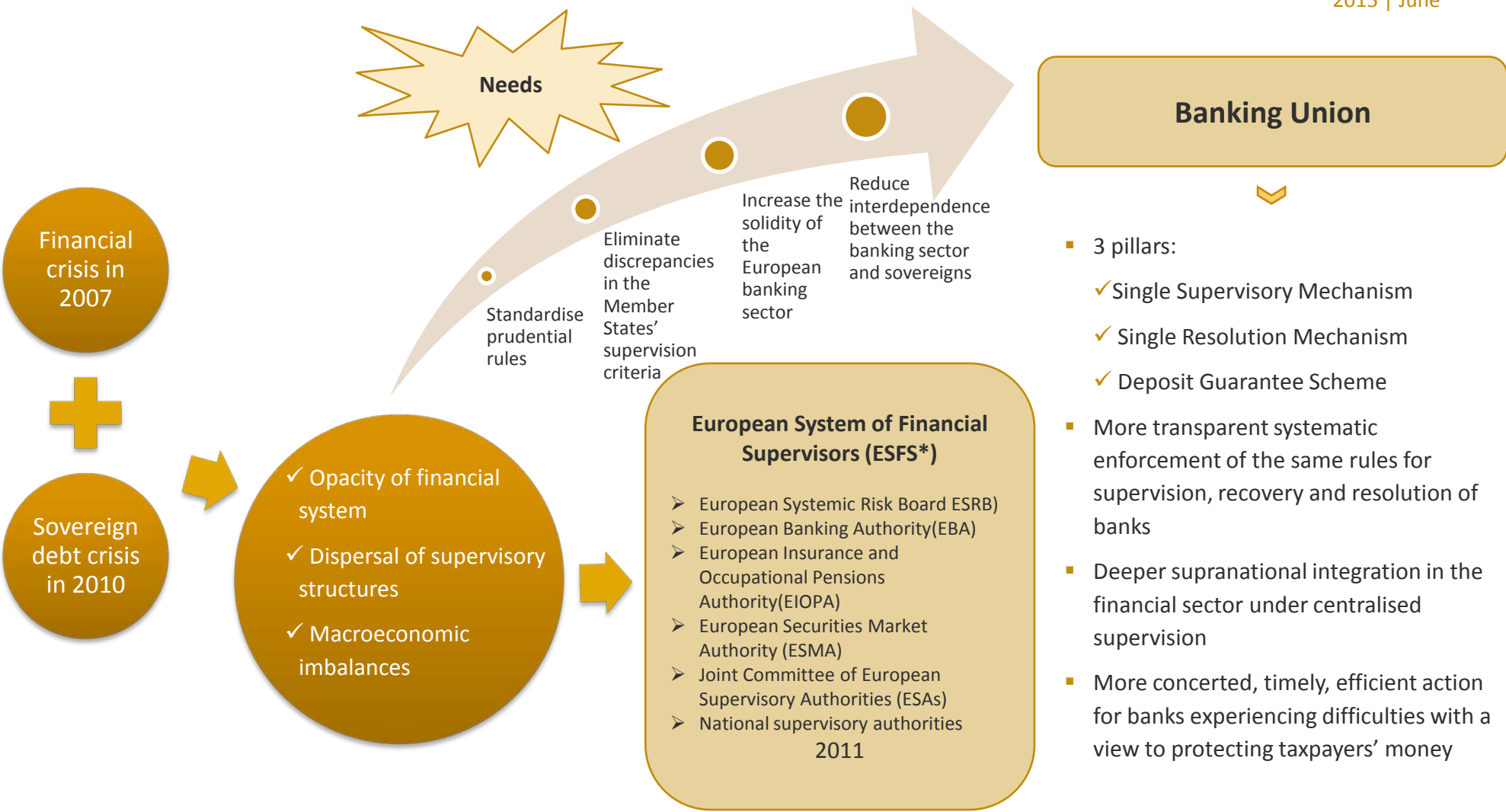


BANKING UNION

The new framework of supervision
and regulation

Agenda

- I. Banking Union
- II. Single Supervisory Mechanism (SSM)
- III. Single Resolution Mechanism (SRM)
- IV. Deposit Guarantee Schemes (DGS)
- V. Challenges for the European Financial System



European System of Financial Supervisors (ESFS)

Micro-prudential and behavioural supervision

European Supervisory Authorities (ESAs)



Joint Committee of
ESAs

National supervisory authorities

Macro-prudential supervision

European Systemic Risk Committee

- ECB
- National central banks
- European Supervisory Authorities (ESAs)
- European Commission

National supervisory authorities

President of the Economic and Financial
Committee

Banking Union

Single Supervisory Mechanism (SSM)

- Consisting of the ECB and national competent authorities (NCAs)
- Directly and indirectly supervises around 3,600 banks
- Classifies credit institutions as significant or insignificant. The former are under the direct supervision of the ECB, and the latter under the direct supervision of the NCAs
- Its bank supervision is effective and intrusive in order to guarantee stability, soundness and protection of the banking sector
- HQ in Frankfurt

Single Resolution Mechanism (SRM)

- Handles the centralised, organised, coordinated management of the resolution of credit institutions and mitigates the risks to the stability of the financial systems of the Banking Union Members States
- Reduces interdependence between the banking sector and sovereigns
- Creates a supranational mechanism for funding resolution
- HQ in Brussels

