



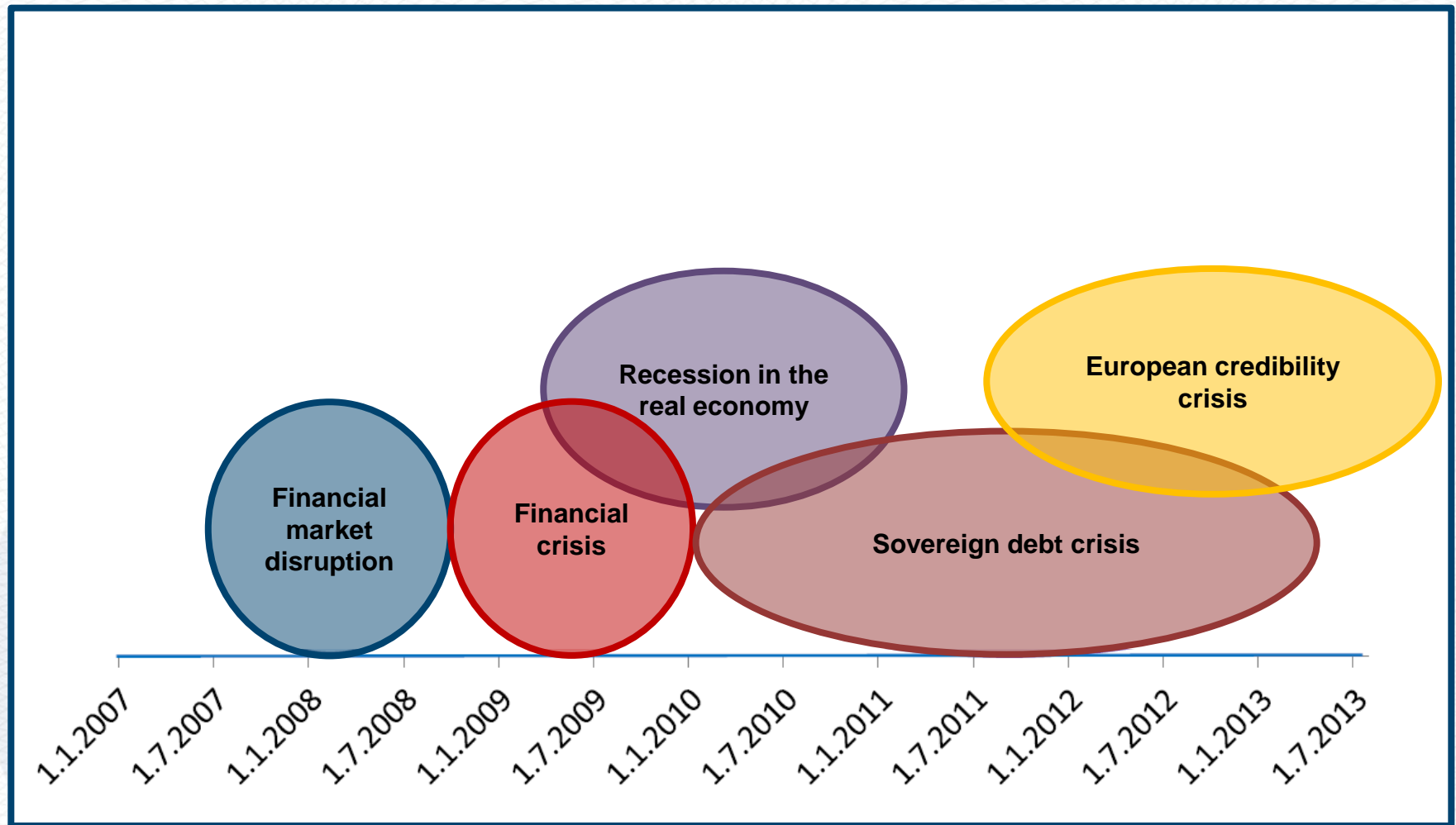
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Banking supervision on single supervisory mechanism

