

THE GREAT FINANCIAL PLUMBING

From Northern Rock to banking union



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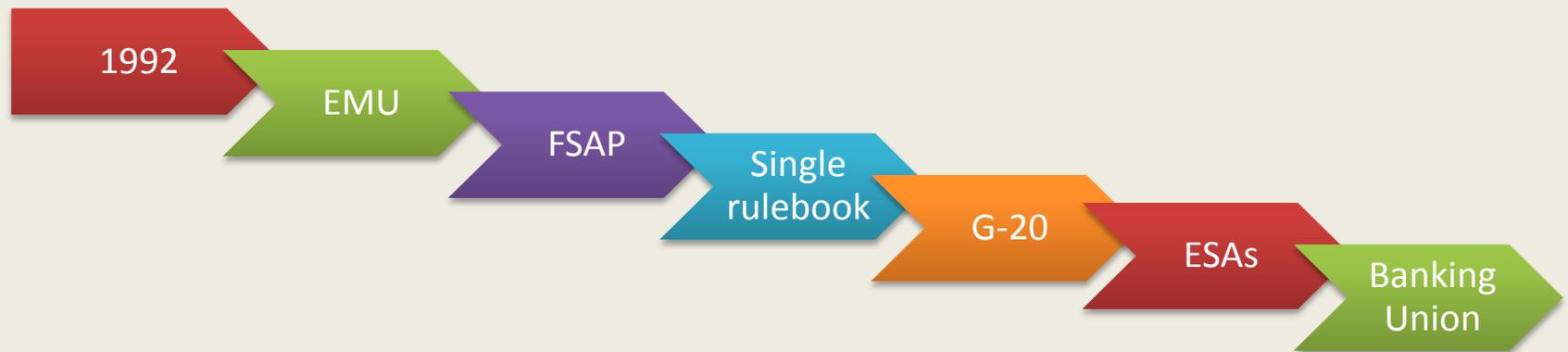
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25 years of EU financial market liberalisation and re-regulation



Financial crisis response: dual process

- G-20 led: international & technocratic
 - FSB (central banks) in command
 - EU followed
- Further institutionalisation and centralisation of rulemaking in the EU
 - (Initially) more tasks for committees (Lamfalussy)
 - Single rulebook (March 2008)
 - Creation of ESAs (Delarosière), but too intergovernmental and limited means
 - Banking Union: SSM, SRM, EDIS (DGS)

Financial re-regulation (in a nutshell)

item	before	now
Capital	Basel II/CRD (Solvency II)	Basel III/CRDIV: more and better quality capital (more than double)
OTC derivative markets	Bilateral, no EU rules	Central clearing (about 2/3rds in CCP, EMIR rules) and trading (MiFID II)
CSDs	Code of conduct	Regulation, FPS and free access
Rating agencies	'freedom of speech'	License and supervision (CRA regulation)
Hedge funds	No EU rules	License and supervision (AIFMD)
Resolution	No EU rules	Resolution authority and fund (1% deposits) , mandatory bail-in, single resolution authority (SRB)
Deposit guarantee schemes	Min level €20,000 (later €100,000)	Pre-funding (0.8% deposits) and quick pay-out

