The SSM’s impact on non-SSM countries

Eilis Ferran, University of Cambridge

SSM two years on: external relations

- ECB SSM has "established credibility" on the international stage (European Parliament, March 2016)
  - ECB SSM full membership of Basel Committee (in addition to ECB central bank membership)
  - ECB SSM seat on FSB Supervisory and Regulatory Cooperation Standing Committee
  - ECB SSM and the European System of Financial Supervision (MoUs with EU bodies (eg EBA, SRB))
- Cross-border supervisory co-operation and coordination
  - ECB SSM Supervisory Policies Division to coordinate international coordination
  - ECB SSM participant in supervisory colleges
    - 8 G-SIBs
  - ECB SSM joined to existing supervisory MoUs; developing ECB SSM templates for supervisory MoUs

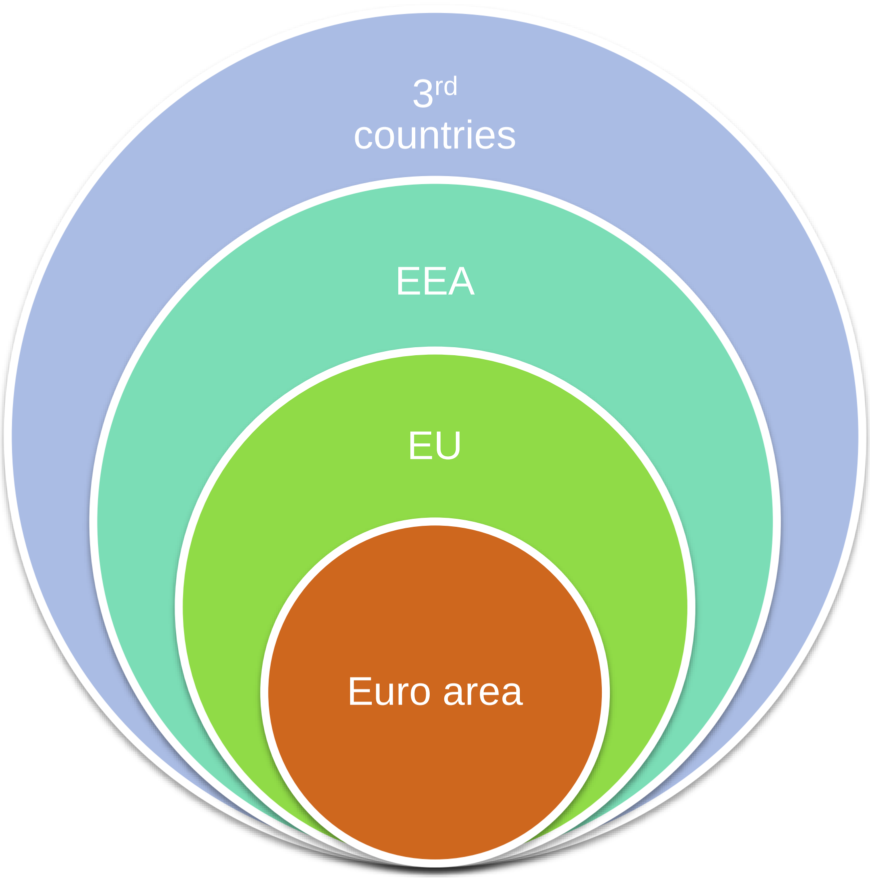
SSM two years on: issues and challenges [I]

- Early planning of supervisory activity ("there is a great deal of room for improvement in this respect", EP, March 2016)
- Double reporting requirements, multiple reporting channels
- Administrative costs, especially for smaller institutions
- Need to improve comprehension, among supervised entities, of a common supervisory approach underlying the concrete individual micro-prudential measures
- Adequate transparency
- Development of streamlined decision-making processes for Supervisory Board – timely handling of procedures challenging (eg fit and proper person approvals bottleneck)

SSM two years on: issues and challenges [II]

- Due regard to proportionality principle
- Effective coordination between macro- and micro-prudential policies/authorities
- Operation of ECB SSM enforcement and sanctioning powers
  - Interaction with protection of fundamental rights
- Reputational concerns
  - “Bending the rules” for Deutsche Bank
  - Systemic threat of Deutsche “Not ECB Fault”

SSM and non-SSM European countries: should the outs join? Not all can …



	Single market	SSM/ SRM/ SRF	Bridge finance	ESM
Euro area	√	√	√	√
EU	√	√*	√**	
EEA	√	?		
3rd c'try	Partial access***			

* Sweden & UK non-signatories to IGA
** join loan facility agreement
*** bespoke (Switzerland) or equivalence-based

SSM and non-SSM countries: should those outs who can join do so?