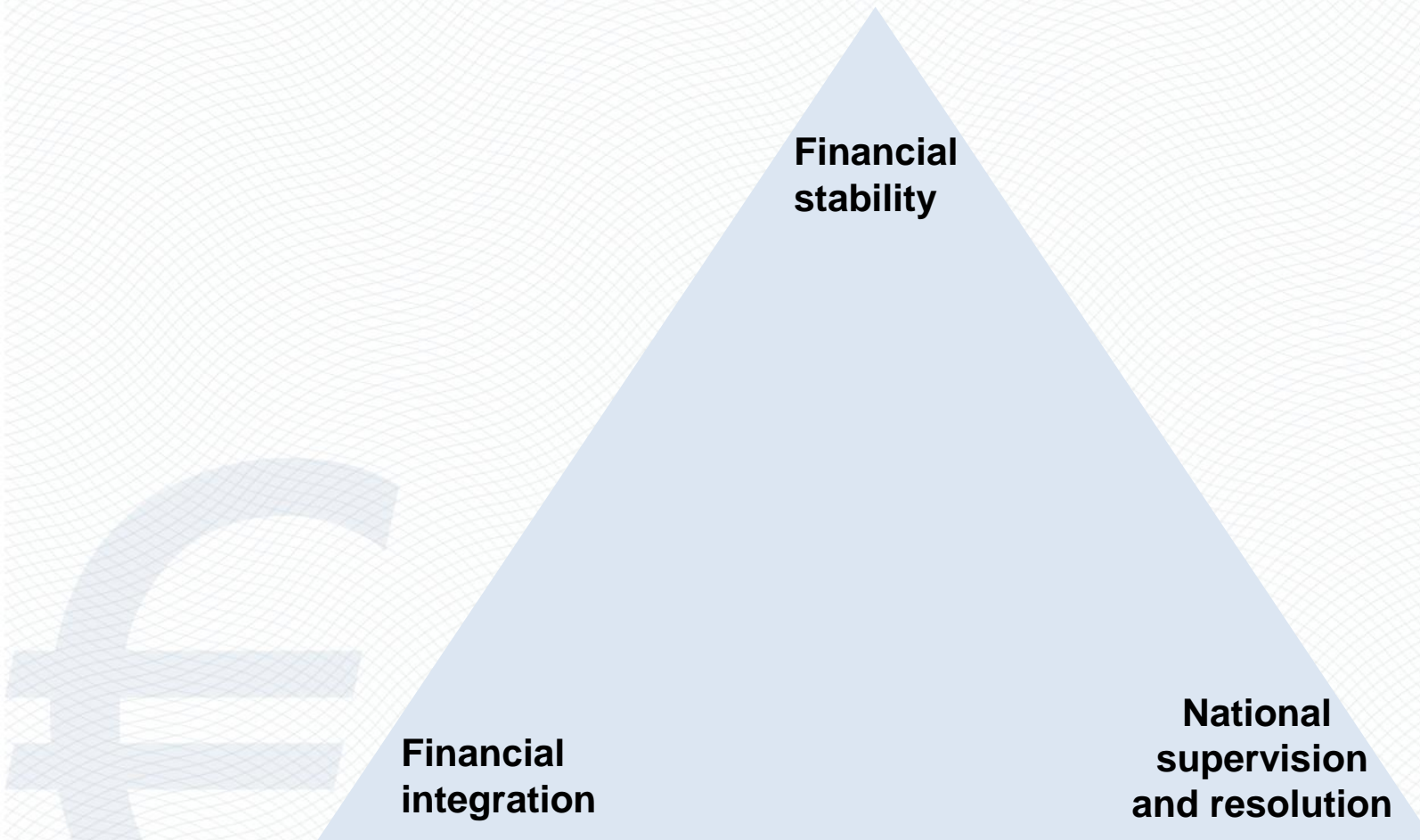
Nordic Capital Markets Forum in Helsinki on 13 May 2014

Deputy Governor Pentti Hakkarainen

Financial crisis and its devastating effects call for reforms



Financial trilemma



Source: Dirk Schoenmaker (2011) "The financial trilemma", *Economics Letters* 111, 57–59.

Banking Union: main elements

Banking Union: Euro area & opt-ins

Single Supervisory Mechanism (SSM)

- Efficient, effective supra-national supervision with the ECB at the centre
- Clear separation of monetary policy and supervision

Single Resolution Mechanism (SRM)

- Harmonised tools
- Investor/debtor responsibility (bail-in)
- Industry responsibility (resolution fund)
- No bail-out

Harmonised deposit insurance schemes

- Harmonised national systems
- Industry responsibility (funds)

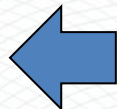
Single Rulebook (all EU)

