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Italian Banking, Insurance and Finance Federation (Febaf**)**

How to fix and complete the European Banking Union: what needs to be done to guarantee a level playing field in the European banking and finance sector in Europe

1) Why are European banks eight years after the Lehman Brothers crash still severely stressed out?
    a. Although the international banking crisis was triggered by an American housing bubble, today European financial intermediaries are pressured stronger than US banks.
    b. Italy was not hit by a housing bubble, but a long-lasting recession. Additionally, costly insolvency procedures and low recovery rates caused a substantial amount of nonperforming loans.

2) What was the American answer to the ongoing crisis?
    a. **TARP** (Troubled Asset Relief Program): mandatory bold bank recapitalization by the state and from the start.
    b. Banks and insurance companies paid back state-held equity and generated revenues for the financial administration.
    c. The EU-countries did not carry out a corresponding programme due to a lack of policy coordination.

3) What was the European answer to the ongoing crisis?
    a. Insufficient and nonbinding national programs.
    b. Unfortunately, the European answer – the **European Banking Union** aiming to create a safer and sounder financial sector – came too late and thus could not prevent the deep financial crisis.
    c. The Single Resolution Mechanism‘s (SRM) introduction was necessary. Especially, when retail investors have to be bailed-in. To make a bail-in credible, a comprehensive restructuring of the banks’ liability side is needed. For bail-in-able bonds of smaller banks, it is highly unlikely to find investors.
    d. The Single Supervisory Mechanism (SSM) is necessary, but provokes high costs for smaller banks. Mixed-nationality in the supervision is necessary to reduce national-bias.
    e. The European Deposit Insurance Scheme (EDIS) will lead to a risk mutualisation and is thus highly problematic. Due to legacy problems the EDIS could lead into a transfer system, instead of an actually working insurance mechanism.

4) How is Basel IV going to affect the European financial industry?
    a. Tougher restrictions on internal models could create a more level playing field for different financial institutions and facilitate a uniform supervision. Within the security-profitability trade-off Basel IV seems reasonable.
    b. An immediate implementation would lead to capital shortfalls. Banks need to be granted enough time for a gradual realization of the new rules.
    c. Basel IV need to be applied at least in the EU and the US, in order not to generate a competitive disadvantage.

5) Solution
    a. An Italian TARP programme could be in conflict with EU state aid rules.
    b. The Atlante Fonds might be too small to be effective.
    c. Market adjustment by default always needs to be considered.