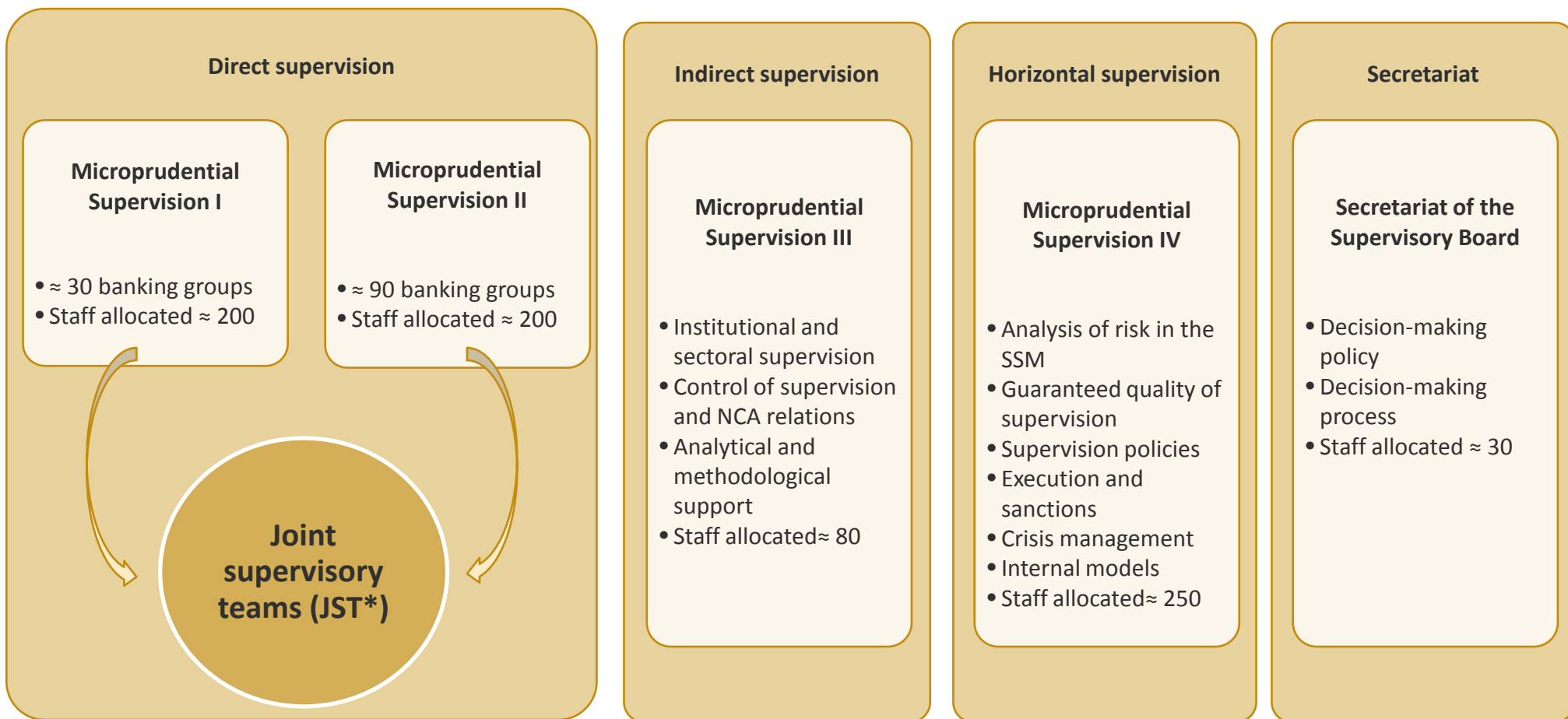
Deposit Guarantee Scheme (DGS)

- Protects depositors from the effects of the insolvency of a credit institution
- The publication of the DGS Directive in 1994 and the revisions that followed as were designed to harmonise national frameworks for deposit guarantee schemes
- In the 2014 revision, the Directive enshrined the role of assisting the DGS to the funding of resolution of credit institutions
- The plan to create a common European deposit guarantee scheme has no implementation date as yet

Single Rulebook

SSM Supervisory Manual

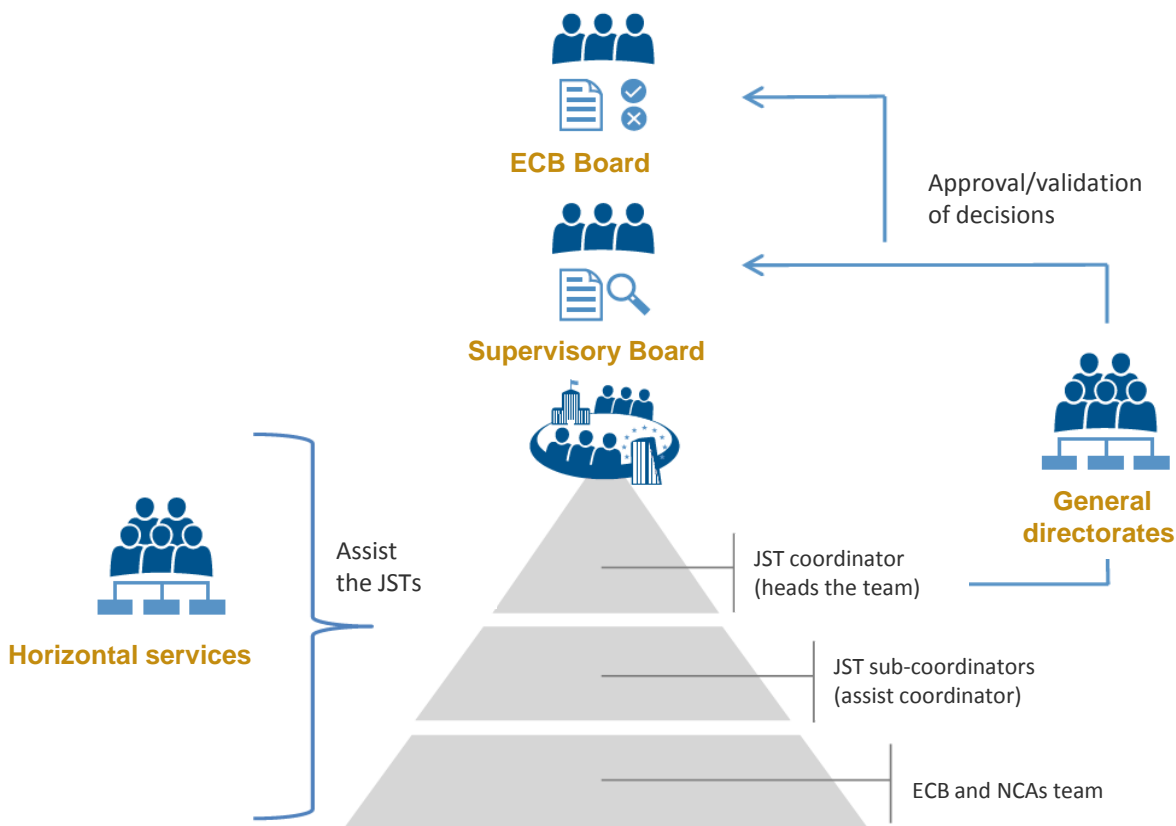
Organisational structure: 4 general directorates and 1 back office