- **Pia Hüttl** and **Dirk Schoenmaker**, **“Should the ‘outs’ join the European banking union?”** (Bruegel Policy Contribution, Issue 2016/03)
  - Advocates joining BU for Sweden and Denmark to benefit from consolidated supervision of large banks
  - Advocates joining BU for Central Eastern Europe as a more stable arrangement for managing financial stability and maintaining lending capacity
- Benefits and drawbacks/complications of joining: the theoretical standpoint
- Standpoint of MSs

No rush yet ..

What joining requires

- ECB SSM comprehensive assessment (AQR + stress test)
- undertaking by MS to ensure that NCA/NDA will adhere to ECB instructions, guidelines or requests issued by the ECB from the date
- undertaking by MS to provide all information on the supervised entities established in such MS that ECB may require for the purpose of comprehensive assessment, significance assessment etc
- undertaking by MS to adopt relevant national legislation to ensure that legal acts adopted by the ECB are binding and enforceable in MS and that NCA/NDA are obliged to comply

The terms of joining [I]

- SSM governance
  - SSM Supervisory Board: preliminary tasks and execution; ECB Governing Council: decisions; SSM Supervisory Board: all participating MSs; ECB Governing Council: euro area MSs → disagreement mechanism
- SSM operational activity
  - Indirect ECB supervision via instructions to NCA: greater (in)efficiencies?
  - Liability: NCA front line decision-maker, but acting on ECB instruction
    - More intense problems re interaction with fundamental rights?
- Macroprudential measures: sharing of powers between NCAs and ECB national authorities
  - Complications of multiple central banks
  - ECB Governing Council "own initiative" intervention re higher requirements

The terms of joining [II]

- Single Resolution Fund – single market instrument as legal basis
- SRF Intergovernmental Agreement: most “outs” signed
- Bridge financing arrangement: joining in those that want to participate
- Liquidity facilities: no automatic access to ECB liquidity facilities
- ESM: less important?
- Mutualisation issues
- Weighing the options
  - Do the advantages outweigh the drawbacks?
  - Economic analysis; political calculation: **IMF, Central and Eastern Europe: New Member States (NMS) Policy Forum 2014** (IMF, 2015)

What do outs think? [I]

- **Denmark: inter-ministerial working group** (2015)
  - Small country, big banking sector; participation in BU can provide anchor in strong European framework; enhance Danish interests in EU, especially legislative developments; access to "common insurance" for Danish institutions in extraordinary situations
  - But questions/concerns about: practice and decision-making processes; handling of economic challenges; treatment of Danish mortgage credit system; Governing Council's right to bypass Supervisory Board on decisions about macroprudential tools

What do outs think? [II]

- **Czech perspective: Impact Study (Ministry of Finance** (2015))
  - Uncertainty about benefits and risks of joining; BU dynamic and evolving – wait and see; Czech banking sector considered relatively stable → lower benefits from entry; SSM new and untested → concerns about efficiency, complex and expensive processes; loss of CNB's competence over significant financial institutions a concern; ECB annual supervisory fees regarded as negative aspect; negatives not outweighed by positives arising from being "at the table"
  - Concern about limiting CNB's powers in resolution situations; and about being obligated to participate in financing resolution of banks in other participating MSs; no countervailing identified financing need for resolution of larger domestic bank; uncertainties re bridge financing
  - Joining could promote national strategic interests at EU level and boost sectoral competitiveness, but benefits not guaranteed

What do outs think? [III]

- **Hungary**: potential added value in reinforcement of financial stability limited; common resolution fund attractive but tempered by mutualisation concerns (**Kisgergely & Szombati, MNB Occasional Paper** (2014))
- **Poland**: also "wait and see"
- **Mero and Piroska, "Banking Union and Banking Nationalism – Explaining Opt-out Choices of Hungary, Poland Czech Republic"** (IBS Working Paper 1/2016)
  - CEE countries opt mainly because governments in these countries want to stay in control, and believe their supervisory practices are equal/superior to ECB. Bulgaria and Romania's wish to join BU reflects fragility of banking system and low state capacity to maintain stability

Country choice? International banking group choice?

- SSM banks
  - Conversion of subsidiaries to branches
    - More than half of banking assets of CEE “outs” except Hungary are held by subsidiaries of banks headquartered in BU (**Hüttl** and **Schoenmaker**)
- Non-SSM banks
  - “Opting out” of ECB SSM “home” supervision and other aspects of BU

