



This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800



# FESSUD

FINANCIALISATION, ECONOMY, SOCIETY AND SUSTAINABLE DEVELOPMENT

## Working Paper Series

**No 133**

THE PROCESS TOWARDS THE CENTRALISATION OF  
THE EUROPEAN FINANCIAL SUPERVISORY  
ARCHITECTURE: THE CASE OF THE BANKING UNION

Elisabetta Montanaro

ISSN 2052-8035

# THE PROCESS TOWARDS THE CENTRALISATION OF THE EUROPEAN FINANCIAL SUPERVISORY ARCHITECTURE: THE CASE OF THE BANKING UNION

**Author:** Elisabetta Montanaro

**Authors affiliation** A visiting professor at Ragnar Nurkse School of Innovation and Governance, Tallinn University of Technology

**Abstract:** The EU's institutional architecture for financial regulation, based upon the principles of decentralisation across countries, segmentation across sectors, and voluntary cooperation among national regulators was clearly unsuitable to deal with overall financial stability risks arising from the internationalisation and conglomeration of financial firms. Oppositions to a true European arrangement for burden-sharing, and potential distributional consequences in the event of a crisis of a cross border bank have been the main hurdle to centralisation at European-level financial supervision. At the same time, the objective to create a levelled playing field in the EU single market has been always considered the necessary condition to promote the openness of national financial markets and cross-border banking. The paper aims to demonstrate that, since a single EU financial regulator in a multi-currency area is definitely a no viable alternative, the banking union's design is just a partial solution for financial stability problems arising from the fragmentation of the single market in the event of idiosyncratic or systemic banking crises. The analysis performed on non-euro countries' assessments of the pros and cons in joining the banking union clearly shows that until the fiscal responsibility for financial stability remains at the national level, the regulatory centralisation at the EU level cannot sever the traditional divide between home and host supervisors.

**Key words:** EU financial regulation; banking union; non-euro countries; CEE countries; cross-border banking



This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800



**Date of publication as FESSUD Working Paper:** January, 2016

**Journal of Economic Literature classification:** F35; F65; G01; G28

**Contact details:** Elisabetta Montanaro, [elisabetta.montanaro@unisi.it](mailto:elisabetta.montanaro@unisi.it), Tallinn University of Technology, Ragnar Nurkse School of Innovation and Governance, Akadeemia tee 3, 12618 Tallinn, Estonia.

**Acknowledgments:**

The research leading to these results has received funding from the European Union Seventh Framework Programme (FP7/2007-2013) under grant agreement n° 266800.

**Website:** [www.fessud.eu](http://www.fessud.eu)

## 1. INTRODUCTION

The threats to international financial stability arising from consolidation in the financial services industry and increasing cross-border activities by large and complex financial institutions present a challenge to regulation for preventing and managing financial crises<sup>1</sup>. In Europe, the necessity to balance the expected benefits of financial integration and to contain these threats traditionally collided with the peculiar features of its institutional architecture.

The internal market was built on the basis of the European passport, achieved by mutual recognition of national “harmonised” regulations, and home country control. Host country controls for prudential purposes were strongly restricted, administrative burdens for financial firms progressively reduced, and capital requirements for branches eliminated.

The Directives adopted in the early 90s<sup>2</sup>, which became the milestone on the path towards European financial integration, were inspired by the idea that competition between national supervisory structures and approaches would have “naturally” converged upon the best practices of the more advanced and competitive countries.

The main issues since then have been the level of harmonisation in financial regulation, which could be judged politically compatible with the principles of subsidiarity and proportionality, and the cooperation methods between national financial supervisors across countries and across sector.<sup>3</sup> The “light-touch” regulation adopted by some countries, such as the UK, was often considered by more “conservative” countries such as Italy and Spain, as rather more of a competitive issue than as any real threat to EU financial stability.

In the Maastricht Treaty, the problems of financial stability of the euro area were largely undervalued. The ECB was assigned the principal goal of price stability, whereas financial stability remained under the responsibility of the national authorities. The sole task of the European System of Central Banks was defined as “to contribute to the smooth conduct of policies pursued by competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system” (TFEU, art. 127.6). Powers of supervision by the ECB were envisaged by the Treaty, but as a pure hypothesis, applicable



only to “specific tasks”. Moreover, even if ECB were given supervisory powers, they should be limited to “the credit institutions and other financial institutions with the exception of insurance undertaking” (TFEU, art. 127.7). This approach to financial supervision by the Treaty now seems naive, but it was the prevailing one in those years, when integrations between the bank and insurance sectors were limited and the systemic risks of life insurance activities were considered unimportant (Schinasi, 2006, pp. 245 et seq.; Persaud, 2015)<sup>4</sup>.

The inconsistent implementation of the rules due to the coexistence of different national supervisory authorities, on the one hand, and the national mandate of these authorities in crisis management of cross-border financial institutions on the other, have been widely recognised as the most significant limits of European supervisory architecture. For the major financial groups, the cost inefficiencies and the risks of an unlevelled playing field in the European market have been seen as the main reasons for claiming the removal of the asymmetry between the Pan-European dimension of the market and national allocation of supervision. However, the resistances to delegate state sovereignty to a European supervisory body were primarily motivated by the real political problem, i.e. the fiscal implications of financial supervision. Oppositions to a true European arrangement for burden-sharing, and potential distributional consequences in the event of a crisis of a cross border bank actually were the main hurdle to centralisation at European-level financial supervision. As it is well known, these hurdles are still in place (Schäuble, 2013).

The banking union has made a quantum leap in the long journey towards the denationalisation of financial supervision and its allocation at a European level. Although it is still incomplete, mainly because of the urgency of breaking the vicious loop between the bank and sovereign fragilities, the banking union must be seen as a crucial innovation in the EU institutional structure for financial regulation, whose consistency with the single market design remains, however, largely to be shown.

The study is organised as follows. The next section presents the evolution of the institutional arrangements for the EU financial regulation and supervision after and before the crisis, with some references to the related theoretical debate. The third section

analyses the banking union in the EU framework for financial regulation. It will focus mainly on the potential risks of fragmentations within the single market, due to potential conflicts between euro and non-euro countries. In order to test these problems, I shall analyse the pros and cons in the non-euro countries' evaluations about opting into the banking union, applying for close collaboration with the ECB. The aim of this analysis is to provide a sort of empirical test of the political meaning of supervisory centralisation from a national perspective. Finally, some brief conclusions are presented.

## **2. THE EVOLUTION OF INSTITUTIONAL FRAMEWORK OF EUROPEAN FINANCIAL REGULATION BEFORE AND AFTER THE CRISIS**

After the establishment of the EMU, the debate on the need for “more Europe” in the institutional structure of financial regulation intensified. The various options proposed reflected the need to accommodate different relevant issues: the sensitivities of member states towards too much centralisation; the different ways in which the supervisory architecture was organised in the various countries; the respective roles of national central banks, integrated or specialised supervisory national authorities and the ECB; and, not least, the interests of financial institutions and the securities industry.

The EU's institutional architecture for financial regulation, based upon the principles of decentralisation across countries, segmentation across sectors, and voluntary cooperation among national regulators<sup>5</sup> was clearly unsuitable to deal with overall financial stability risks arising from the internationalisation and conglomeration of financial firms.

In the literature, there is a general consensus that the need for European arrangements for financial stability ultimately depends on the cross-border externalities arising from European financial integration and the unavoidable conflicts of interest between home and host countries in a transnational crisis. Virtually, each European country should have a powerful interest in the soundness of financial institutions in the other countries, because, as markets and institutions are integrated, idiosyncratic financial vulnerabilities may easily be transmitted across the overall EU financial systems via direct and indirect interbank linkages. However, especially during a crisis, conflicts centred mainly on fiscal concerns

tend to prevail. These conflicts can be accentuated if the divergence in supervisory practices stokes up feelings of mutual distrust and reduces incentives for collaboration and the timely sharing of information (Schoenmaker and Oosterloo, 2005) <sup>6</sup>.

According to Freixas (2003), information asymmetries and country differences in prudential supervision which characterise Europe will likely lead to suboptimal decision making: this problem could be reduced through cooperative decision-making and centralized information, provided that there are efficient incentives to cooperate for national supervisors. However, because each supervisor is concerned only with the welfare of its local stakeholders (political parties, investors and tax-payers) and not with overall welfare (financial stability at European level), these incentives usually do not exist (Holthausen and Rende, 2004; Nieto and Schinasi, 2007; Eisenbeis, 2007).

In Europe, the political aversion of member countries for every type of fiscal transfer, and the related issue of moral hazard have set up a formidable political obstacle to the acceptance of common binding mechanisms for burden-sharing in systemic cross-country financial crisis (Goodhart, 2003; Goodhart and Schoenmaker, 2006)<sup>7</sup>. Coordination failures in the ex post bargain among home and host countries are thus inevitable. Experience has shown that, usually, national authorities are only willing to cover the domestic share of fiscal and deposit insurance costs arising from the bail-out for their international banks. This inevitably happens when the size of banks is too large in respect to the home country safety net, which simply cannot bear alone the fiscal costs of a rescue. <sup>8</sup>

Conflicts between national supervisors are worse within a framework of minimum harmonisation, which allows home supervisors wide discretion and broad flexibility in rule implementation: national interests and domestic bias may create strong incentives for loose supervision and forbearance (Kahn and Santos, 2001; Dell'Ariccia and Marquez, 2006).

The theoretical and political debate was also partly influenced by the concerns of major Pan-European banks, for which the coexistence of an integrated European financial market and regulation still organised along national lines placed competitive neutrality at risk and increased the compliance costs. Indeed, since the early 2000s, the finance industry strongly

supported the need for both a more integrated and centralised structure of the European supervision, and giving more powers to the home country supervisor, thus making it the “lead regulator” (Deutsche Bank Research, 2001; European Financial Services Round Table, 2005).