Source: ECB

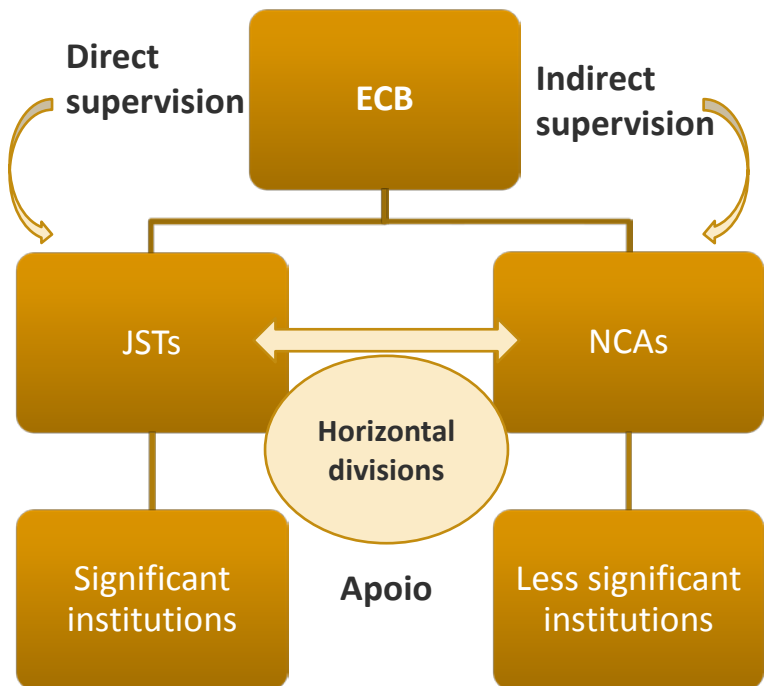
Direct supervision : joint supervisory teams

- A JST is set up for each significant banking group
 - ✓ Each JST includes members of the ECB and NCAs (not only from the group's country but also from other Member States)
 - ✓ It is headed by an ECB coordinator
 - ✓ The size of each JST depends on the nature, complexity, scale, risk profile and business model of the institution in question
- They exercise permanent supervision of significant banking groups
- They implement decisions of the Supervisory Board and the ECB Board related to their remit
- They develop and implement a supervision plan for each significant credit institution



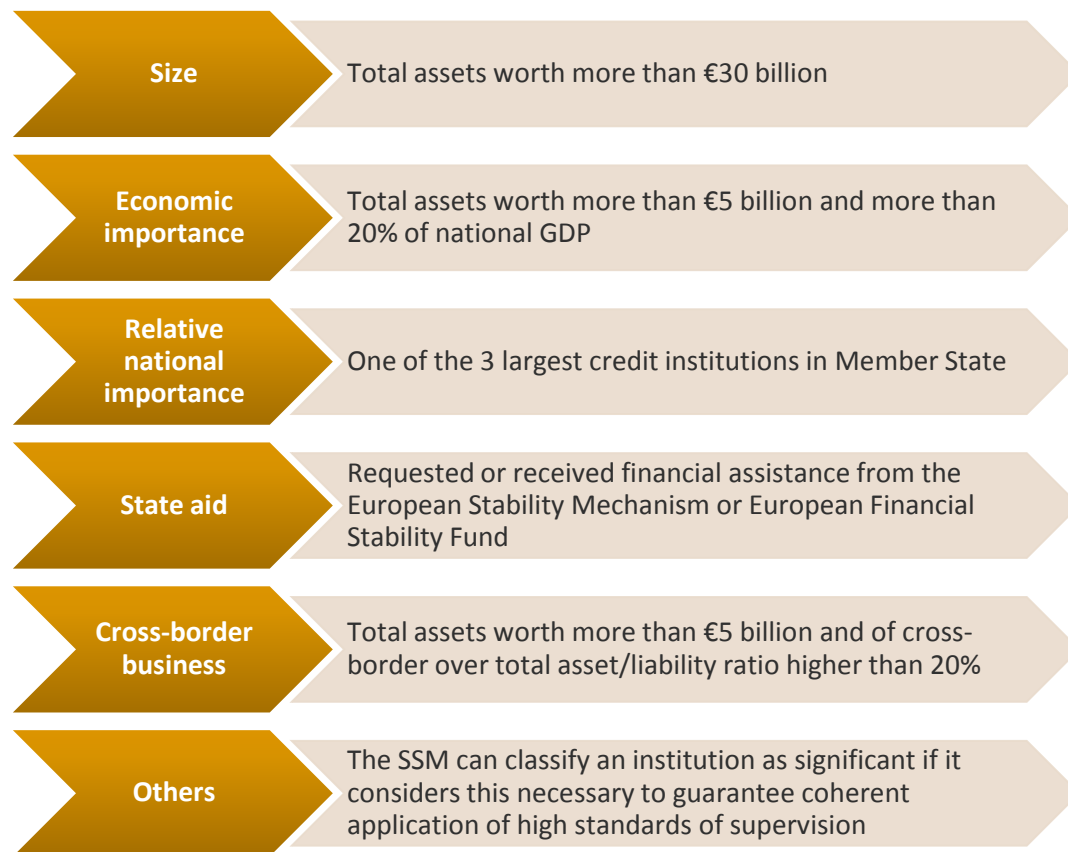
Source: ECB

I. Sharing competences in the SSM



Source: ECB

II. Criteria for determining significant status



2013

- Preparation of the Comprehensive Assessment
- Creation of SSM Regulation and SSM Framework Regulation
- Initial draft of the Supervision Manual
- Formation of committees and working groups made up of NCAs members
- Design of organisational structure, supervisory model and information reporting model