Non-SSM MS international bank groups

Table 2: Top 10 banks outside banking union, end-2014

Banking group	Banking union market share	Total assets (€ billions)	Home	Banking union	Rest of Europe	Rest of world
HSBC (UK)	0.5%	€2,170	33%	6%	3%	58%
Barclays (UK)	1.3%	€1,745	37%	22%	2%	38%
Royal Bank of Scotland (UK)	0.2%	€1,350	74%	5%	0%	21%
Lloyds Banking Group (UK)	0%	€1,099	96%	1%	1%	1%
Nordea (SE)	0.4%	€669	24%	18%	57%	1%
Standard Chartered (UK)	0.1%	€598	12%	3%	1%	84%
Danske Bank (DK)	0.2%	€465	62%	12%	26%	0%
Svenska Handelsbanken (SE)	0.1%	€300	59%	8%	18%	14%
SEB Group (SE)	0.1%	€281	60%	14%	18%	8%
Swedbank (SE)	0.1%	€226	76%	10%	9%	5%
Top 10 banks outside banking union	**2.9%**	**€8,902**	**50%**	**10%**	**8%**	**32%**

Source: Bruegel. Note: See table 2. The top 10 is ranked by total assets.

ECB SSM direct supervision: non-SSM international bank groups

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Non-SSM international bank group: ECB SSM supervision

- Non SSM MS bank group with SSM subsidiary:
  - ECB/NCA supervision depending on significance (consolidated basis within EA)
  - Exposure to SRM, SRF etc
  - Non SSM MS bank group with SSM branch
    - Branch supervision: ECB/NCA depending on significance (solo basis)

Non SSM MS international bank group: group restructuring

- Group restructuring in shadow of ECB SSM
- Nordea example: Nordic subsidiaries → branches of Swedish parent
  - Align legal structure with operational realities; Nordea Baltic operations already organised in branches
  - Efficiency gains: capital, own funds, IT, governance and organisational matters
  - Streamline supervision
  - Swedish (non SSM) resolution and deposit insurance
    - Liquidity assistance

Nordea and Swedish banking supervision

- "FI is responsible for supervising some of the largest and systemically important banks in the region, but its resources should be expanded to achieve an appropriate frequency of supervisory inspection, especially if the conversion of Nordea's regional banking subsidiaries into branches proceeds.
- The interconnectedness of Nordic-Baltic financial systems means developments in one country could have significant spillovers across the region. Regional cooperation on financial stability should therefore be enhanced, building on the Nordic-Baltic Macroprudential Forum established in 2011. Memoranda of Understanding being negotiated among the regional supervisors should entail full access to supervisory information including participation in on-site inspections. Similarly, cooperative agreements among the relevant authorities are needed regarding liquidity support and also to ensure financial stability in all countries is protected in event of resolution."

IMF 2016 Article IV Consultation with Sweden - Concluding Statement of the IMF Mission

Brexit as a game changer for non-SSM MS? [I]

- SSM and Single Market tensions
  - EBA double majority voting system
  - Non discrimination clause in SSM
  - The abortive "new settlement" for the UK in the EU (February 2016): mutual respect in economic governance; no discrimination based on currency; respect for the internal market; two-in-one single rulebook; no budgetary responsibility for euro area emergency and crisis measures

Brexit as a game changer for non-SSM MSs? [II]

Alicia Hinarejos, "Brexit and the euro area" [2016] European Law Review

"It would be naive and simplistic to think that the UK is all that stands between the euro countries and further and more ambitious integration … For one, the UK is not the only EU country outside the euro area; furthermore, such a view would neglect the complex political situation within most of the euro countries, the significant domestic constitutional obstacles in the way of such a leap, and the little appetite for further integration among most European citizens today … At the same time, however, … it is possible that the absence of such a reluctant member will have an impact, over the long term, on the ability of the rest of the EU—more specifically, of the euro area—to move forward and tackle some much-needed reforms."

Brexit and SSM/EU/EEA international banks

- UK operations: will subsidiarization be required?
- Bank of England
  - Non-EEA branches expected to
    - focus on wholesale banking
    - at level not critical to UK economy
- Treatment of EEA branches post Brexit? Special treatment?
- UK branches post Brexit? Reciprocity based around equivalence? Complication of 3rd country branch supervision being NCA matter?
- Industry choice?

Flight from UK? To? Implications for SSM?

TheObs

Leading banks set to pull out of Brexit UK early next year

- Bankers' chief warns over EU fallout
- 'City chiefs poised to hit relocate button'

by Daniel Boffey
Policy Editor

Britain's biggest banks are preparing to relocate out of the UK in the first few months of 2017 amid growing fears over the impending Brexit negotiations, while smaller banks are making plans to get out before Christmas.

The dramatic claim is made in the *Observer* today by the chief executive of the British Bankers' Association,

However, the government's stated intention to take control of the freedom of movement of people into the UK is widely recognised among officials to be a hammer blow to any chance of retaining the present terms of trade for banks, particularly given the bellicose rhetoric of major politicians on the continent.

The so-called passporting rights for members of the single market allow UK-based banks to offer financial services to companies and individuals across the EU unimpeded, yet the French president