The trend towards cross-sector financial integration poses additional challenges for the European regulatory framework. Even if the regulatory prudential objectives of the three sectors (banking, insurance and securities markets) partially diverge, there could have been a rationale for integrating the supervisory functions in a single European regulator, because the consolidation of financial services make all sectors of financial systems relevant for financial stability (Lannoo, 2002; Adenas, 2003; Wymeersch, 2010).<sup>9</sup> If financial entities within a conglomerate are separately licensed and supervised, its overall risk profile is harder to assess. The dangers also arise from double gearing of capital and internal transactions to hedge losses with profits of different sectoral and geographical entities. The EU framework for supervising financial conglomerates<sup>10</sup> brings up again the concept of the home country control, i.e. supervision on a group-wide basis, to be executed by a single coordinator. The broad national discretions left by the European accounting rules on balance sheets consolidation for financial conglomerates still tend to impede the effectiveness of the coordinate supervision and to generate cross-sector and cross-country regulatory arbitrages.

Mainly after monetary unification, the debate on the need for a centralisation of financial supervision became more heated. The basic argument in favour of moving to a European structure was based upon the inconsistency between a single financial market, on the hand, and, on the other, national-based supervision and crisis management with only a limited regulatory harmonisation (Thygesen, 2003). The idea that a currency union with free capital flows could have stability without centralized supervision was contested by academics, international organisations, and by the ECB itself (ECB, 2001; Padoa-Schioppa, 1999 and 2004).

Several proposals for the Europeanisation of financial regulation have been set out in the literature. Di Giorgio and Di Noia (2001) proposed a four-peaks model for the euro area,

according to which micro-economic stability, investor protection and competition should be assigned to three distinct European authorities, “federally” structured and organized similarly to the European System of Central Banks, and working in connection with the ECB, which would remain the institution responsible for price and macro-economic stability. At the EU level, Schoenmaker and Oosterloo (2005 and 2008) proposed a decentralised “federal” European System of Financial Supervisors, with a federal agency at its centre working in tandem with decentralised national branches, one for every country in the EU. The central body, working as a single supervisor (as the British Financial Services Authority), would be responsible for the design of supervisory policies and should represent the interests of both home and host countries; it should also be responsible for the correct and uniform application of supervisory rules and act as a mediator in case of problems between home- and host-country authorities. The national supervisory authorities under the principle of the home country control would conduct the day-by-day supervision. Crisis management should be done on a European basis, in close collaboration with the European Central Bank.

The obvious problems of these proposals arise from the fact that they assume a true “federal structure” for crisis management, in a Europe which is not a federal state and does not want to become one: if this is the case, who should bear the fiscal costs of possible bail-out? Decision-making about supervision and fiscal bail-out must be at the same level, according to the well-known motto “he who pays the piper calls the tune” (Goodhart and Schoenmaker, 1993, p. 3).

An alternative proposal has been presented by Mortimer-Schutts (2005): the idea was that the EU internal market could follow the two-tier US system of state and federally chartered banks. Large Pan-European banks could choose to be “federally” chartered by a single EU authority. This proposal would also entail explicit agreements between member states for fiscal burden-sharing of bail-outs, which seem politically unfeasible. At the same time, this dual framework would have given rise to a sort of “regulatory apartheid”, and therefore competitive distortions for more locally-focused banks.

In addition to the enormous difficulties in reaching a political consensus about any sort of supervisory centralisation, the very existence of different national supervisory structures has inevitably complicated the emergence of an integrated system of supervisors at the European level.

Critics of centralisation have instead advocated a “more nation” solution (FSA, 2009; Pistor, 2010; Persaud, 2015), in line with the national mandate for financial stability. According to this view, more powers should be attributed to the host regulators, including the power to impose “subsidiarisation” of foreign branches systemically relevant. A similar approach, in many respects, has the merit of being consistent: it recognises that, insofar the institutional arrangements for EU financial stability cannot be set-up, acceptance of a radical reversal of financial integration is inevitable. According to Persaud “[the] benefits of the openness in financial markets are conditional, complex, and in places suspect and should therefore not be the altar upon which we sacrifice host country regulation of finance” (2015, p. 232). As we will see in the third section of this study, the negative stance towards the banking union of several non-euro countries arises from serious stability concerns, which, in the light of experience, one cannot simply discard as “banking nationalism”.

To cope with the regulatory challenges arising from cross-border and cross-sector European financial integration, the alternative solutions might be as follows:

- a) voluntary cooperation, which means decision-making by voluntary consensus among national and sector supervisors<sup>11</sup>;
- b) institutional mechanisms for a European cooperation, which implies the establishment of European Committees for joint decision-making by national supervisors, according to some majority voting rules, plus supervisory colleges<sup>12</sup>, at a level of every cross-border/ cross-sector financial firm;
- c) true supervisory centralisation, which means that supervision is organised on a European basis, with decisions about supervisory rules and their implementation taken at the European level, at least for cross-border banks.

As can be seen in Table 1, the coexistence of the ECB with the central banks of non-euro countries would mean that full European-level centralisation would be impossible (Lastra, 2000; Kremers et al, 2001). Opposition from the British regulators was only to be expected. “Now it is not the time for promoting, as some have done, a single pan-EU regulator, either at the European Central Bank (ECB) level for the eurozone or the EU level as whole. In absence of further harmonisation of legal underpinning, notably aspects such as insolvency and contract law, a single pan-EU regulator is neither a practical proposition nor realistic. Supervision is still very much a national responsibility and responsibility for ultimately bail-out a failed institution remains a national concern. Therefore, we continue to believe that the home supervisor should led and take final decision for cross-border banks in a system with colleges of supervisors” (House of Lords, 2009, p. 39).

The fatal flaw, that not all EU countries have been required to do away with their national currency, comes up again also for financial supervision. If the single market is destined to remain a multi-currency area, this limits the solutions possible for the first two. The second, i.e. the institutional cooperation approach, is the one which has been applied since the establishment of the Lamfalussy framework and which has remained in force until the banking union.

Since the launch in 1998 of the Financial Services Action Plan (FSAP) - an ambitious program of legislative harmonization - the EU system of financial regulation has been organised on four separate level under the so-called Lamfalussy framework. In these four levels, the main innovation was the distinction between the “core principles”, set at level 1 regulation, non- essential “technical implementing matters” at level 2 and 3, and enforcement in level 4. <sup>13</sup>.

According to this framework, broad legislative principles were to be decided following the EU co-decision procedure by the European Parliament and the Council, on the draft proposals presented by the Commission. It was also the task of the Parliament and the Council to delegate the adoption of technical implementing measures to the Commission, which should decide with the assistance and the advice of level 2 and level 3 Committees. While the level 2 Committees acquired regulatory functions, implemented as technical

support to the Commission, the level 3 Committees were generally referred as “supervisory committees”. Actually, their primary task was not supervision (the concrete implementation of rule to supervised financial institutions), but proposing to national regulators and supervisors non-binding technical standards, i.e. the best practises suggested to implement primary regulation. In this way, the level 3 Committees should have promoted a consistent implementation of EU financial regulation and, thus, higher degree of regulatory harmonisation. The level 3 Committee (CEBS for banking, CESR for securities, and CEIOPS for insurance), in their respective areas of sectoral competence, were created as autonomous authorities comprising all the national supervisors of all member countries, each one with only a national mandate (Hardy, 2009).

Under this approach, there was no centralisation of supervisory responsibilities, because there was no transfer of competence from national to European level. Indeed, the effective cross-border prudential supervision had never been an objective of the Lamfalussy process nor of the level 3 Committees, which had neither mandate nor the legal tools to perform this task.

Their contribution to convergence in supervisory practices towards common standards was actually quite limited, since they had no power to issue binding rules nor to impose binding decisions on national supervisory authorities of cross-border financial institutions (Lamfalussy Report, 2001; Lastra, 2006, pp. 319 ss.).

In this sense, the Lamfalussy approach represented a sort of political compromise between two opposite needs: the one for supervisory centralisation, to ensure that existing rules were consistently implemented across all financial institution and services, regardless their home country, and the desire not to jeopardize any of the prerogatives of national supervisors.

The Lamfalussy Report, however, openly recognised the limits of this solution: if it were found to be ineffective, the Report suggested that “it may be appropriate to consider a Treaty change, including the creation of a single EU regulatory authority for financial services generally in the Community” (Lamfalussy Report, p. 41).



It is interesting to note that, according to the Lamfalussy Report, giving the ECB responsibility for micro-prudential supervision was rejected. The Report instead explicitly foresees the hypothesis that supervisory powers could at some stage in the future be delegated to a new European financial regulatory institution: references to the British model for a “single regulator” stand out (Goodhart, 2003). Not by chance, indeed, the role of non-supervisory central banks, including the ECB, was limited: they were only given observer status in CEBS governing board, meaning non-voting seats.

Under the Lamfalussy framework, the harmonisation of financial regulation in EU was strengthened, thanks partly to the greater use of Regulations instead of Directives. However, resistance to a greater harmonisation remained, especially by the UK, which repeatedly threatened to invoke the principle of proportionality. The wording of the Discussion Paper jointly drawn up by the Treasury, the Financial Services Authority, and the Bank of England (2005) is revelatory: “in general, EU legislation should be a last resort and alternative approaches to policy, such as more use of EU competition policy, market-based solutions and initiatives at national level, should be considered first.” (p.6).

In spite of its limits, the Lamfalussy framework brought a series of important changes in the EU institutional architecture for financial regulation. The principle-based approach to regulation progressively moved regulatory powers from the European Parliament to the Commission and to Finance Ministers sitting in the Ecofin Council (Casey and Lannoo, 2005). The national supervisors, who are the members of the governing board of the Committees, thus acquired discretionary powers not only in the implementation of the European rules (supervision), but also in the rule-making. Even though the regulatory technical standards adopted by level 3 Committees had no legal force under the Lamfalussy framework, the scope of “secondary regulation” issued by the supervisors expanded markedly. This regulatory method, aimed to create a market friendly financial regulation, would later be consolidated by De Larosière reform: it reproduces, at the EU level, some of the major features of the “soft” law issued at the global level by the international standards setters. In Europe, just as at the global level, financial integration

seems to require removing financial regulation from national political control, by a process of progressive “outsourcing” regulatory powers to supervisors.