2014

- Classification of significant (120) and less significant institutions
- Appointment of President, Vice-president and Directors-General; recruitment of experts for SSM
- Formation of JSTs and their first meetings with banking groups and NCAs
- Preparation of capital and liquidity decisions in SREP (Supervisory Review and Evaluation Process)
- Comprehensive Assessment; Development of additional regulations, methods and processes

2015

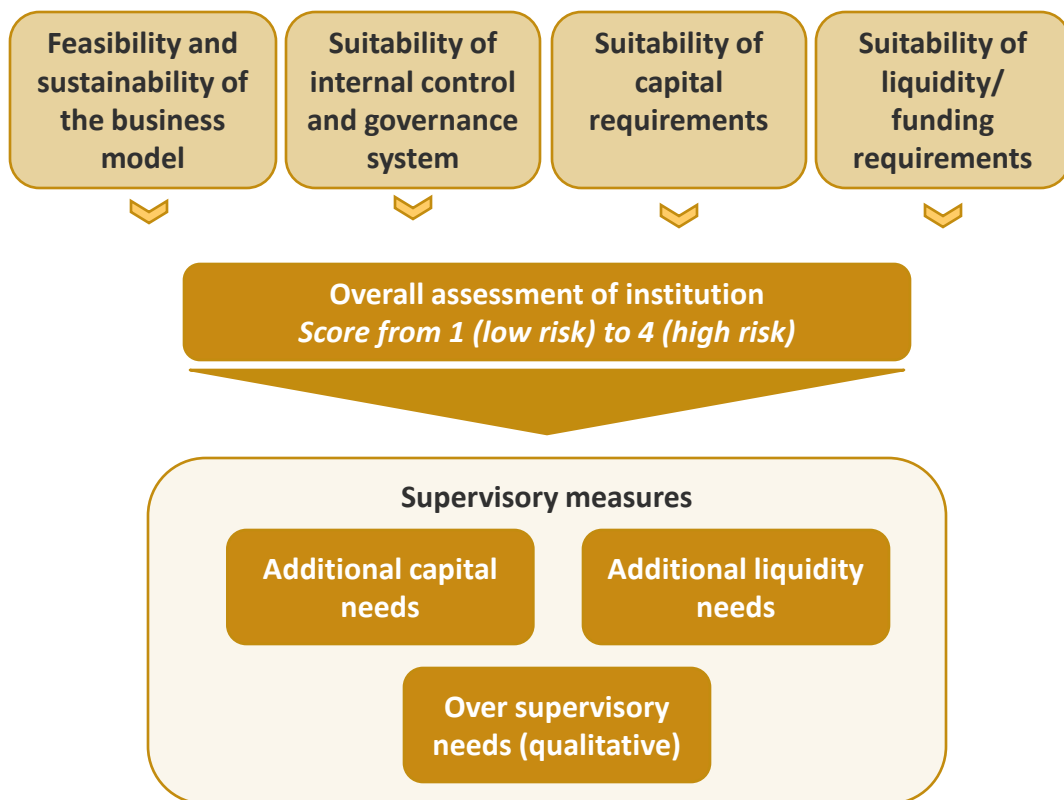
- Publication of the EBA Guidelines for the SREP and consequent implementation of the Short-Term-Exercise for the 120 banks directly supervised in 2015 and 2016
- Formation of a working group to review national options and discretions
- Design and start of indirect supervision



Detail next 3 pages

Supervisory Review and Evaluation Process (SREP)