Bail-out of banks

- Expensive, politically loaded
- Case-by-case decisions

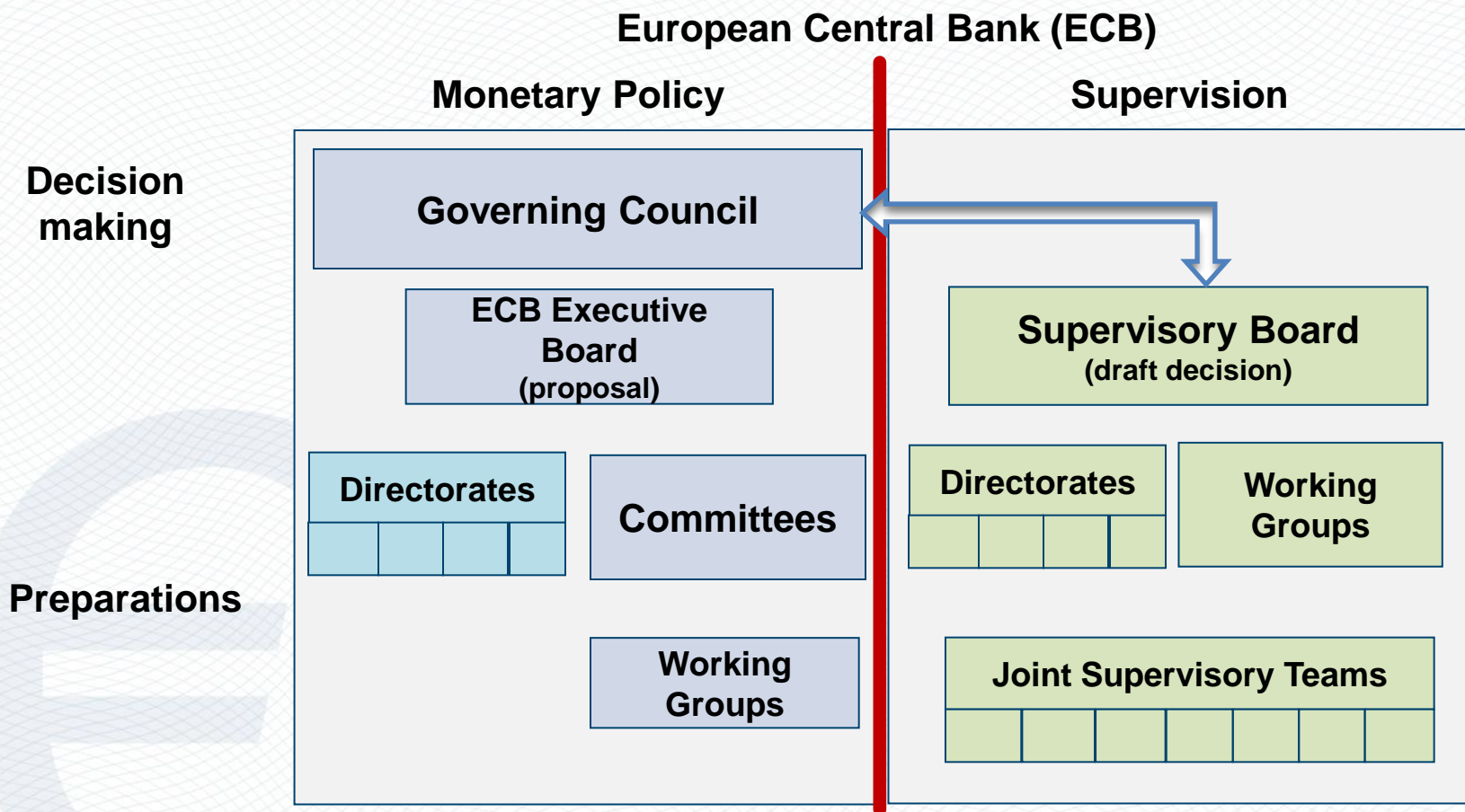


When this is properly done ...



...the likelihood of this is significantly reduced.

Separation of monetary policy and banking supervision



SSM Timeline

By end-2013

- SSM Regulation entered into force in November

Transition period

- Comprehensive Assessment of banks to be directly supervised by the ECB
- Other SSM Preparations: including SSM Supervisory Model

November 2014
(12 months after SSM
Regulation entry into force)

- SSM assumes supervisory responsibilities
- Supervision of significant banks directly by the ECB in cooperation with national supervisors

The three components of the Comprehensive Assessment

Risk Assessment Exercise

- Supervisory judgements of some risk factors, such as liquidity, leverage and funding structures.
- Quantitative and qualitative analysis but no complete banks' scoring

Asset Quality Review

- Assessment of data quality, asset valuations, classification of non-performing exposures, forbearance practices, collateral valuation and provisions
- Covering credit and market exposures (eg level 3 assets), following a risk-based targeted approach

Stress test

- Forward-looking view of banks' shock-absorption capacity under stress
- Conducted in collaboration with the EBA

Comprehensive Assessment: Follow-up actions and backstops

- One single disclosure for the whole Comprehensive Assessment (Risk Assessment, AQR and Stress Test)
- Results published prior to the ECB assuming its supervisory role in November 2014
- The results will be followed by corrective measures, if needed, depending on the nature of the problems identified
- *Ex-ante* availability of backstops, to be used only if private sources of capital are insufficient.