The cooperative mechanisms set out in the Lamalussy reform to promote supervisory convergence and a consistent application of rules were not effective. Level 3 Committees were not given, as we said before, binding powers, because of opposition of several member states and European Parliament (Lastra, 2006). In the banking sector, for instance, CEBS was not able to promote the convergence even on such a basic issue as the composition of regulatory capital: greater differences continued to exist between the prudential treatment of hybrid instruments from one country to another.

As the Commission itself had already said before the crisis (European Commission, 2007, p. 7), “the level 3 Committee do not seem to be fully equipped to deliver what has been expected of them. A stronger political impetus is needed. On the other hand, since supervisors first responsibility is a national one, they might not have either adequate powers or incentives to converge at the European level.”

The financial crisis helped create, especially in core European countries (particularly France and Germany: Hennessy, 2014), great political consensus about the need to redesign the EU financial supervisory architecture. Macroscopic failures of many national supervisors and the “economic protectionism” that had characterized member states’ responses to the financial crisis exposed weaknesses of uncoordinated regulatory regimes and the need for a more comprehensive supervision at the European level (Quaglia et al., 2009).

The two main planks of this reform, based upon suggestions made in the De Larosière Report (2009), may be summed up as follows: strengthening the regulatory approach of the Lamfalussy framework, giving to level 3 Committees more effective rule-making and enforcement powers; and establishment of a macro-prudential peak, i.e. a macro-prudential systemic regulator, housed at the ECB.

The new supervisory framework (the European System of Financial Supervision, ESFS) comprises a multi-layered system of authorities. The various layers can be separated

according to the sector of supervision (banking, insurance and securities markets) and the level of regulation and supervision (European and national). Under an objective-based approach, there are two peaks: a macro-prudential and a micro-prudential peak.

At the top is the European Systemic Risk Board (ESRB), responsible for macro-prudential regulation, where the ECB plays a central role. Indeed, it provides the ESRB's secretariat and logistical and technical support; the President of the ECB has been appointed as chair of the new body.<sup>14</sup> The powers assigned to ESRB are, however, still very limited, in line with the micro-prudential focus of Basel II regulation, upon which the Report was largely based. Its main task is issuing warnings and recommendations related to risks which could seriously jeopardize the stability of the whole or part of the EU's financial system; these warnings and recommendations may be addressed to the EU as a whole, to one or more European countries, or ESAs or national supervisors and should be apply under a "comply or explain" regime.

The ECB unsuccessfully tried to advocate a role also in banking micro-prudential supervision, but the De Larosière Report rejected this hypothesis: "adding micro-supervisory duties could impinge on its fundamental mandate [monetary stability]"; at the same time, the ECB's involvement in crisis management might have jeopardised its very independence (De Larosière, pp. 43-44).

The micro-prudential peak, at the EU level, comprises the European Supervisory Authorities (ESAs), which have taken over from the previous 3 Level Committee, renamed respectively, as: EBA (for banks, investment firms and payment institutions), EIOPA (for insurance and Occupational Pensions) and EMA (for securities and markets). The Joint Committee of ESAs is responsible for cross-sectoral supervisory consistency, mainly for financial conglomerates.

At the national level, each member state designates its own competent supervisory authority or authorities, which form part of the ESFS.

For cross-border banks, mandatory cooperation between home and host supervisors occurs inside colleges, where EBA has a role of dispute mediating. The home country

control principle, however, remains substantially unchanged. The responsibility for direct supervision remains completely in the hand of national competent authorities<sup>15</sup>, due to the strong hostility of member states against attributing the EBA powers for giving direct instructions to their banks. The compromise solution was that ESAs can only overrule a national authority in narrowly-defined emergency situations.

The traditional sectoral approach for micro-prudential supervision does not change<sup>16</sup>. However, the De Larosière Report foresees that it would perhaps appropriate for the EU architecture to evolve towards a twin-peaks model, with only two authorities: one responsible for banking, insurance and systemically relevant financial institutions, the other for conduct of business and market issues (De Larosière Report, 2009, p. 58). In line with these suggestions, in the ESAs founding Regulation it is explicitly stated (art.81) that the Commission must review, every three years, the work done by the Authorities, especially to assess “[whether] it is appropriate to continue separate supervision of banking, insurance, occupational pensions, securities and financial markets; [and] it is appropriate to undertake prudential supervision and supervise the conduct of business separately or by the same supervisor”.<sup>17</sup>

The ESAs replaced the Level 3 Committee with a wider and more influential remit. In order to promote the regulatory convergence across the EU, the ESAs have an important regulatory power, which they should perform by issuing a single rulebook, or binding regulatory technical standards to implement rules delegated by level 1 financial regulation and endorsed by the Commission in the form of Regulation.<sup>18</sup> The single rulebook introduces in the European financial regulatory framework a maximum harmonisation approach (Babis, 2014): under this profile, the European continental position prevailed against the position sustained by the UK, which until the very last moment tried to protect British sovereignty in the oversight of the City (FSA, 2009).

In the light of experience, it is plausible that the national supervisory authorities involved in the Boards of Supervisors of ESAs reach decisions in regulatory matters by trying to reach an acceptable compromise between the need for a European view and the desirability of securing national interests. But mainly in time of crises, it is likely that divergent national

interests will put pressures on cross-border cooperation on regulatory and supervisory matters. “The ESAs are required to take action through their respective Board of Supervisors in the sole interest of the European Union. While the shift away from a decision-making process based on consensus to actual voting is a step forward, the predominant role of representatives of NACs [National Competent Authorities] in the decision-making process has given rise to some criticism. In particular, concerns prevail that national views rather than EU-wide interests dominate the proceedings” (European Commission, 2014b, p. 9).

According to the Chairman of the EBA (Enria, 2015), the single rulebook is a great step forward but it is not enough to fully harmonise financial regulation across EU countries. The existence of many national options and discretions within CRDIV/CRR and BRRD, often used for protectionist purposes and supervisory forbearances, limits the single rulebook's effectiveness. At the same time, the decentralised day-by-day supervision may not ensure convergence in supervisory practices. The experience of ECB's senior staff responsible for the Single Supervisory Mechanism on the ways in which European law has been transposed into national law and how the respective national supervisors have applied the national and European law in practice, has shown even greater differences than what they have expected (Lautenschläger, 2015).

### **3. THE BANKING UNION IN THE SINGLE MARKET: TWO MUTUALLY REINFORCED PROCESSES?**

As the euro area crisis erupted in the mid-2012, threatening the very existence of the EMU, announcement of the banking union was intended to confirm the political commitment of member states to preserve the integrity of the euro and the single market. The risk of fragmentation of EU banking markets undermined the single market and impaired the effective transmission on the monetary policy to the real economy (European Commission, 2012). The two objectives, integrity of the euro area and integrity of the single market, were closely interconnected. Completing the EMU with a deeper economic and monetary union was to safeguard the integration of EU banking market, benefitting also non-euro countries (European Council, 2012). “The creation of the banking union must not compromise the

unity and integrity of the single market which remains one of greatest achievement of European integration. ...The single market and the banking union are thus mutually reinforcing processes” (European Commission, 2012).

With these objectives in mind, the euro area member states were ready to accept a transfer of their sovereign powers in banking supervision and resolution at the European level.

The immediate transfer of supervisory powers to a single euro area supervisor – the ECB – was, actually, the necessary prerequisite to the direct recapitalisation of weak banks by the newly-created European Financial Stability Mechanism, without overburdening the already indebted member states. But the very rationale of the banking union went well beyond this: it was intended to correct the flawed design of the monetary union. The policies inspired from a dramatic misdiagnosis, according to which the source of the euro crisis was the peripheral government’s profligacy, had actually accentuated the interactions between fiscal and banking fragilities. The asymmetries between a single money and national mechanism for preventing and resolving banking crises were the reasons for the vicious loop between banks and sovereigns, which the banking union was supposed to break.

A fully-fledged banking union should be an integrated bank regulatory and supervisory framework within a “quasi federal “structure (De Grauwe, 2011; Véron, 2011; Gros, 2012). Supervision, lender of last resort, resolution and deposit insurance should be denationalised, so becoming neutral with respect to the nationality of banks (see Table 1).

The essence of the banking union lies, first and foremost, in the transfer of competences from the national supervisors to a stricter and a more credible central supervisor, under a common rulebook for solvency and liquidity requirements, underpinned by uniform supervisory practices defined by a common supervisory handbook.

To ensure that insolvent banks can be resolved in an orderly and uniform manner within the EU, and to minimise any risk of taxpayers’ money having to cover the costs of bailing-out too-big-to fail banks, a single resolution authority should ensure that this process takes place under a unique governance structure. Common rules for resolution, and deposit guarantees and funding schemes should be adopted. Clearly definite and homogeneous

pecking-order criteria for bail-in banks creditors should be in place. In the event of a banking crisis, ex-ante national resolution funds and fully funded deposit guarantee schemes paid for by contributions of banks should constitute the first line of defense, when shareholders and creditors have borne their full share of bank losses and recapitalisation costs. If this national line of defense were insufficient, in extreme situations, a centralised EU fiscal backstop for resolution and deposit guarantee should be available, in order to break the link between funding costs of the banks and their nationality. The reliance of banks only on national fiscal backstop and national deposit insurance implies in fact a fragmentation of European banking system, with those countries boasting more fiscal capacity gradually becoming the primary destination of capital flight from peripheral weaker countries. One integrated banking system may survive with a monetary unification, if the sovereign's credit worthiness does not affect borrowing costs of the banks (Tonveronachi, 2014).