I. Methodology



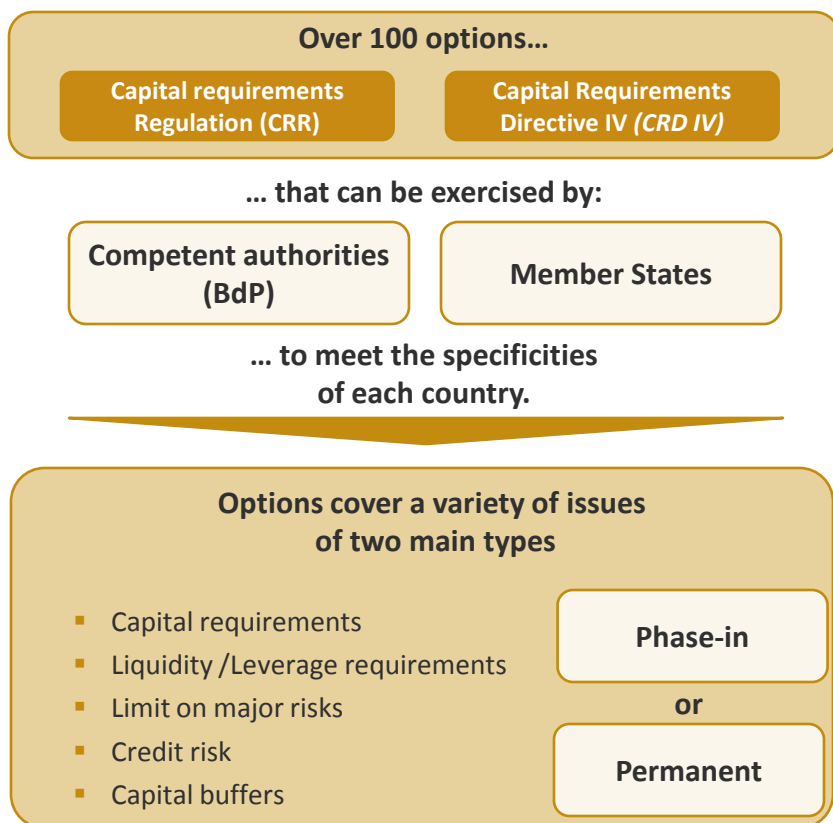
II. Implementation

- 2015/2016: around 120 directly supervised banking groups
- Information gathering (DG IV)
 - ✓ Reports from ICAAP and ILAAP (annual)*
 - ✓ Short-Term-Exercise: quarterly templates of quantitative data (credit, operating, market risks, interest rate, sovereign, liquidity and concentration risks and profitability projection chart)
- Calculation of score for each block (DG IV)
- Capital and liquidity assessment (JSTs):
 - ✓ Regulatory capital and liquidity (CRR/ CRDIV)
 - ✓ Challenge of banks' internal capital and liquidity estimates (ICAAP, ILAAP, peer groups)
 - ✓ Forward looking / stress testing analysis
- Final decision on supervisory measures

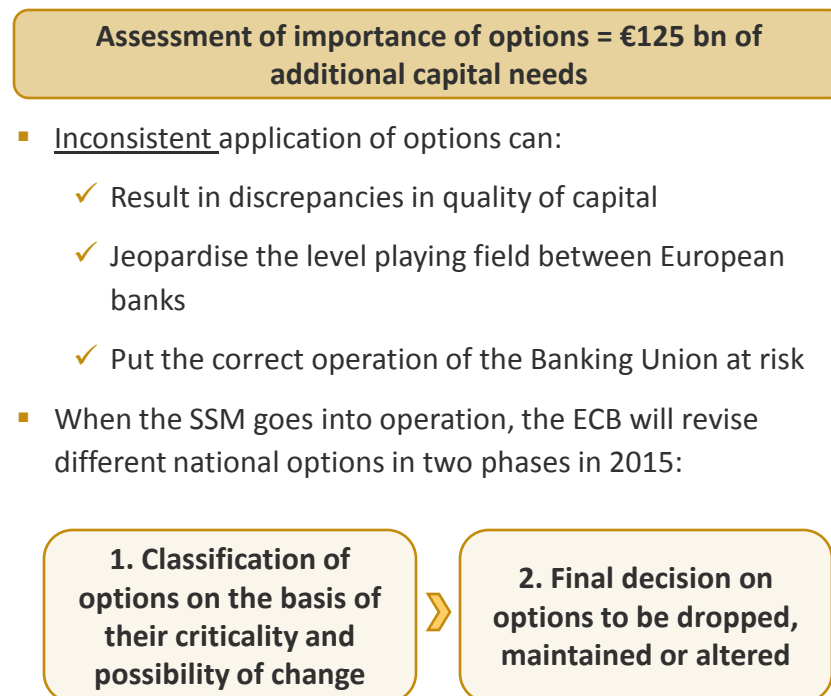
(*) ICAAP - Internal Capital Adequacy Assessment Process;
ILAAP - Internal Liquidity Adequacy Assessment Process

National options and discretion

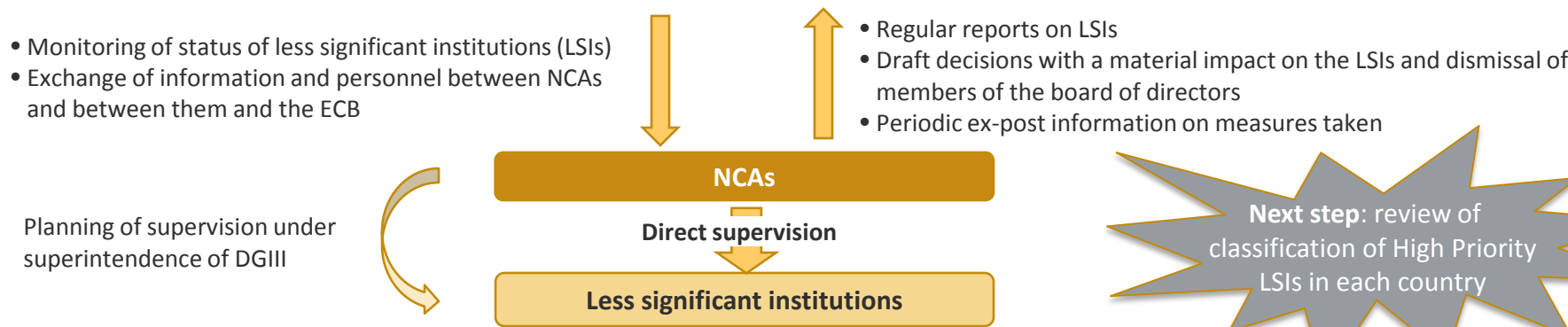
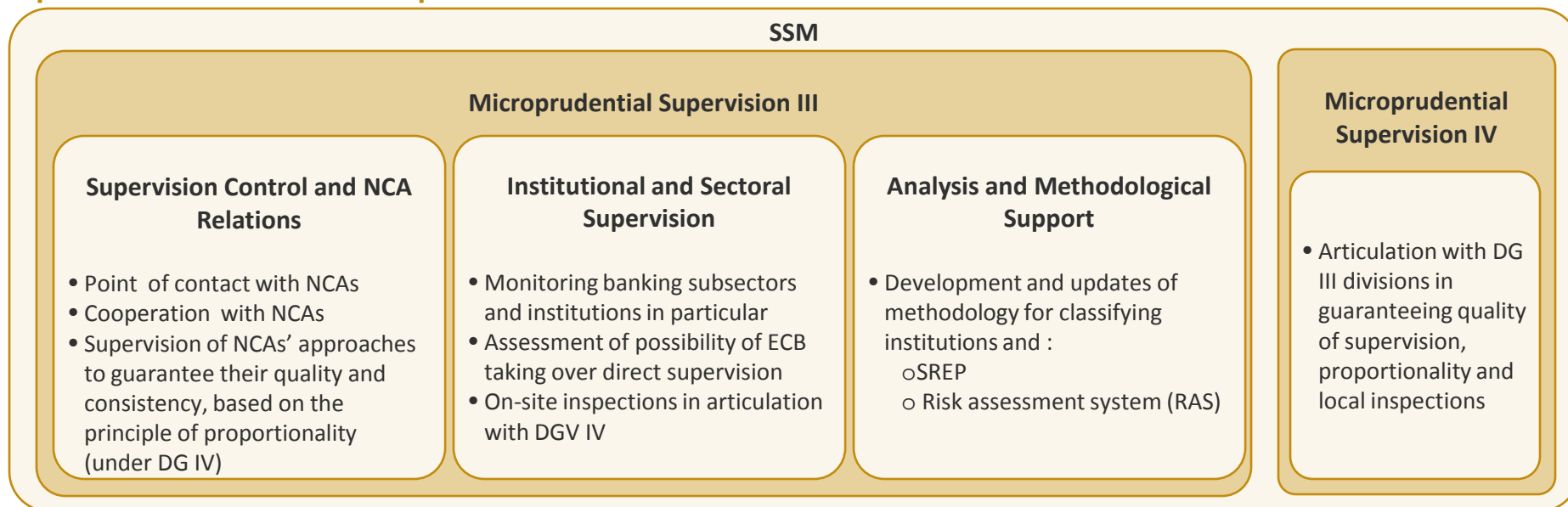
I. Framework