Other SSM preparatory work: main elements



SSM vs. national interests

- Financial services – high value added industry
- National supervisors have traditionally had dual role
 - Preserving financial stability
 - Promoting the interests of national financial industry internationally
- Banking union may exacerbate conflict between two roles
 - Concentration of power at the centre / ECB
 - Structures and processes must support European interests

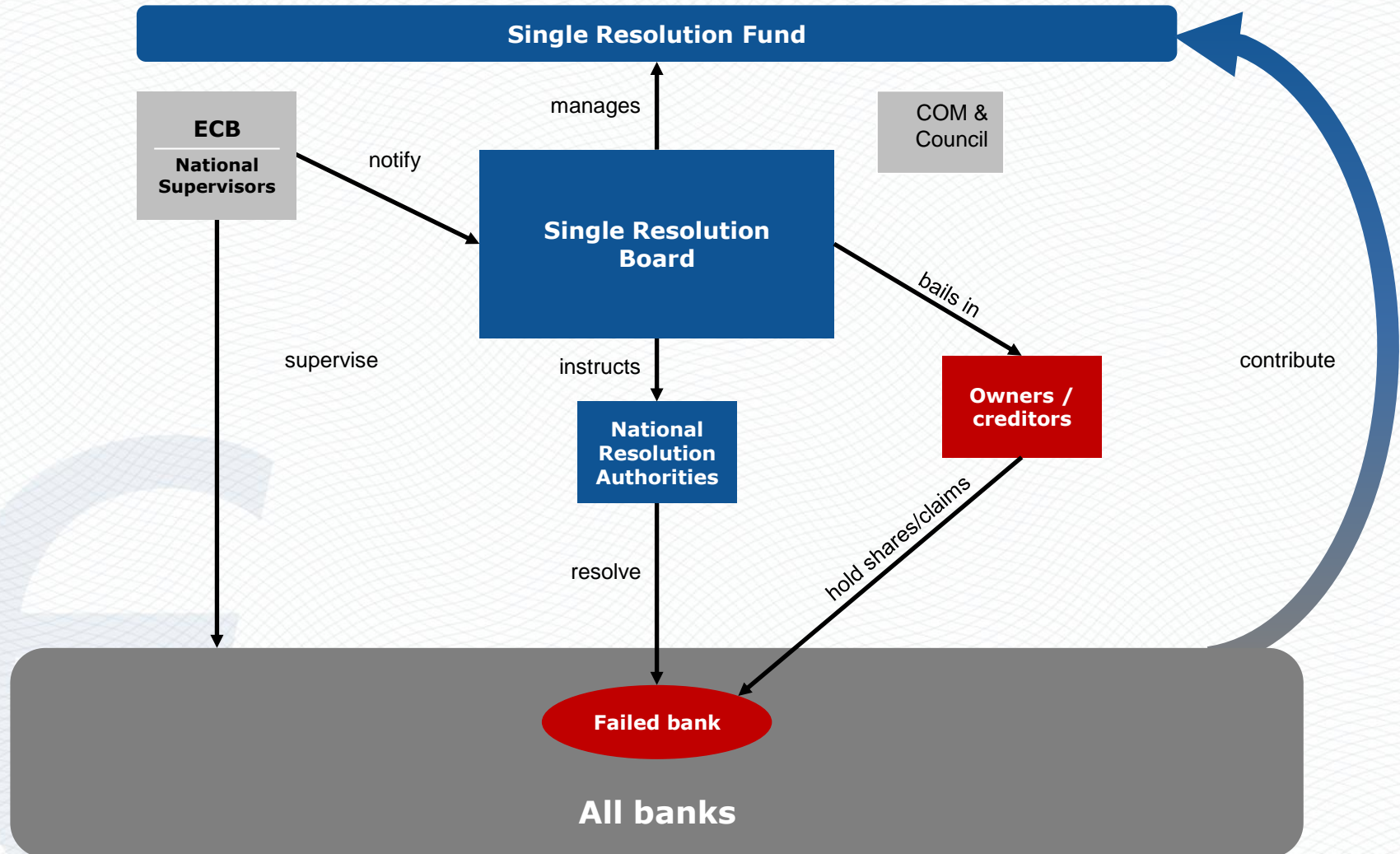
Banks' perspective to SSM

- Cross-border banks face a single supervisor and a single rulebook – lower compliance costs
- Common rules and harmonised methods of supervision – level playing field for banks
- High-quality supervision with the most advanced tools – benefits prudent and efficient banks

Bank Recovery and Resolution

- Bank Recovery and Resolution Directive – harmonised tools to wind down failing banks in predictable way applicable in all EU-countries
 - The ***bail-in*** tool; enables resolution authorities to write down or convert into equity the claims of the creditors
 - Resolution ***Fund***; funded via levies on the banking sector
- Single Resolution Mechanism for large cross-border banking groups
 - Centralised powers to deal with cross-border banks
 - Augments SSM and is necessary for Banking union

Single Resolution Mechanism



Source: European Commission

Thank you!