Characteristics

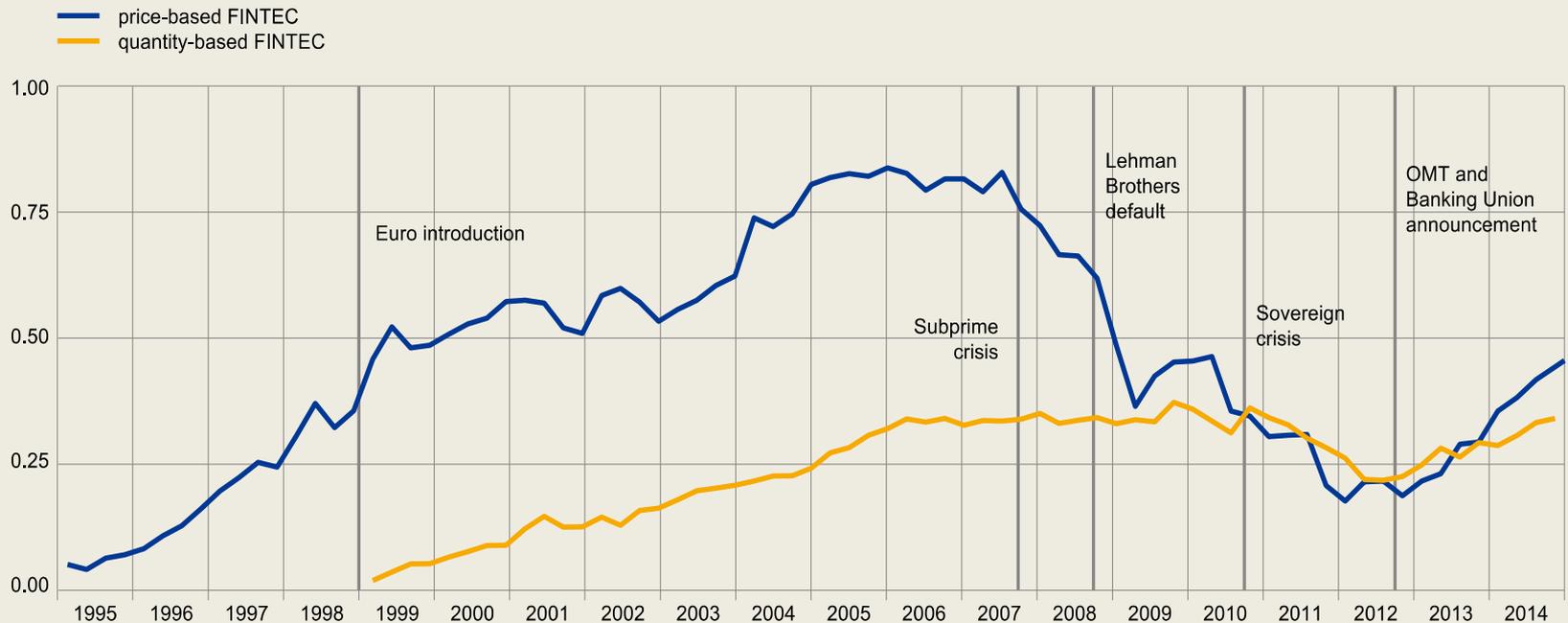
- Process led by **central banks in FSB**
- **Safety** at all costs (capital, bail-in, resolution fund, participation in CCPs)
 - Are we de-risking?
- More EU **regulations** (compared to directives), directly applicable
 - **Single Rulebook**
 - Unstoppable rulemaking process at level 2
 - **‘Too small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

Key measures and implementing provisions

	form	RTS/ITS/IA/DA	supervision	
CRDIV/CRR	D/R	75	NCA/ECB	Bonus rules
Solvency II	D	45	NCA	
EMIR	R	26	NCA/ESMA for TR	
MiFID/MiFIR	D/R	18	NCA	
MAD/MAR	D/R	4	NCA	
AIFMD	D	10	NCA	Bonus rules
UCITS IV/V	D	7	NCA	Bonus rules
CSDR	R	9	NCA	
CRA I-II-III	R	20	ESMA	Remunerat rules
BRRD	D	10	NRA	
SRM	R	4	SRB	
	7R/7D	228 (131 adopted)		

Market integration like in 1999

Price- and quantity-based FINTECs



Source: ECB.