II. ECB action



Implementation of indirect supervision



Next step: review of classification of High Priority LSIs in each country

Goals of Single Resolution Mechanism

- ✓ To harmonise resolution processes for credit institution within the Banking Union
- ✓ To create a mechanism for funding supranational resolution
- ✓ To guarantee that supervision and resolution are exercised at the same level
- ✓ To align interests and ensure the sharing of losses in the resolution of banking groups that do cross-border business
- ✓ To foster impartiality in decision processes and limit the risks of possible indulgence by local supervisors
- ✓ To give preference to cross-border solutions rather than strictly national ones
- ✓ To reduce interdependence between the banking sector and sovereigns

Purpose of resolution measures

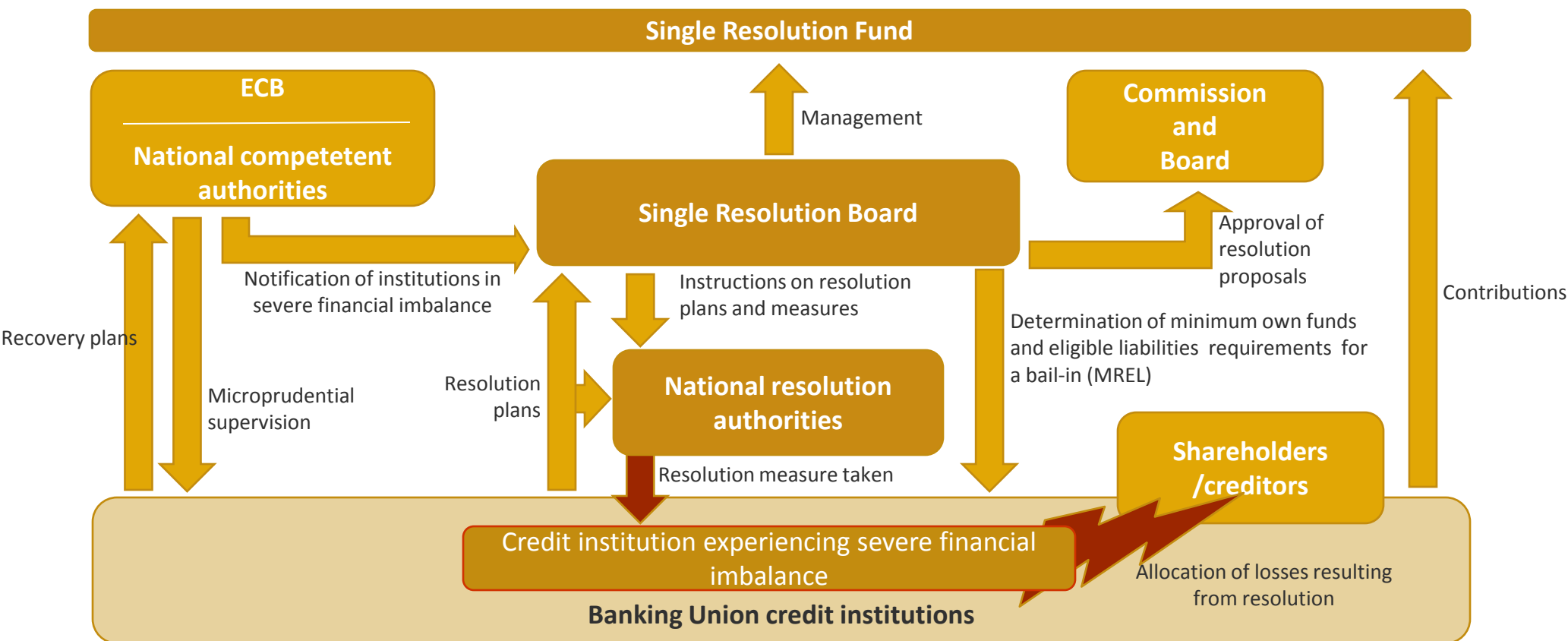
- ✓ To ensure the continuity of financial services essential to the economy
- ✓ To prevent serious effects on financial stability
- ✓ To safeguard the interests of taxpayers and the exchequer and minimise use of extraordinary public financial support
- ✓ To protect depositors whose deposits are guaranteed by deposit guarantee systems
- ✓ To protect funds and assets held by credit institutions on behalf of their customers

