



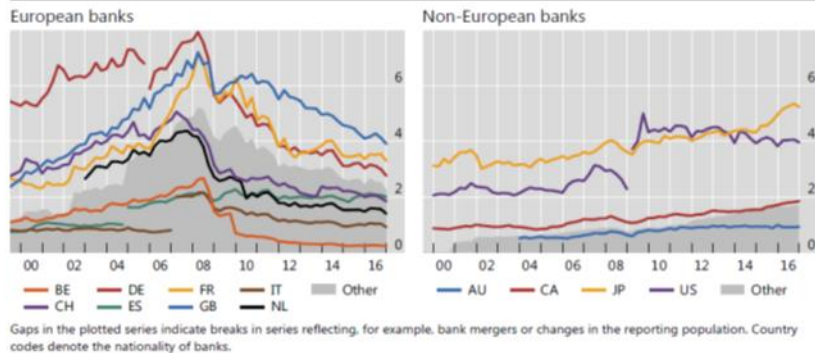
Financial integration and home-host trust in the EU

Andrea Enria, Chair, European Banking Authority

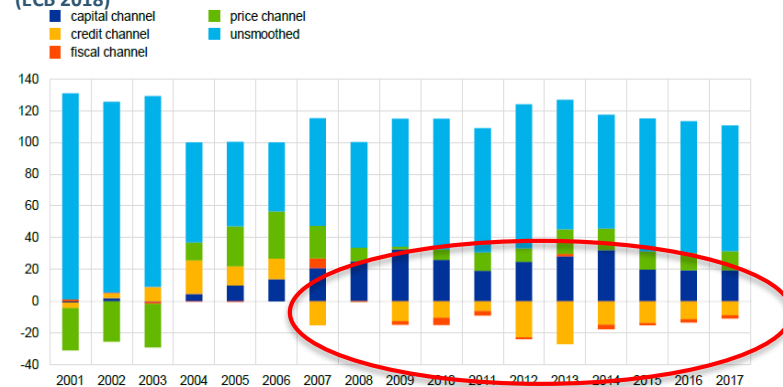
National Bank of Romania, 14 November 2018

EU: mostly inward-looking response with persistent fragmentation

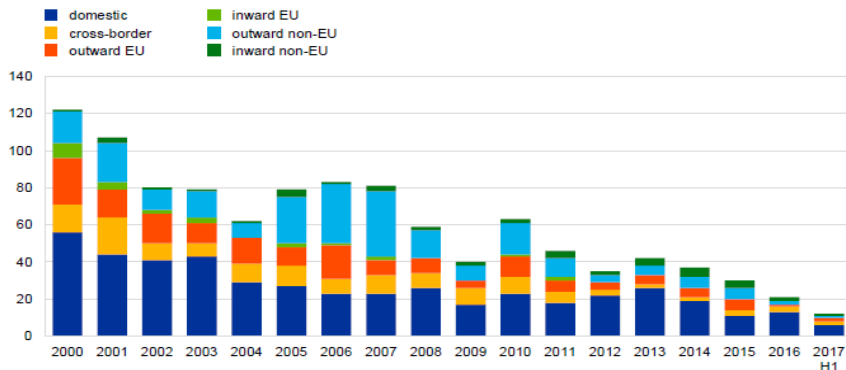
Consolidated foreign claims, by banking system as a % of GDP (IMF, BIS, BIS calculations)



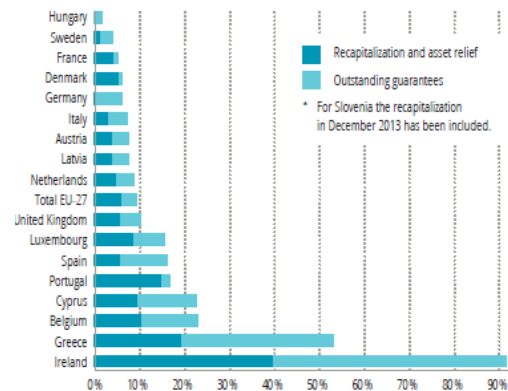
Consumption risk sharing in the Euro Area and its channels: % of shock smoothing (y-axis) (ECB 2018)



Bank M&As – number of transactions (y-axis) in the Euro Area (ECB 2017)



