E-ISSN 2014-0843
D.L.: B-8438-2012

opinión
Europa

Centro de Estudios y Documentación Internacionales de Barcelona

279
NOVEMBER
2014

THE SINGLE EUROPEAN SUPERVISOR, A SOLUTION FOR THE FUTURE

Jordi Bacaria, director of CIDOB

To little media attention, the new Single Supervisory Mechanism (SSM) became operational on the 4th of November. With it, a large step forward was taken towards European banking union, the aim of which is to create an integrated financial framework to safeguard financial stability and minimise the costs of potential future bank failures. In order to achieve this, as well the SSM, the European banking union consists of the new integrated frameworks to guarantee deposits and resolve credit institutions. The SSM will be one of the two pillars of the banking union, along with the Single Resolution Mechanism (SRM). This means the largest transfer of sovereignty from states to the EU since the creation of the euro, and with it, the interpretation and application of the new prudential rules—designed to increase confidence in supervision—are unified. The European Central Bank (ECB) has also been subject to significant change, with the creation of a new supervisory committee. Prior to reaching this point, solvency tests had to be performed on 130 groups of banks in the eurozone and Lithuania that account for 82% of total banking assets in order to examine the quality of those assets and to conduct stress tests.

Thus, the ECB takes on the banking supervision duties required of all the countries in the eurozone as well as those that, without having the euro, have accepted close cooperation with the SSM. The ECB began its banking supervision duties this November, twelve months after the SSM regulation making it sole supervisor came into force. Council Regulation (EU) No. 1024/2013 of 15 October 2013 confers specific tasks relating to the prudential supervision of credit institutions on the ECB, as set out in article 127 point 6 of The Treaty on the Functioning of the EU (TFEU).

The supervision brings 3600 banks in 18 countries within a single system, the SSM, that operates via a supervisory board formed of the chair, Danièle Nouy of France, who was appointed according to the regulations on the presidency of the board, the vice-chair (Sabine Lautenschläger), who must be a member of the executive board of the ECB, four members of the ECB itself, and a representative of the national competent authority of each participating member state. The establishment of the SSM required changes to be made to the organisational structure of the ECB, with new management units such as the four micro-prudential general directorships and one secretariat of the supervisory board. As well as the Single Resolution Mechanism, the SSM cooperates with other European bodies, such as the European Systemic Risk Board, the European Banking Authority (EBA) and the European Stability Mechanism (ESM), organisations that were created as a result of the financial crisis.

Supervision is obligatory for all institutions holding more than €30 billion in assets and includes 120 important banking groups, who hold 82% of banking assets in the eurozone. The importance of these institutions to the economy of the country in which they are located and the European Union as a whole is also taken into account, as is the scale of their cross-border activities and whether they have asked for or been granted financial assistance by the European Stability Mechanism (ESM) or the European Financial Stability Facility (EFSF).

The ECB will supervise 14 banking groups in Spain, who hold more than 90% of Spanish banking assets. They are: Santander, BBVA (with CatalunyaBanc), Caixabank, Bankia, Sabadell, Popular, Kutxabank, Bankinter, Abanca, Ibercaja, BMN, Liberbank, Cajamar and Unicaja. In Germany they will monitor 21 groups; in France, 10; in Italy, 14; in the Netherlands, 7; and in Luxembourg, 5. The number of banking groups supervised per country means little if we do not also take into account the volume of their assets or the characteristics of the country itself. This means that certain small banking groups in large countries such as Germany remain outside the supervision of the ECB and are overseen by the national authorities, while small banking groups (assets of less than €30 billion) in small countries will be obliged to fall under the supervision of the ECB. In other cases, small institutions such as Banque Degroof in Belgium and Sberbank in Austria have been considered important because of the significance of their cross-border assets. Another criterion for falling under supervision is being considered one of the three most important banking institutions in the member state, as is the case for some institutions in Slovenia and Finland.

The SSM resolves an anomaly that has existed since the introduction of the euro, when a single currency was minted with the aim of creating a single financial space without foreseeing the need for a single supervisor. The task was left to the national supervisory authorities. However, the recommendations to rectify the situation, dating back to the creation of the single currency itself, went unheard until the financial crisis made reform unavoidable.

Article 105 of the Treaty of Amsterdam (1997) already made reference—in the chapter on monetary policy—to the fact that the European Council could unanimously give specific policy tasks related to the prudential supervision of credit institutions to the ECB, and this article was reproduced almost word for word in article 127 of the Treaty of Lisbon (2009). Nevertheless, during the intervening time, there were several attempts to modify it. A year after the ECB's creation (2000), its president, Wim Duisenberg, was already asking for powers of banking supervision and for coordination in that supervision to the eurozone national banks. In the negotiation of the Treaty of Nice (approved in 2000) an attempt was made to change the unanimity criterion to one of majority in order to grant the ECB supervision powers, but this initiative was blocked by the national banks of the member states. The Lamfalussy report, which was concluded in 2004, found that there was a need to better articulate the functions of the national supervisors and to bring about greater convergence in implementation, taking into account the institutional functions of the European Parliament, the Council and the Commission.

The 2008 financial crisis and its systemic effect led to the establishment of the High Level Group on EU financial supervision, presided over by Jacques de Larosière, which, with its report in February 2009, began the reforms that would result in the banking union. In reality, the end result goes further than the proposed coordination of supervisors and the establishment of the European System of Financial Supervision in 2009, as, after the European Council meeting of June 2012, the European Commission considered that mere financial coordination was insufficient to avoid future financial crises and to give confidence to the system. It proposed the ECB as sole supervisor of the 6,000 eurozone banks. This proposal was ap-

proved by the European Council in December 2012 and the countdown to banking union began. Neither the SSM, which came into force this November, nor the SRM and its Single Resolution Fund (meant to support the progressive pooling or mutualisation of banking bailouts and which should reach a target level of €55 billion within eight years) are solutions to the problems of the past. Instead, they are reforms designed to avoid future problems by strengthening the Economic and Monetary Union and the euro.