The principle that the banks themselves and their creditors would cover the costs of bank rescues safeguards the system against banks' and governments' moral hazard: however, this is only credible if the size of financial systems would be aligned with each country's economic and fiscal strength (Montanaro and Tonveronachi, 2012). Nevertheless, since regulators have been unwilling or unable to make a decisive cut to growth of financialisation, in extreme situations a fiscal common backstop to privately funded resources became necessary, so that the costs to taxpayers of banking rescues would be independent of banks' nationality (Valiante, 2014; Schoenmaker, 2015).

Without some forms of bridge-financing for resolution and insurance costs across countries, the ECB - the single supervisor responsible also for financial stability in the euro area - is likely to be unable to implement appropriate prudential regulation, if it is not sure that banks that fall short of capital would be recapitalised or resolved in an orderly manner, regardless of fiscal strength of their countries.

According to the original proposal of the four President<sup>19</sup> (Van Rompuy, 2012) the European banking union would have to be one of the building blocks necessary and mutually reinforcing towards a "genuine monetary union", whose foundations should be, at least at

some stage, a fiscal and political union. This design seemed to be consistent: if the banks must be European, fiscal and political sovereignty must also gradually move to a European level. The Greek crisis, treated by European leaders as a question of national character, has shown how far Europe is still away from reaching this objective (De Grauwe and Ji, 2013; Kregel, 2015).

In the banking union's architecture established since 2013, the single rulebook for banking prudential regulation (CRDIV/CRR) and crisis management (BRRD) is the harmonised regulatory framework for all EU Member States. The Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) are the two pillars, which will have to guarantee uniform implementation of the rulebook for banks in the euro area and in non-euro countries who wish to opt-in, applying for a "close cooperation" with ECB.<sup>20</sup>

Until now, only the SSM is already fully operational. The legal framework of the SRM, managed by a Single Resolution Board, has been defined in April 2014 along with the BRRD<sup>21</sup>. The resolution framework mainly aims to improve and harmonise private risk-sharing, but there is still no certainty about which fiscal backstop arrangements will be available if private resources are insufficient. A single resolution fund (SRF) is to be introduced, financed via levies on the banking sector itself; this fund will start from national compartments and will be gradually mutualised, only becoming a truly European fund in 2024, with a target level of at least 1% of covered deposits, estimated at € 55 billion. This amount hardly could be considerate adequate, in the event of a systemic crisis (Draghi, 2014). To have some yardstick for comparison, €15 billion is roughly the figure needed to recapitalise the Greek banks after the 2015 crisis. The fiscal backstop of last resort should be the European Stability Mechanism (ESM), which has empowered to supply assistance to member states experiencing financial difficulties, subject to stricter conditionality. The amount allocated for direct recapitalisation of banks in weaker countries (€ 55 billion) is indeed low, given the size of the banking sector in the euro area, where, as of June 2015, bank assets totaled € 31.4 trillion, equivalent to 235% of GDP. The ESM's lending capacity could be increased, if necessarily, but the decision will need to be taken by the unanimous agreements of all ESM members. In any case, the ESM does not extend beyond the euro



area. Centralisation of the deposit guarantee at the euro area level has proved politically contentious for several countries, notably Germany, which firmly opposed to any form of fiscal mutualisation, fearing a political backlash to the idea that Germany fully prefunded scheme could be used to guarantee the deposits of savers in other European countries (Financial Times, 2015).<sup>22</sup>

The design of the banking union, even if it still lacks the elements needed to ensure a true de-nationalisation of banks' creditworthiness, is an important change in the EU institutional regulatory structure. It should raise the credibility and quality of banking supervision in the EA, eliminating the "home bias" prevalent in national supervision and the conflicts between home and host supervisors, reversing the renationalisation of banks which had taken place since the crisis. For major cross-border banks, the centralisation of supervision at the EU level certainly fulfils an old aspiration. The removal of any barriers to cross-border banking which may be in place to protect national interest would lead to lower bank compliance costs and more freedom of choice between centralised or decentralised structures for capital and liquidity allocation in different markets.

However, as Constâncio has recognised (2013), the impact of the banking union "will clearly depend on how many Member States eventually decide to join. In our view, the more Member States take part, the better it will be for the functioning of the ESFS and the single market more generally". It is exactly this issue I will focus on in this section, which does not wish to address all the problems opened by the banking union. Let us to examine just the problem of whether the banking union, designed primarily for euro area countries, can be truly attractive for non-euro members, who are invited to accede.

The coexistence in the single market of SSM and non-SSM countries could compromise the objective of severing the traditional home-host divide in the EU cross-border banking supervision and resolution (D'Hulster, 2011). If the majority of the non-euro countries decided to opt-out, the risk of financial fragmentation inside the single market would return.

The balkanisation of the single market which stems from the financial crisis has worsened the conflicts of interest between home and hosts supervisors, due to the lack of ex-ante binding agreements for crisis burden-sharing. These conflicts, arising from different mandates and different interests of their national stakeholders, could be eliminated, if the institutional mechanisms of the banking union were considered suitable safeguards for the interest of all EU countries members, and not merely those in the euro area. Only in such a case could the countries outside euro area, especially if they are not committed to joining the euro in a short time, decide to opt into banking union (Darvas and Wolff, 2013).

By splitting the EU into the 19 Euro-area members and the 9 outs, the banking union covers over 70% of total EU banking assets, but the intensity of cross-border banking in non-euro countries is higher than in the euro area (Schoemaker, 2015). The UK, which has already declared that it does not want to join the banking union (House of Lords, 2012), and Sweden, host five G-SIBS (HSBC, Barclays, Royal Bank of Scotland, Standard Chartered, and Nordea), which have significant subsidiaries and branches inside the euro area. Most of these subsidiaries are supervised by the ECB. At the same time, many parent banks inside the euro area have a substantial network of subsidiaries mainly in the CEE non-euro countries<sup>23</sup>. For now, these subsidiaries are supervised by non-euro authorities. For the latter, the advantages of joining the banking union may be limited by the possibility of having to give up prudential powers, which host countries have over the subsidiaries of foreign banks.

The example of the Italian Unicredit Group, subject to the direct supervision by the ECB, as consolidate supervisor, and to the supervision by six non-euro CEE host countries may be a good way of showing this situation<sup>24</sup>. According to the last "CEE Banking Sector Report" (Raiffeisen Research, 2015) Unicredit Group's presence in the CEE region is one of the largest among Western European banks: the group's divisions in this area provide approximately 20% of the groups profits, most of this coming from the Polish division.

For the perspective of all CEE host countries, the Unicredit subsidiaries are systemic or significant, while still being relatively small in relation to the group, with the exception of the Polish one. The Unicredit case well illustrates the typical features of the dominant presence of the euro area banks into the banking systems in many CEE countries. Maintaining financial stability in the host CEE countries will be of interest to the ECB, even if they have marginal weight in the euro area? According to the Vienna Initiative (2014), this is one of the most relevant concerns about the possible option of joining the banking union.

By centralising the supervision at the ECB, supervisory standards should be expected to improve in quality; implementation of the single rulebook should become more harmonised and consistent. However, a mismatch between supervisory powers, transferred to the ECB, and responsibilities for the consequences of supervisory decisions is created. National authorities of host countries will not be responsible for supervision of domestic banks, but will still bear the fiscal and stability costs that may arise from supervisory failures. The coordination between home and host countries participating in the banking union would move from colleges to the ECB's Supervisory Board, but this does not eliminate potential conflicts of interest in a crisis situation, when host countries may feel that their national stability is threatened. Traditional ring-fencing measures, which the host countries used to apply would clearly no longer be allowed if they joined the banking union, but there is no guarantee that they will be able to take advantage of the euro area safety net (Lehmann and Nyberg, 2014). A Single Supervisory Mechanism without this guarantee will not set the right incentives for national authorities. Non-euro countries lack the support of ECB liquidity during a crisis: this is particularly relevant for CEE countries, with extensive euro-denominated lending (Yeşin, 2013). Moreover, non-euro countries cannot accede to the ESM's financial support, which is only provided for "member states whose currency is the euro" (ESM, 2012, whereas 2).

Along as the conditions for common fiscal backstop are not agreed upon, the incentives to join the banking union will become fewer for many countries.

Clearly, if the banking union would involve only a subset of EU nations, the risk is to maintain inside the single market conflicts among the objective of a harmonised regulation

and a decentralised supervision and resolution. This would mean, according to Enria (2013) “that the repair of the single market will proceed with different speed and will be driven by different priorities within and outside the SSM jurisdiction. We cannot rule out the possibility that a rift opens up in the Single Market between Member States adhering to the SSM and SRM, and those that continue to rely on national tools for supervision and resolution”.

The ECB will be, for many aspects, a more authoritative supervisor than most non- member countries’ supervisors, perhaps only excluding the Bank of England. The ECB has not only its strong political reputation, but also wide regulatory powers, which may be, at least in part, in conflict with those of the EBA.

Legally, after the introduction of the SSM, the role of the EBA in developing regulatory standards and contributing to the consistent application of the single rulebook across the whole Union has been strengthened by giving it the task of developing a single supervisory handbook<sup>25</sup>. According to SSM Regulation, the ECB shall adopt guidelines and make recommendations, but it should be subject to the binding EBA’s rules and decisions. Nevertheless, the risk that the ECB partially take over the EBA’s function, at least within the SSM, cannot be excluded, given the regulatory ambiguities<sup>26</sup>.

The issue of the potential conflicts between the ECB and the EBA (Enria, 2013; Tröger, 2013) is particularly serious, especially in the light of the different representation and voice that non-euro countries have in the governance structure and in decision-making process within the two Authorities. Under the banking union, only euro member states have a seat in the ECB’s Governing Council, which can overrule decisions by the ECB’s Supervisory Boards, where non-euro countries members of SSM enjoy voting rights. The ECB is not formally represented on the EBA board, which remains exclusively made up of by the national authorities of the all EU Member States. The Regulation governing the EBA has been modified, precisely so as to guarantee parity between the SSM and non-SSM members, requiring a double majority in both groups in the decisions of EBA’s Board of Supervisors.