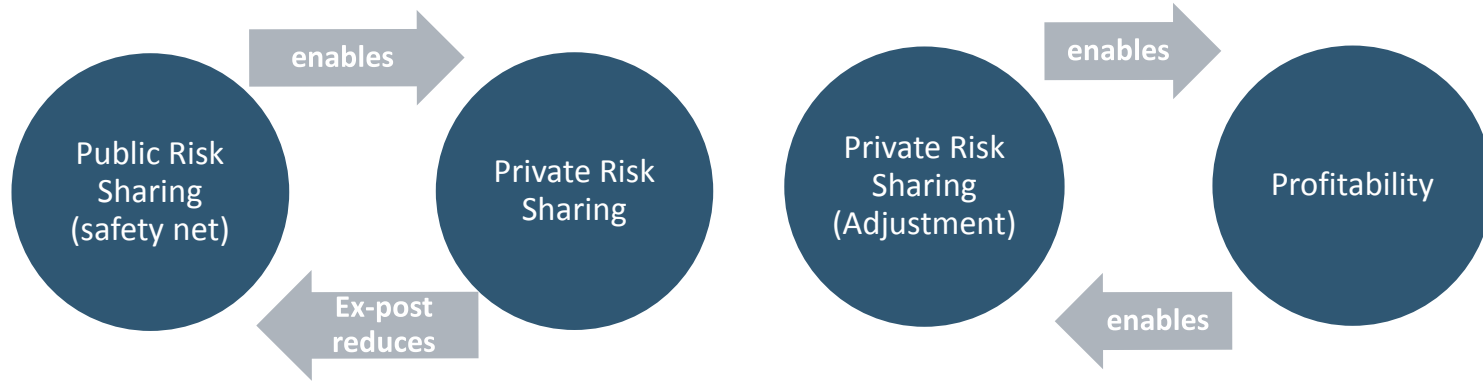
State aid approved to institutions during 2008-2012 (% of GDP 2012)



Financial integration and home-host trust in the EU

Risk sharing: 2 feedback mechanisms at stake

How the response could have been (US vs. EU)



The BRRD: a major step forward to build ex-ante trust



- **Predictability and preparedness**

- *Recovery Planning*
- *Resolution Planning (resolvability)*
- *Early Intervention Framework*

- **Cooperation/coordination**

- *Resolution Colleges*
- *All phases: preparation/intervention/resolution*

- **Common solutions**

- *Bail-in*
- *Sale of business*
- *Bridge institution*
- *Asset separation*

- **Mediation**

- *EBA role to clear controversy*

Non-BU: BRRD framework key financial integration enabling device

BU: BRRD + SRM Regulation + Common Institutions + Common Safety Net

Are banks becoming international in both life and death?



Significant progress in the build up of the framework

- **EBA Standards and Guidelines:** recovery – resolution – MREL – valuation
- **New Resolution Authorities:** established, up and running
- **Resolution Colleges:** up and running
- **Joint Decisions:** two rounds completed
- **MREL build up:** under way

Are banks becoming international in both life and death?



Some challenges remain..

- Recovery and resolution plans not always detailed/operational
- Assessment of obstacles to resolvability yet to be finalised
- Lack of clarity on MREL, i-MREL and their relationship (quantum and composition)
- Funding in resolution?
- PIA / national liquidation / NCWO still imperfect
- SPE widely chosen but pretty much uncharted territory
- SPE cross-border: agreement on local critical functions is key

Persisting signs of insufficient trust (even within the BU!)



Public side: BU completion debate

- **Despite common institutions (SSM and SRM):** Host authorities objected to CRR2 proposal mitigating capital pre-positioning within the BU (waivers)

Private side: rating agencies assessment

- **Despite BRRD framework:** public national support less likely but still part of rating methodology

What can be done to enable further trust?



Enable the potential of the current legislation

Enhanced cooperation on recovery and resolution planning

- Authorities to strive for meaningful joint decisions

Intragroup Financial Support Agreements (loans/guarantees/collateral)

- Why not used to date?
- Approval process or conditionality too complex?
- Are similar tools needed outside (i.e. ahead of) the early intervention phase?
- Is prudential regulation compatible with contractual intra-group support outside the IGFSa tool?
- Need of an EU-wide regime for guarantees?

→ Lack of similar preventive tools behind distrust and ring-fencing in response to the crisis

Complete the Banking Union

- And acknowledge it is a single jurisdiction for banking (e.g. cross-border waivers, buffers)

Review the legislation where necessary

- Remove obstacles to cross-border fungibility of capital/liquidity/loss absorption
- Dedicated Single Rulebook for Pan-EU Groups
- Develop an EU-wide bank liquidation regime (administrative regime?) → higher predictability of bank failure process



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