direct recap?
Supervision in practice

- **Joint supervisory teams**
  - Headed by non-national
  - Cooperation ECB and national supervisors
  - Made a good start

- **Experience so far: ups and downs**
  - ↑ Spreading of best practices
  - ↑ More business like: less capture
  - ↓ Transition: ECB, national supervisors and banks have to get to know each other + to understand what to expect
  - ↓ Huge data requests, but ECB will not be able to process all data it receives
Consolidation vs ring fencing

- **Consolidated approach**
  - The group as a whole is relevant (banking groups fail)
  - Consolidated supervision looking at overall health
  - All depositors treated equally
  - Assumes trust between centre and nationals within SSM

- **Ring fencing**
  - Still evidence of ring fencing measures (local liquidity and capital controls + intragroup limits)
  - National supervision of single entities
  - Assumes that a single entity can fail, but not the group?
Resolution

- **SRB starts with group resolution plans**
  - Good idea, that is the most relevant resolution plan

- **Need for single entity resolution plans?**
  - Yes, if banking group is run as a string of stand-alone subs
  - No, if group is run as an integrated bank
  - Can we strike a deal - only group resolution plan?
    - Banking group ensures equal treatment across Banking Union
    - It would save a lot of work for supervisors at SSM, resolution people at SRB and regulatory units at banks (and save fees for consultants)
    - And reinforce free cross-border flows: Single Market in Banking!
Thank you!

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