Main guidelines in resolution

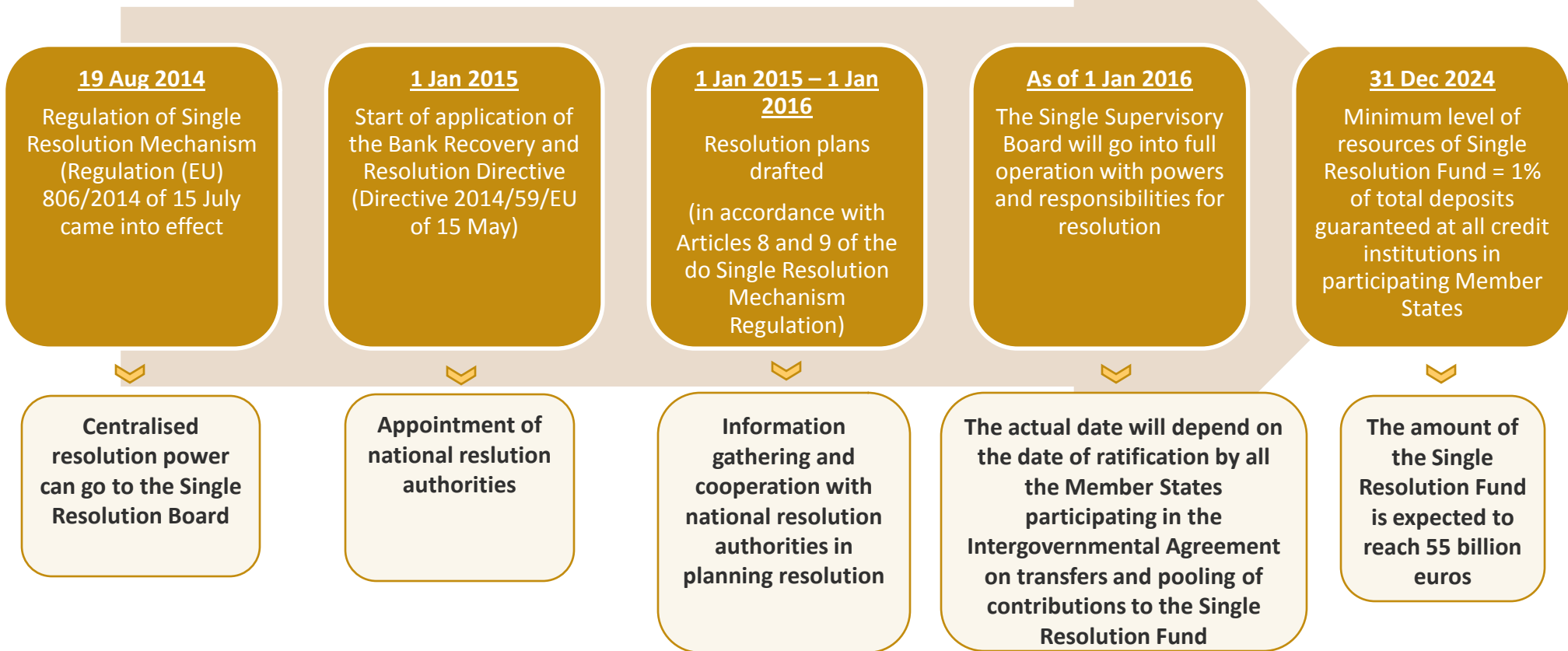
- ✓ The shareholders of the credit institution being resolved bear the main losses of the institution
- ✓ Its creditors then bear the institution's losses on an equal footing on the basis of a scale of their credits
- ✓ No shareholder or creditor can bear a loss more than s/he would bear if the institution went into liquidation (non-creditor worse-off)
- ✓ Depositors bear no losses on deposits guaranteed by deposit guarantee systems