To date, no non-euro countries have formally applied to the ECB for close cooperation. The UK and Sweden has already decided to remain outside, whereas Denmark, Bulgaria and Romania have said they wish to opt-in. The other non-euro countries for the moment want “wait and see”, but the stance seems as a whole to be negative.

In order to empirically test the different preferences of non-euro countries in joining the banking union, I have analysed the pros and the cons for opt-in used by each country, in all the official and unofficial documents I have been able to find<sup>27</sup>. My analysis includes all non-euro countries, except the UK. Indeed, the UK is a case unto itself, because it is a global financial player, but even more so because of the vision the British have always had on the EU single market, the only purpose of which is to ensure that London's pre-eminence as a financial market is not imperilled.

In the light of the assessments made by non-euro countries, the results of my test ought to show the weak points in the design of the banking union. These may even undermine one of its main objectives - that of reducing fragmentation in the EU single market.

For each country, Table 3 gives same indicators which are supposed to be significant when choosing whether or not opt-in: the fiscal costs of the last crisis, the degree of bankarisation, the importance of foreign banks in the national banking system and bank health, measured as the percentage of non-performing loans.

There is a clear distinction between the two Nordic and the CEE countries, as can be seen in the higher degree of financialisation and the lower importance of foreign banks. The major Swedish and Danish banks, though, have several significant subsidiaries in the euro area, directly supervised by the ECB. The incentives to join the banking union should be, on the one hand, that a single supervisor would imply lower costs for cross-border banks in complying with the regulatory requirements. On the other hand, perhaps even more important, is the issue of the sustainability of fiscal costs of a systemic banking crisis, which, as the estimated figures for 2008 show, may be particularly high given the high level of financialisation in the two Nordic countries. Along as the conditions for a common fiscal backstop are not agreed upon, incentives to join the banking union are reduced. This is a

major point in Sweden, where the traditional political preference for “gold plating” in banking regulation and for public solutions in crisis management were recently confirmed with calling more flexibilities in the BRRD for tapping the resolution fund and applying the bail-in tool. The opposite approach of Denmark may be one of the reasons why this country has decided to opt-in (Asmussen, 2013; Hakkarainen, 2014; Montanaro, 2016).

In all the CEE countries, significant euro area banks directly supervised by the ECB have a dominant presence, mainly from Austria, France and Italy. In Bulgaria and Romania, not coincidentally the only opt-in countries, the presence of Greek banks is significant: the crisis's spill-over effects has been severe, and some form of support by the ECB has been necessary to contain contagion and deposit flights (Financial Times, 2015b). Only in Hungary and Poland does the domestic banking system have a significant role. With the Czech Republic and Poland being the only exceptions, in the CEE countries the weakness of economic activity has given rise to a great incidence of non-performing loans in banks' portfolios. Joining to the SSM would likely result in tough asset quality review and stress testing, with possible adverse effects in terms of deleveraging processes. Supervisory quality, but also the flexibility and “forbearance” considered necessary by national governments may therefore influence any decision to opt-in in opposite directions. The size of national fiscal backstops and, clearly, the commitment to adopt the euro in short time are some other important elements (IMF, 2015).

Plainly, political factors also count. Mainly after the euro crisis, citizens' trust in the European institutions has fallen: this cannot fail to influence the stance towards the banking union. Bank regulation is one of the most sensitive areas for national policymakers: a transfer of sovereignty at the EU level is very difficult to decide for if voters cannot clearly see its advantages.

The results of the research on the reasons for opting in or opting out are presented in the Table 4 below.

#### **4. CONCLUSIONS**

After monetary unification, the asymmetry between cross-border and cross-sectors financial integration and national allocation of supervisory powers and crisis management responsibility was a major institutional challenge for the EU single market. In the aftermath of 2008 financial crisis the EU financial regulation architecture shifted from decentralisation and mutual recognition of home rules and supervisory practices to a progressive regulatory harmonisation. Strengthening cross-border cooperation between supervisors and central banks, improving convergence in supervisory practices, reducing room for national discretions, were considered the main instruments to reconcile divergence between the European market dimension and the national and sectoral dimension of financial supervision. The limited powers given to the new Authorities in the European System of Financial Supervisors clearly showed that a true transfer of sovereignty of financial regulation and supervision at the EU level had been considered incompatible with national mandates for financial stability and national full fiscal responsibility for financial crises.

For this reasons, the banking union project launched in 2012 was a quantum leap in the process of EU financial integration. The design of the banking union arose as a response to the euro area crisis, to halt the fragmentation of the single markets and doubts about the “singleness” of the euro. Its objective was to create a “federal bank supervision, to guarantee that all institutions are subjected to the same rules and same methods of control” (Noyer, 2014). The “denationalisation” of supervisory powers aimed at ensuring that banks in the euro area should be considered precisely as that, as “euro area” banks, and not as banks subjected to one or more national supervisors, more or less trustable depending from fiscal strength of the country where the bank is headquartered.

The banking union project is a radical break of the past approach based on a centralised regulation with a decentralised supervision: it seems therefore inevitable that in this new institutional framework, the very existence and necessity of the European System of Financial Supervision inside the banking union, sooner or later, will have to be called into question. At the same time, it seems just as inevitable that the new responsibilities for financial stability assigned to the ECB cannot be limited to banks. The macro-prudential

powers, which the ECB received with the start of the SSM are centred on the banking systems under the CRDIV/CRR legislative package. However, banks and non-banks financial firms, such as life insurance companies, brokers-dealers, investments funds, are closely linked through market-based financing (Persaud, 2015). One reaction to the banking union could be the shifting of activities outside the banking sector. The idea that the perimeter of the ECB's supervisory powers might be contained within the limits set out by the Treaty could be an illusion.

The compromise solution of making the banking union compulsory for all euro countries, and optional for all those non-euro countries, which intend to join has been perhaps the only path open during an emergency. However, it is not an effective way to reach the objective of severing conflicts between home and host countries, which brought about fragmentation in the European banking market. The fact that in the evaluations of non-euro countries there are more disadvantages than advantages in joining the banking union would appear to confirm that a "federal bank supervision" is inconsistent with the perceived interests of several countries. This only makes us wonder once again whether "more Europe" is the best solution for a Europe, which is not – and which does not want to become – a federal state.



---

<sup>1</sup> For a more in depth analysis of financial stability problems arising from EU cross-border banking, see the study carried out under the FESSUD research programme (Montanaro , 2015).

<sup>2</sup> For banking, the 1992 Second Banking Coordination Directive, for insurance, the two so-called third generation 1994 Directives.

<sup>3</sup> European rules for conduct of business in financial services, drawn up according to the Lamfalussy Framework, applied a criterion for maximum harmonisation, which in the Financial Services Action Plan, came into force from 1999 onwards and was progressively extended to all other parts of the financial sector.

<sup>4</sup> From the very onset the ECB firmly maintained that its role in macro-prudential analysis and surveillance was closely tied to micro-prudential supervision (Padoa-Schioppa, 1999; Duisenberg, 2000; ECB, 2001; Padoa-Schioppa, 2002). Since 1998, the ECB Governing Council established, among eleven other committees, a specific Banking Supervision Committee, with the task "to assist in the work of the decision-making bodies of the ECB and ...report to Governing Council via the Executive Board" (art. 9.1 of the Rules and Procedures).

<sup>5</sup> The mechanisms of voluntary cooperation are the Memoranda of Understanding (MoU), in place on financial crisis management of cross-border banks, between central banks, supervisors and finance ministers. The limitation of MoU in achieving their goals has been fully shown (Nieto, 2007).

<sup>6</sup> The so-called post- BCCI Directive (95/26/EC) eliminated all previous legal obstacles to the exchange of confidential information between national regulators and between them and the ECB.

<sup>7</sup> The analysis of the problems related to crisis management of cross-border financial institutions carried out by the Economic and Financial Committee (Brower Report, 2001) show how seriously the risk of a Pan-European bank collapse were undervalued. The main recommendations were the need for further strengthening of cross-border cooperation and coordination, more information sharing among all institutions involved in a crisis situation, timely and robust procedures for considering the competitive implications of crisis

---

management measures, together with incentives for prioritising private solutions for crisis resolution.

<sup>8</sup> The failure of the Icelandic Landsbanki clearly illustrated how flawed were the single market rules. Since Iceland is a member of the EEA, Landsbanki was free to operate in the UK with branches, over which the host country had only limited powers. When Landsbanki failed, both fiscal support and deposit insurance funds proved inadequate to cover UK depositors.

<sup>9</sup> On discussions about the pros and cons of different regulatory models, in a national context, see the study carried out under the FESSUD research programme (Montanaro, 2015b)

<sup>10</sup> Financial Conglomerate Directive 2002/87/EC.

<sup>11</sup> Within the EU there already had been a complicated patchwork of bodies, which brings together the supervisors, finance ministers and central bankers of EU members. In the banking sector, there were: the European Banking Committee, comprising representatives of ministries of finance of EU members, which advises the Commission on policy issues related to banking activities; the Banking Supervision Committee for the euro area, inside the ECB; the Financial Services Committee, composed of representatives of ministries of finance and European Commission, which discusses and provide guidance on cross-sector strategic and policy issues; the Economic and Financial Committee, which includes representatives of ministries of finance, the European Commission, the ECB and other central banks, aimed to promote high-level assessments of development in financial markets. This committee meets in a specific format, the Financial Stability Table, twice a year to discuss financial stability issues. After the establishment of 3 Level Committee (CEBS) it includes also its president.

<sup>12</sup> According to CRD (Directives 2006/48/EC and 2006/49/EC), colleges of national supervisors, aimed at facilitating the cooperation in supervisory activities, are mandatory for banks and banking groups with significant cross-border branches or subsidiaries.

<sup>13</sup> Level 4 is where the Commission enforces the timely and correct transposition of EU into national law. When a member country fails to implement the EU laws, the Commission can

---

launch a formal infringement procedure, asking the Court of Justice to impose penalty payments.