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

Not many really internationally active banking groups in SSM

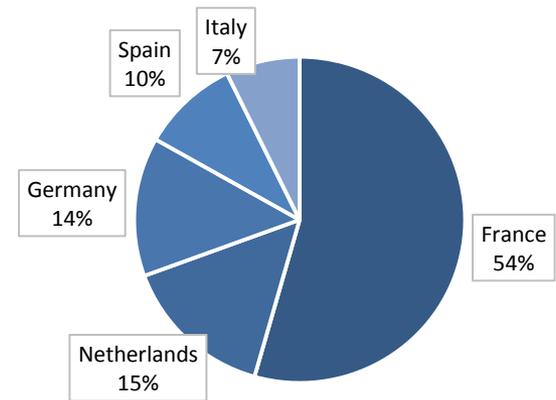
		Foreign branches							Total			
		0	1	2	3	4	5	5+				
Foreign subsidiaries	0	968	79	22	16	8	4	4	1,101	} 86%	} 173 (14%)	
	1	40	16	12	3	2	2	3	78			
	2	13	8	4	1	3	1	4	34			
	3	5	3	1	3	3	2	2	19			
	4	1	4	3	0	0	3	5	16			
	5	0	1	0	1	0	3	0	5			
	5+	3	0	5	1	2	3	7	21			
Total	1,030	111	47	25	18	18	25	1,274				
		} 244 (19%)										
		} 62 (5%)										
											Subject to supervisory colleges	

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

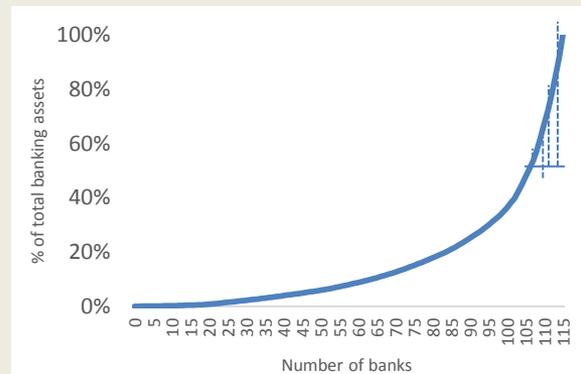
Top 10 SSM banks

NR	Bank	Country	Total Assets EURbn	Dom. market share %	EA market share %
1	BNP Paribas	FR	1,800	28.4	6.7
2	Deutsche Bank	DE	1,611	23.9	6.0
3	Crédit Agricole S.A.	FR	1,537	24.2	5.7
4	Société Générale	FR	1,235	19.5	4.6
5	BPCE Group	FR	1,124	17.7	4.2
6	Banco Santander	ES	1,116	32.0	4.2
7	ING	NL	1,081	44.4	4.0
8	UniCredit	IT	846	32.2	3.2
9	Rabobank	NL	674	27.7	2.5
10	Crédit Mutuel Group	FR	659	10.4	2.5

Distribution of assets Top 10



Cumulative share in assets



Largest 10 SSM banks cover 52% of total bank assets

Supervisory structure remains complex

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

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

Layers of defence

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

Queries on regulatory framework

- **Single rulebook** and level 2 measures: is the sky the limit? Where is mutual recognition
- **Regulatory reliance on rating agencies** remains, back at same profitability levels as before crisis
- **Asset management regulatory** framework even more **fragmented**
- Financial infrastructures with multiple supervisors
- 0% RW and no large exposures rules for gov. debt
- Have banks go enough bail-in-able debt

Queries re supervisory framework

- **ECB TBTF?**
- Confusion of roles in ECB
 - See Greek banks situation
 - Where is macro-pru? Who is in charge?
- Where does supervision end and resolution start
 - Will MREL become the benchmark?
 - How intrusive will SRB (and resolution bodies) be?
 - Will resolution and bail-in work?
 - Role of DGS in resolution
- Continuing role of MS in CRDIV (150 options)
- Non-harmonisation of accounting (and taxation)

What remains?

- SSM separate from ECB
 - Would make it easier for non-eurozone to participate
- SSM for capital markets and insurance
 - Supervision CCPs and benchmarks
 - ‘Twin peaks’ with EU wide conduct of business supervisor
 - Not necessarily for eurozone only