How the Single Resolution Mechanism works

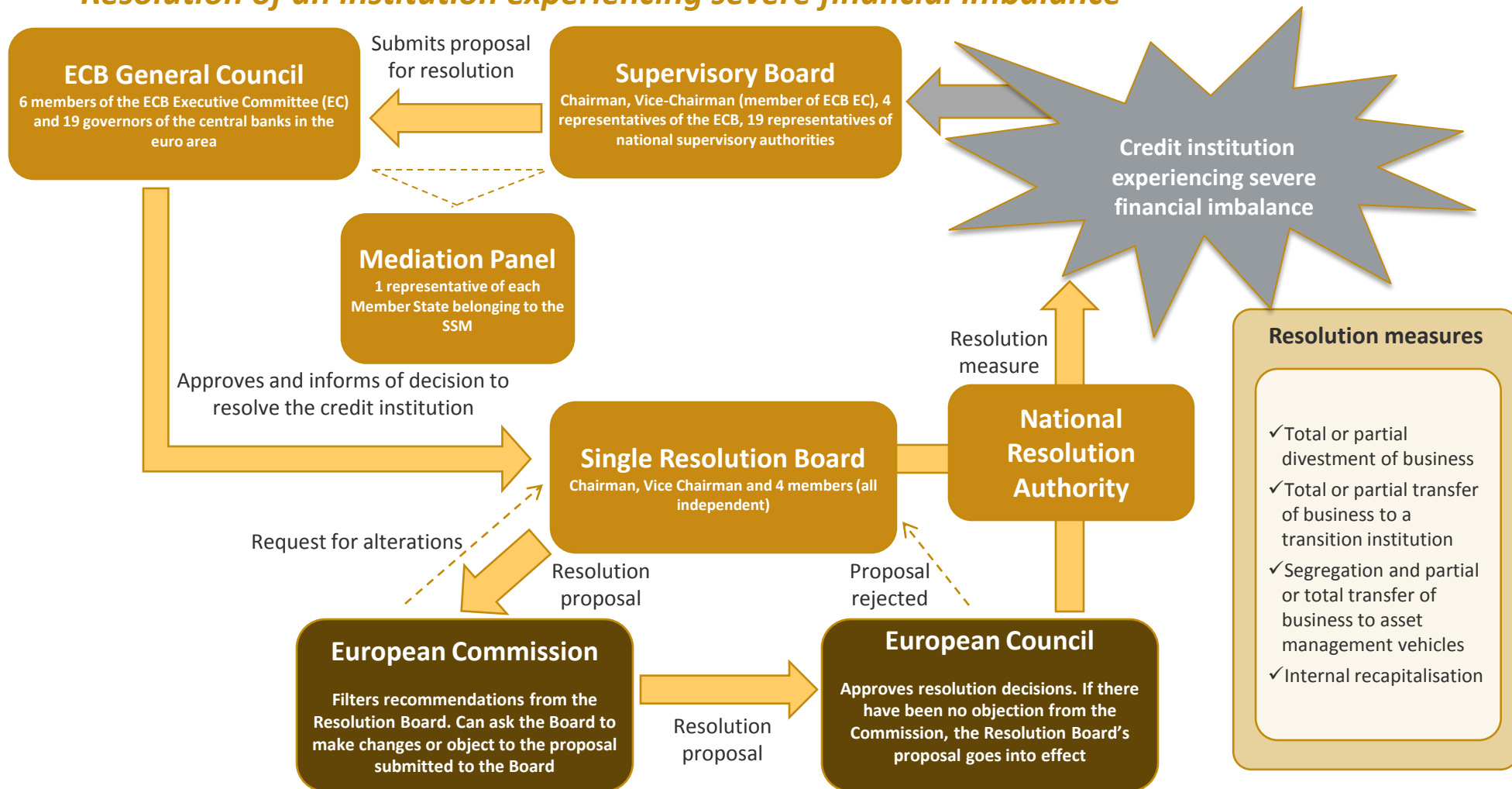
"The Single Resolution Board has been created to respond to the Eurozone crisis and establishes the second pillar of the Banking Union. By avoiding bail-outs and worst-case scenarios, the SRB will put the banking sector on a sounder footing - only then, can we achieve economic growth and stability" - Elke König, Chair of the Single Resolution Board



Timeline for implementing the main measures in the Single Resolution Mechanism



Resolution of an institution experiencing severe financial imbalance



Directive 94/19/EC

- Ensures protection of depositors throughout the European Union and obliges the Member States to introduce at least one deposit guarantee system
- Sets the minimum level of protection at 20,000 euros per depositor and per institution
- Establishes obligations of information by credit institutions to customers on deposit protection rules

Directive 2009/14/EC

- Amends the previous Directive
- Increases minimum protection to 50,000 euros and then to 100,000 as of 31 December
- Reduces deposit repayment time to a maximum of 20 business days
- Steps up obligation to inform and credit institutions must now inform customers if a financial instrument is not covered by the guarantee fund

Directive 2014/49/UE

- Amends Directive 94/19/EC
- Establishes a harmonised level of coverage of 100,000 euros, regardless of the Member State's currency
- Reduces the repayment time to 7 business days
- Harmonises DGS funding methods
- Fixes a minimum target of DGS financial resources at 0.8% of guaranteed deposits, which must be reached by 31 December 2024
- DGS now play a role of providing assistance in funding the resolution of banks

Funding of deposit guarantee systems

**Ex-ante contributions
(initial and periodic*)**

If these prove insufficient...



Special contributions



**Loans from guarantee systems
of other EU Member States**
(maximum 5 years)



**Loan from country's central
bank and government** (in latter
case can be guarantees)

* By decision of the national guarantee system, payment of up to 30% of annual contributions can be replaced by irrevocable commitments to pay (collateralised by blue chip securities)

Sources:

- Website of Banco de Portugal - <https://www.bportugal.pt/>
- Website of the European Banking Authority - <http://www.eba.europa.eu/>
- Website of the European Commission - <http://ec.europa.eu/>
- Website of the European Central Bank - <https://www.ecb.europa.eu/>
- Website of the Single Supervision Mechanism (SSM) - <https://www.bankingsupervision.europa.eu/>
- Website of the Single Resolution Board (SRB) - <http://srb.europa.eu/>
- 2014 Annual ECB Report on supervision, March 2015
- Law 23-A/2015 of 27 March (transposing Directives 2014/59/EU - BRRD and 2014/49/EU - DGS)
- Decree-Law 157/2014 of 24 October (transposing Directive 2013/36/EU - CRD IV) and Regulation (EU) 575/2013 of the European Parliament and of the Council (CRR)
- Regulation (EU) 1024/2013 of the European Parliament and of the Council conferring specific tasks on the ECB concerning prudential supervision of credit institutions
- Regulation (EU) 806/2014 of the European Parliament and of the Council establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms within the framework of a Single Resolution Mechanism and a Single Bank Resolution Fund
- The Deposit Guarantee Scheme Directives (Directives 94/19/EC, 2009/14/EC and 2014/49/EU)
- EBA Guidelines on the Supervisory Review and Evaluation Process (SREP), December 2014
- Fifth Report of the Joint Committee of ESAs on the Risks and Vulnerabilities of the European Financial System, May 2015
- Survey de 2014 do Centre for the Study of Financial Innovation (CSFI) – Banking Banana Skins, April 2014