<sup>14</sup> The General Board consists of the President and Vice-President of the ECB, the governors of the national central banks of the ESCB, a member of the European Commission, the chairs of the three EU micro-prudential authorities (ESAs), and representatives of national supervisory authorities (the latter with no voting rights).

<sup>15</sup> With the exception of the ESMA's responsibility for direct supervision of Credit Rating Agencies and trade repositories in the EU.

<sup>16</sup> For those countries, which have adopted an integrated model, the micro-prudential single regulator sits on the governing board of two or three ESAs.

<sup>17</sup> In the first report on the ESAs operations published in 2014, the European Commission outlines that “[c]all for structural changes, such as merging the authorities into a single seat or introducing a twin-peaks approach, should be carefully assessed in light of the establishment of Banking Union (European Commission, 2014b, p. 11).

<sup>18</sup> For banking, EBA is currently mandated to produce a single rulebook for the implementation of CRD/CRR package and BRRD. The ESAs were also tasked to issue guidelines or recommendations, non-binding legal acts that national authorities should apply under the “comply or explain” mechanism.

<sup>19</sup> Herman Van Rompuy, President of the European Council, which coordinated the proposal, José Manuel Barroso, President of the European Commission, Jean-Claude Juncker, President of the Euro group, and Mario Draghi, President of the ECB.

<sup>20</sup> The ECB will assess whether the preconditions for such “close cooperation” have been met with an “entrance-examination” such as the Asset Quality Review which the ECB implemented in 2014 for significant banks in the euro area member states. The close cooperation binds the member states for three years, and they can request the termination of the cooperation at any time thereafter (ECB, Decision of 31 January 2014, ECB/2014/5).

<sup>21</sup> From the information provided by the European Commission (European Commission, 2015), five member countries (CZ, LU, PL, RO and SE) have still not transposed the BRRD (the deadline for which was 31 December 2014); 14 countries (BE, EE, IE, GR, IT, CY, LT, LU,

MT, NL, PL, RO, SI, SE) have not yet transposed the Deposit Guarantee Schemes (DGS) Directive (the deadline for which was 3 July 2015).

<sup>22</sup> At the informal ECOFIN of 12 September 2015, the Germany finance ministry declared opposition to the proposal of a European Deposit Insurance Scheme, which, in its view, represents a further mutualisation of bank risks (Non Paper, 2015). On 24 November 2015, the proposal has been officially presented by the European Commission: it would consist of a re-insurance of national deposit guarantee schemes, moving after three years to a co-insurance scheme, and, as a final stage, to a full European Deposit Insurance Scheme, which is envisaged in 2024. To take into account the German position, the Commission committed itself to pursue a full package of measures aimed to contain moral hazard issues and to limit banks' exposures to national sovereign risk. As has been recognised by ESRB (2015), stricter prudential treatment of sovereign exposures may generate potential instability in sovereign credit markets, mainly for countries where banks have the largest sovereign debt exposures (as a proportion of total assets), such as Belgium, Spain, Greece, Italy and Portugal.

<sup>23</sup> The CEE non-euro countries include Bulgaria, Croatia, Czech Republic, Hungary, Poland and Romania.

<sup>24</sup> According to CRDIV/CRR, host countries have the task of authorising and supervising legally independent subsidiaries, in cooperation with consolidating home country supervisor (the ECB for SSM members). The colleges of supervisors are the mandatory vehicles of this cooperation; EBA's decisions are binding for settle dispute among home and host supervisors.

<sup>25</sup> Regulation (EU) No. 1022/2013 of 22 October 2013, amending Regulation (EU) No. 1093/2010, whereas 7 and art. 8, 1aa.

<sup>26</sup> Whereas the EBA is preparing to draw up its supervisory handbook (EBA, 2015), the ECB has already prepared a Supervisory Manual, an internal document which describes to SSM staff the processes, procedures and methodologies for the supervision of significant and less significant banks. There are likely to be many overlaps between the two handbooks. For instance, in the area of internal models approaches and validation, where CRDIV/CRR

---

left significant rooms for flexibility and discretionary powers, the EBA's guidelines will find it difficult to influence the approaches adopted by the ECB's Internal Model Division (ECB, 2015). The ECB also intend to play an incisive role in the harmonisation of prudential regulation, by reducing the options and discretions in CRDIV/CRR (currently more than 150), which can be exercised by either national governments, regulatory authorities, or both, depending on the case (ECB, 2015b). Finally, while the EBA is responsible for initiating and coordinating EU-wide stress tests, it is the responsibility of the ECB to conduct them for significant banks inside SSM. There is ambiguity regarding who will have overall responsibilities for them.

<sup>27</sup> The information I have been able to find is not equally significant for all countries, since for some of them (Croatia and Bulgaria) there were no official documents. The documents I have utilised for the analysis are listed at the end of the References pages.

**TABLE 1 – EU SUPERVISORY ARRANGEMENTS FOR CROSS-BORDER BANKS**

Supervisory models	Supervisory Authority	Degree of Regulatory harmonisation	Degree of supervisory convergence	Crisis management
<b>Voluntary cooperation</b>	National + Colleges of supervisors	low	low	National central banks National deposit insurance National fiscal support MoU
<b>Institutional Cooperation</b>	National + Colleges of supervisors	high	low	National central banks National Deposit insurance National fiscal Support MoU
<b>Centralisation</b>	Single European Authority	high	high	Single Central Bank + EU deposit insurance and fiscal support

**TABLE 2 - GEOGRAPHICAL DISTRIBUTION OF UNICREDIT SUBSIDIARIES IN EUROPEAN NO-SSM COUNTRIES (31 DECEMBER 2014)**

Country	Market Share <sup>(1)</sup>	Operating Income % on Group Total <sup>(2)</sup>	Number of employees % on Group Total <sup>(2)</sup>
<b>Bulgaria</b>	17%	2%	3,4%
<b>Croatia</b>	26,4%	3%	3,5%
<b>Czech Rep.</b>	9,1%	3%	2,8%
<b>Hungary</b>	6,4%	2%	1,7%
<b>Poland</b>	10,6%	8%	14,6%
<b>Romania</b>	7,2%	2%	3,0%
<b>Total outside SSM</b>		19%	29%

(1) Measures the importance of the subsidiary for the host country

(2) Given that no disaggregated asset values are available, operating income and number of employees are assumed as proxies for measuring the importance of the subsidiary to the parent bank home country.

Source: Unicredit Integrated Report and Country by Country Reporting, 31 December 2014.

**TABLE 3 – NON-EURO COUNTRIES: FINANCIAL INDICATORS**

Country	2008 Financial crisis fiscal cost/GDP <sup>(1)</sup> (%)	Bank asset/GDP Ratio (2014) <sup>(2)</sup>	Foreign branches and subsidiaries assets/ total assets (2014) <sup>(2)</sup>	Non-performing loans/total gross loans % (2014) <sup>(3)</sup>
Bulgaria	--	1.1	0.76	16.6
Croatia	--	1.2	0.90	16.7
Czech R.	--	1.2	0.91	5.7
Denmark	3.1	4.2	0.12	4.5
Hungary	2.7	1	0.47	15.6
Poland	--	0.9	0.59	4.9
Romania	--	0.6	0.90	15.3
Sweden	3.6	2.8	0.06	0.6

Sources: (1) Laeven and Valencia (2012); (2) ECB Statistical Data Warehouse; (3) World Bank

**TABLE 4 - PROS AND CONS TO JOINING BANKING UNION IN THE EVALUATIONS OF NON-EURO COUNTRIES**

Country	Opt-in	Motivations							
		Better supervision; more financial stability; competitive advantages	Loss of autonomy of subsidiaries supervision	No voting rights in ECB Governing Council	No access to ESM and Euro safety net	Cost-sharing of other EA country crisis	More flexibility in bail-in	More efficient crisis management	Constraint on national macro-prudential measure
Bulgaria	Yes	✓							
Croatia	Wait and see		✓	✓	✓		✓		✓
Czech Rep.	Wait and see		✓	✓	✓	✓	✓		✓
Hungary	Wait and see	✓		✓	✓				✓
Poland	Wait and see	✓	✓	✓	✓				
Romania	yes	✓							
Denmark	yes	✓						✓	
Sweden	no			✓	✓	✓	✓		

---

## REFERENCES

- Andenas M. (2003) "Who is going to supervise Europe's financial markets?", in Andenas M. and Avgerinos Y. (eds) *Financial Markets in Europe: Towards a Single Regulator?*, London, The Hague and New York: Kluwer Law International, pp. XV-XXV
- Asmussen J. (2013) "Banking Union – essential for the ins, desirable for the outs!", Speech at the Danske Bank Financial Forum 2013, Stockholm, 5 November, available at the URL: <https://www.ecb.europa.eu/press/key/date/2013/html/sp131105.en.html> 1/
- Avgerinos Y (2003) "The Need and the Rationale for a European Securities Regulator", in Andenas M. and Avgerinos Y. (eds) *Financial Markets in Europe: Towards a Single Regulator?*, London, The Hague and New York: Kluwer Law International, pp. 145-182
- Babis V. (2014) "Single Rulebook for Prudential Regulation for Banks: Mission accomplished?" *Legal Studies Research Paper Series* No. 37, University of Cambridge, July
- Brouwer Report (2001) *Report on financial crisis management*, Economic and Financial Committee, Brussels, 17 April
- Casey J. and Lanao K. (2005) "EU Financial Regulation and Supervision beyond 2005", *CEPS Task Force Report* No. 54, January
- Constâncio V. (2013) "Implications of the Single Supervisory Mechanism (SSM) on the European System of Financial Supervision (ESFS)", Speech at the Public Hearing on Financial Supervision in the EU, Bruxelles, 24 May
- D'Hulster K. (2011) "Cross Border Banking Supervision. Incentive Conflicts in Supervisory Information Sharing between Home and Host Supervisors", *World Bank, Policy Research Working Paper* No. 5871, November
- Darvas Z. and Wolff G. (2013) "Should Non-Euro Area Countries join the Single Supervisory Mechanism?" *Danube: Law and Economic Review*, 4(2), pp. 141-163
- De Grauwe (2011) "The Governance of a Fragile Eurozone", *CEPS Working Document, Economic Policy*, May



- 
- De Grauwe P. and Ji Y. (2013) "How much fiscal discipline in a monetary union?" *Bank of Greece Special Conference Paper "The crisis in the euro area"*, May 23-24
- De Larosière Report (2009) *The High-level Group on Financial Supervision in the EU*, Brussels, 25 February
- Dell'Ariccia G. and Marquez R. (2006) "Competition among regulators and credit market integration", *Journal of Financial Economics*, 79, pp. 401-430
- Deutsche Bank Research (2000) *Regulation and banking supervision: caught between the nation state and global financial markets*, No. 86, June 29
- Di Giorgio G. and Di Noia C. (2001) "Financial Regulation and Supervision in the Euro Area: A Four-Peak Proposal", *Wharton Financial Institution Center* 01-02, January
- Draghi M. (2014) "Financial Integration and banking union", Speech at the conference for the 20<sup>th</sup> anniversary of the establishment of the European Monetary Institute, Brussels, 12 February
- Duisenberg W. (2000) "The future of banking supervision and the integration of financial markets", Speech at the Conference organised by the Euro Group "Improving integration of financial markets in Europe", Turin, 22 May, BIS Review 42/2000, pp. 1-5
- EBA (2015) *EBA Report on convergence of supervisory practices*, April
- ECB (2001) *The role of central banks in prudential supervision*, 22 March, available at the URL: <https://www.ecb.europa.eu/press/pr/date/2001/html/pr010322.en.html>
- ECB (2015) *ECB Annual Report on supervisory activities 2014*, March
- ECB (2015b) *Draft ECB Regulation on the exercise of options and discretions*, available at the URL: [https://www.bankingsupervision.europa.eu/legalframework/publiccons/html/reporting\\_options.en.html](https://www.bankingsupervision.europa.eu/legalframework/publiccons/html/reporting_options.en.html)
- Eisenbeis R. (2007) "Agency problems and goal conflicts in achieving financial stability: the case of the EMU", in Mayes D. and Woods G. (eds) *The Structure of Financial Regulation*, London and New York: Routledge International Studies in Money and Finance, pp. 232-256

- 
- Enria A. (2013) "The Single Market after the Banking union", AFME and EBF Banking union in Europe Conference, Brussels, 18 November
- Enria A. (2015) "The Single Rulebook in banking: is it "single" enough?" Speech of the Chairman of the European Banking Authority at the University of Padova, 28 September
- ESM (2012) *Treaty Establishing the European Stability Mechanism, T/ESM 2012*
- ESRB (2015) *ESRB report on the regulatory treatment of sovereign exposures*, March
- European Commission (2007) *Review of the Lamfalussy process. Strengthening supervisory convergence*, COM (2007) final, OJ C 55 of 28.2.2008
- European Commission (2012) *A Roadmap towards a Banking union*, Communication from the Commission to the European Parliament and the Council, COM (2012) 510 Final, Brussels, 12 September
- European Commission (2014) *Recommendation for a Council Recommendation on Croatia's 2014 national reform programme and delivering a Council opinion on Croatia's 2014 convergence programme*, COM (2014) 412 final, Brussels 2.6.2014
- European Commission (2014b) *Report from the Commission to the European Parliament and the Council on the operations of the European Supervisory Authorities (ESAs) and the European System of Financial Supervision (ESFS)*, COM (2014) 509 final, Brussels, 8.8.2014
- European Commission (2015) *Completing the Banking union*, available at the URL: [http://ec.europa.eu/priorities/economic-monetary-union/docs/single-market-strategy/factsheet-completing-banking-union\\_en.pdf](http://ec.europa.eu/priorities/economic-monetary-union/docs/single-market-strategy/factsheet-completing-banking-union_en.pdf)
- European Council (2012) *Conclusions*, EUCO 156/12, Brussels, 19 October
- European Financial Services Round Table (2005) *On the Lead Supervisor model and the Future of Financial Supervision in the EU*, June
- Financial Services Committee (2005) *Report on Financial Supervision*, Brussels, available at the URL: <http://www.eumonitor.nl/9353000/1/j9vwik7m1c3gyxp/vi7jgt0obpzk>
- Financial Times (2015) *The German counter-attack on Juncker's euro plan*, September 11

- 
- Financial Times (2015b) *ECB puts in place secret credit lines with Bulgaria and Romania*, July 16
- Freixas X. (2003) "Crisis Management in Europe", in Kremers J., Schoenmaker D. and Wierts P. (eds.) *Financial Supervision in Europe*, Cheltenham, UK: Edward Elgar, pp. 102-28
- Fresh A. and Bailey M. (2009) "What does international experience tell us about regulatory consolidation?" *PEW Economic Policy Department, Financial Reform Project, Briefing Paper No. 6*
- FSA (2009) *A regulatory response to the global banking crisis*, Financial Services Authority, March
- German Council of Economic Experts (2012), *Financial Markets in Europe: from the Single Market to the Banking union*, Annual Economic Report 2012/2013, Third Chapter, 2 November, available at the URL: <http://www.sachverstaendigenrat-wirtschaft.de/jahresgutachten-2012-20130.html?&L=1>
- Goodhart C.A.E. (2003) "The political economy of financial harmonisation in Europe", in in Kremers J., Schoenmaker D. and Wierts P. (eds.) *Financial Supervision in Europe*, Cheltenham, UK: Edward Elgar, pp. 132-137
- Goodhart C.A.E. and Schoenmaker D. (1993) "Institutional separation between supervisory and monetary agencies", *LSE Financial Market Group Special Paper Series*, No. 52, London School of Economics, April
- Goodhart C.A.E. and Schoenmaker D. (2006) "Burden-sharing in a Banking crisis in Europe", *Sweriges Riksbank Economic Revue*, no. 2, pp. 34-57
- Gross D. (2012) "Banking union. Ireland versus Nevada, an illustration of the importance of and integrated banking system", *CEPS Commentaries*, 18 October
- Hakkarainen P. (2014) "Banking Union – Implications for Nordic?" Speech at the Sweriges Riksbank, Stockholm, 5 May
- Hardy D. (2009) "A European mandate for financial sector supervision in the EU", *IMF Working Paper WP/09/5*, January

- 
- Hennessy A. (2014) "Redesigning financial supervision in the European Union (2009-2013)", *Journal of European Public Policy*, 21, pp. 151-168
- Herring R. (2013) "The danger of building a banking union on a one-legged stool", in Allen F. et al (eds) *Political, Fiscal and Banking union*, European University Institute, Florence, and Wharton Financial Institutions Center University of Pennsylvania, Philadelphia, pp. 9-28
- HM Treasury, FSA and Bank of England (2005) *Supervising financial services in an integrated European Single Market. A discussion paper*, January
- Holtausen C. and Rende T. (2004) "Cooperation in international banking supervision", *ECB Working Paper Series* No. 316, March
- House of Lords (2009) *The Future of EU Financial Regulation*, Vol. II: Evidence, European Union Committee, 14<sup>th</sup> Report of Session 2008-2009, 17 June, London: Stationery Office
- House of Lords (2012) *European Banking union: Key Issues and Challenges*, European Union Committee, 7<sup>th</sup> Report of Session 2012-13, London: Stationery Office
- IMF (2015) *Central and Eastern Europe: New Member States (NMS) Policy Forum, 2014*, April 2015, pp. 36-63
- Kahn M. and Santos J. (2001) "Allocating bank regulatory powers: lender of last resort, deposit insurance and supervision", BIS Working Paper No. 102, August
- Kregel J. (2015) "Europe at the crossroads: financial fragilities and the survival of the single currency", *Levy Economics Institute of Bard College, Policy Note*, 1
- Kremers et al (2001) "Does Europe need a Euro-wide supervisor?" A reprint from *The Financial Regulator*, vol. 6, No. 3, December
- Laeven L. and Valencia F. (2012) "Systemic banking crises database: an update", *IMF Working Paper* WP/12/163, June
- Lamfalussy Report (2001) *Final Report of the Committee of Wise Men on the Regulation of European Securities Markets*, Brussels, 15 February
- Lannoo K. (2002) "Supervising the European Financial System", *CEPS Policy Brief* No. 21, May

- 
- Lastra R. (2000) "The division of responsibilities between the European Central Bank and the National Central Banks within the European System of Central Banks", *Columbia Journal of European Law*, 6, pp. 167-174
- Lastra R. (2006) *Legal foundations of international monetary stability*, Oxford: OUP
- Lautenschläger S. (2015) *Interview with the Handelsblatt*, 29 October, available at the URL: [https://www.ecb.europa.eu/press/inter/date/2015/html/sp151029\\_1.en.html](https://www.ecb.europa.eu/press/inter/date/2015/html/sp151029_1.en.html)
- Lehmann A. and Nyberg L. (2014) "Europe's banking union in the global financial system: constructing open and inclusive institutions", *EBRD Working Paper* No. 175, October
- Montanaro E. (2015) *Cross border banking and competition among national financial systems*, FESSUD Research Program, forthcoming
- Montanaro E. (2015b) *Central banks and financial supervision: new tendencies*, FESSUD Research Program, forthcoming
- Montanaro E. (2016) "Crisis management: The 1990s experience of the Nordic countries", in Kattel R., Kregel J. and Tonveronachi M. (eds), *Financial Regulation in the European Union*, Abingdom and New York: Routledge, pp. 273-284
- Montanaro E. and Tonveronachi M. (2012) "Financial re-regulation at a cross-road: how the European experience strengthens the case for a radical reform build on Minsky's approach", *PSL Quarterly Review*, vol. 65, no. 263, pp. 335-383
- Mortimer-Schutts I. (2005) "EU Regulatory and Supervisory Convergence: The case for a dual system with choice", *AEI-Brookings Joint Center and GEM-Sciences Po*, December
- Nieto M. (2007) "The debate on the EU institutional framework for dealing with banking crisis", in Mayes D. and Woods G. (eds) *The Structure of Financial Regulation*, London and New York: Routledge International Studies in Money and Finance, pp. 205-213.
- Nieto M. and Schinasi G. (2007), "EU framework for safeguarding financial stability: towards an analytical benchmark for assessing its effectiveness", *IMF Working paper* WP/07/260

- 
- Non Paper (2015) *The EMU needs a stronger Banking Union, but must get it right*, 8 September 2015, available at the URL: [http://blogs.ft.com/brusselsblog/files/2015/09/Nonpaperfinal\\_20150910091345.pdf](http://blogs.ft.com/brusselsblog/files/2015/09/Nonpaperfinal_20150910091345.pdf)
- Noyer C. (2014) "Why the Economic and Monetary Union needs a Banking Union", Speech at the Lamfalussy Lectures Conference "The euro dilemma: inside or outside", Budapest, 31 January, available at the URL: <http://www.bis.org/review/r140205e.htm>
- Padoa-Schioppa T. (2004) *The Euro and its Central Bank. Getting United after the Union*, Cambridge MA: MIT Press
- Padoa-Schioppa T. (1999) "EMU and banking supervision", Lecture at the *London School of Economics, Financial Market Group* on 24 February 1999, European Central Bank
- Padoa-Schioppa T. (2002) "Central banks and financial stability: exploring a land in between", Second ECB Central Banking Conference "The transformation of the European Financial System", Frankfurt a.M., 24 and 25 October
- Persaud A. (2015) *Reinventing financial regulation. A Blueprint for Overcoming Systemic risk*, Apress
- Pistor K. (2010) "Host's Dilemma: Rethinking EU Banking Regulation in Light of the Global Crisis", *Columbia University Law School and ECGI, Finance Working Paper No. 286/2010*, June
- Quaglia L. et al (2009) "The financial turmoil and EU policy cooperation in 2008", *Journal of Common Market Studies* 47 (1), pp. 63-87
- Raiffeisen Research (2015) *CEE Banking Sector Report*, June
- Sáinz de Vicuña A. (2003) "The legal Integration of Financial Markets in Europe", in Andenas M. and Avgerinos Y. (eds) *Financial Markets in Europe: Towards a Single Regulator?* London, The Hague and New York: Kluwer Law International, pp. 3-34
- Schäuble W. (2013) *The Banking union – another step towards a tighter-knit Europe*, Federal Ministry of Finance, 23 October, available at the URL: [/BMF/Web/EN/Press\\_room/Speeches\\_Interviews\\_Articles/speeches\\_interviews\\_articles](http://BMF/Web/EN/Press_room/Speeches_Interviews_Articles/speeches_interviews_articles)

- 
- Schinasi G. (2006) *Safeguarding Financial Stability. Theory and Practices*, Washington DC: IMF
- Schoenmaker D. (2014) "On the need for a fiscal backstop to the banking system", *Duisenberg School of Finance, DSF Policy Paper Series*, No. 44, July
- Schoenmaker D. (2015) "Firmer foundations for a stronger European Banking union", *Bruegel Working Paper* 2015/13, November
- Schoenmaker D. and Oosterloo S. (2005) "Financial Supervision in an Integrating Europe: Measuring Cross-border Externalities", *International Finance*, 8,1, pp. 1-27
- Schoenmaker D. and Oosterloo S. (2008) "Financial supervision in Europe: A proposal for a new architecture", in Jonung L, Walker C. and Watson (eds) *Building the Financial Foundation of the Euro – Experiences and Challenges*, London: Routledge, pp. 337-354
- Thygesen N. (2003) "Comments on the political economy of financial harmonisation in Europe", in Kremers J., Schoenmaker D. and Wierts P. (eds.) *Financial Supervision in Europe*, Cheltenham, UK: Edward Elgar, pp. 142-150
- Tonveronachi M. (2014) "The ECB and the Single European Financial Market", *Levy Economics Institute of Bard College, Public Policy Brief* no. 137, September
- Tröger T. (2013) "The Single Supervisory Mechanism – Panacea or Quack Bank Regulation? Preliminary Assessment of the evolving regime for the prudential supervision of banks with ECB involvement", *IMFS Working Paper Series*, No. 73
- Valiante D. (2014) "Framing Banking union in the Euro Area. Some empirical evidence", *CEPS Working Document* No. 389, February
- Van Rompuy H. (2012) *Towards a Genuine Economic and Monetary Union*, EUCO 120/12, Brussels, 26 June
- Véron N. (2011) "Testimony on the European debt and financial crisis", *Bruegel Policy Contribution Issue* 2011/11, September
- Vienna Initiative (2014) *Working Group on the European Banking Union and Emerging Europe*, April 30

Wymeersch E. (2010) "The institutional reforms of the European Financial Supervisory Systems, an Interim Report", *University of Gent, Financial Law Institute, Working Paper Series* WP 2010/01, January

Yeşin P. (2013) "Foreign currency loans and systemic risk in Europe", *Federal Reserve Bank of St. Louis Review*, May/June, pp. 219-235

### **Non-euro countries evaluations for joining the banking union: sources**

Bulgaria: "Bulgarian Parliament appoint Radev as Central Bank Governor", *Bloomberg* July 14, 2015 <http://www.bloomberg.com/news/articles/2015-07-14/bulgaria-s-parliament-appoints-radev-as-central-bank-governor>

Croatia: "Croatian Governor cautious over banking union", *Central Banking*, 4 June 2013, <http://www.centralbanking.com/central-banking/news/2272694/croatian-governor-cautious-over-banking-union>

Czech Republic: "Impact Study of participation or non-participation of the Czech Republic in the Banking Union", Discussed by the Government of the Czech Republic on Monday 9 February 2015, available at the URL [https://www.google.it/?gfe\\_rd=cr&ei=JSxKVpuZMYyl8Qei\\_ICoCg&gws\\_rd=ssl#q=lm+impact+study+of+participation+czech+republic+banking+union](https://www.google.it/?gfe_rd=cr&ei=JSxKVpuZMYyl8Qei_ICoCg&gws_rd=ssl#q=lm+impact+study+of+participation+czech+republic+banking+union)

Hungary: Kisgergely K. and Szobati A. (2014) "Banking Union through Hungarian eyes – the MNB's assessment of a possible close cooperation", *MNB Occasional Paper* 115, available at the URL: <https://www.mnb.hu/en/publications/studies-publications-statistics/occasional-papers/op-115-kornel-kisgergely-aniko-szombati-banking-union-through-hungarian-eyes-the-mnb-s-assessment-of-a-possible-close-cooperation>

Poland: Reich A. and Kawakec S. (2014) "The Banking Union: State of Art", available at the URL: [http://econpapers.repec.org/scripts/redir.pf?u=http%3A%2F%2Fwww.case-research.eu%2Fsites%2Fdefault%2Ffiles%2Fpublications%2F137\\_mBank\\_CASE\\_final.pdf;h=repec:sec:bresem:0137;4](http://econpapers.repec.org/scripts/redir.pf?u=http%3A%2F%2Fwww.case-research.eu%2Fsites%2Fdefault%2Ffiles%2Fpublications%2F137_mBank_CASE_final.pdf;h=repec:sec:bresem:0137;4)



- 
- Poland: Profant T. and Toporowski P. (2014) "Potential for cooperation Polish and Czech Standpoints on the Banking Union", *PISM Policy Paper* no. 16 (99), August, available at the URL: [https://www.pism.pl/files/?id\\_plik=18005](https://www.pism.pl/files/?id_plik=18005)
- Romania: Georgescu O. (2014) "Romania in the Banking Union: why local supervision of cross-border banking is not enough", *CRPE*, available at the URL: <http://www.crpe.ro/en/romania-in-the-banking-union-why-local-supervision-of-cross-border-banking-is-not-enough/>
- Denmark: "Danish participation in the Banking Union", *Danmarks Nationalbank Monetary Review*, 4<sup>th</sup> Quarter 2014, available at the URL: [https://www.nationalbanken.dk/en/publications/Documents/2015/01/Danish%20Participation%20in%20the%20Banking%20Union\\_Mon4-2014.pdf](https://www.nationalbanken.dk/en/publications/Documents/2015/01/Danish%20Participation%20in%20the%20Banking%20Union_Mon4-2014.pdf)
- Sweden: Ekholm K. (2014) "The Banking Union and the European Financial System. A Swedish Perspective", Presented at the Peterson Institute for International Economics, Washington, DC, October 9, available at the URL: <http://www.iie.com/publications/papers/ekholm20140109ppt.pdf>

---

Financialisation, Economy, Society and Sustainable Development (FESSUD) is a 10 million euro project largely funded by a near 8 million euro grant from the European Commission under Framework Programme 7 (contract number : 266800). The University of Leeds is the lead co-ordinator for the research project with a budget of over 2 million euros.

## **THE ABSTRACT OF THE PROJECT IS:**

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?

## THE PARTNERS IN THE CONSORTIUM ARE:

Participant Number	Participant organisation name	Country
1 (Coordinator)	University of Leeds	UK
2	University of Siena	Italy
3	School of Oriental and African Studies	UK
4	Fondation Nationale des Sciences Politiques	France
5	Pour la Solidarite, Brussels	Belgium
6	Poznan University of Economics	Poland
7	Tallin University of Technology	Estonia
8	Berlin School of Economics and Law	Germany
9	Centre for Social Studies, University of Coimbra	Portugal
10	University of Pannonia, Veszprem	Hungary
11	National and Kapodistrian University of Athens	Greece
12	Middle East Technical University, Ankara	Turkey
13	Lund University	Sweden
14	University of Witwatersrand	South Africa
15	University of the Basque Country, Bilbao	Spain

The views expressed during the execution of the FESSUD project, in whatever form and or by whatever medium, are the sole responsibility of the authors. The European Union is not liable for any use that may be made of the information contained therein.

Published in Leeds, U.K. on behalf of the FESSUD project.