Italian Banking, Insurance and Finance Federation (FeBAF)

Fixing and Completing the European Banking Union

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Why a Banking Union?

- Breaking the loop between sovereigns and banks
  - Moving responsibility for crises management from national to euro-level, with a centralized resolution system and deposit insurance scheme
  - Moving also responsibility for crises prevention to minimize probability of bank failures and avoid misaligned incentives
  - Provide an ultimate euro-zone public backstop to ensure that banks may credibly and orderly fail, that would back both resolution and deposit insurance

Why a Banking Union?

- ## The long term reason

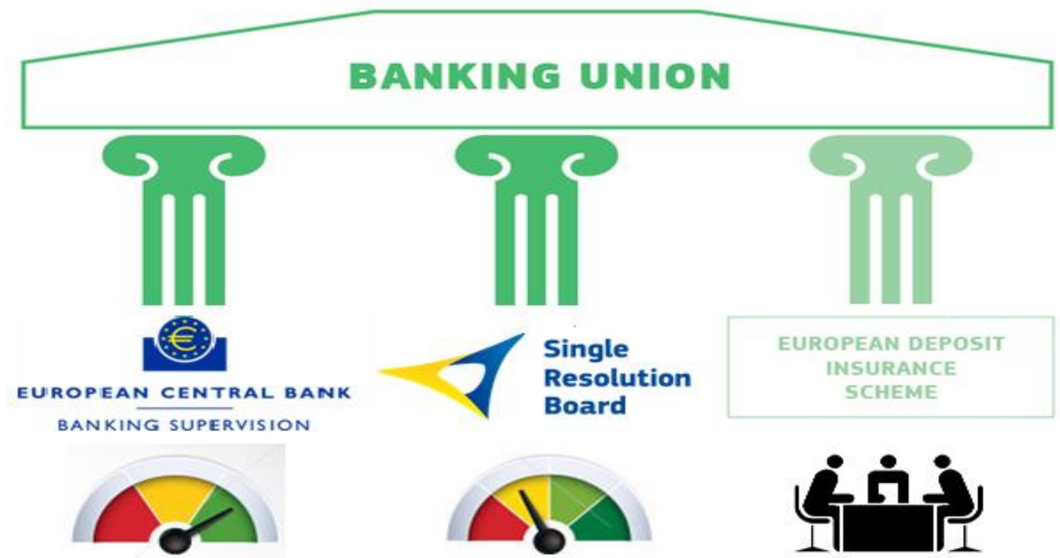
  - Creating (or re-creating) a true single euro-zone market, where cross border banking may well be coupled with financial stability, since financial policies (in term both of ex ante crises prevention and of ex post crises management) are not any more national but supranational

Indeed, the BU design was conceived – at least originally in the 4 President Report of 2012 – with resolution and deposit insurance as starting point pillars

The endgame of resolution has ex ante effect on supervision and cooperation

Where do we stand?

- **Half way** in the institutional framework



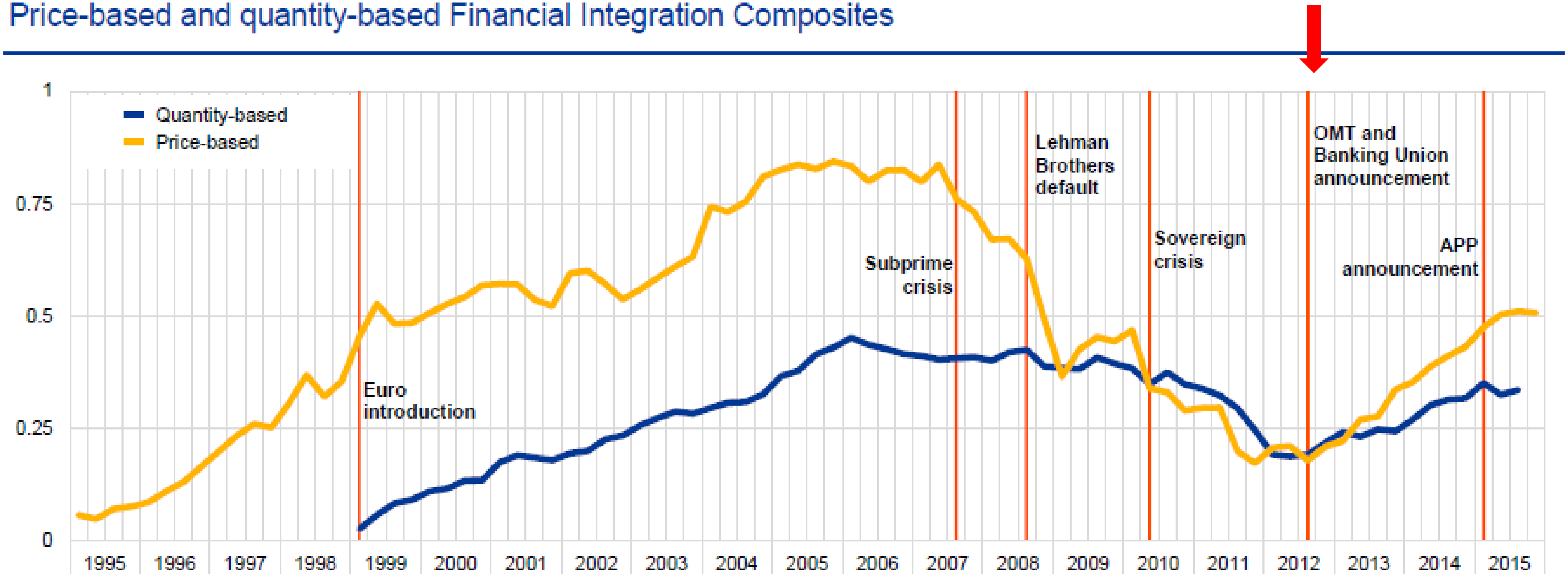
- **Much done** in the regulatory/supervisory framework
  - ✓ Basel 3 implementation: CRR, CRD4, SSM regulation
  - ✓ BRRD, DGSD, SRM Regulation
  - ✓ Stress tests
  - ✓ Relevant increase in EU banks' capital (CET1 ratio 13.5%; + 400 bps w.r.t. 2011)
  - ✓ Implementation of TLAC, MREL revision
  - ✓ Basel 3 completion

in the pipeline

Where do we stand?

- Relevant improvements since 2012…
  - convergence of lending rates to firms and household
  - increase of cross-borders loans

Price-based and quantity-based Financial Integration Composites



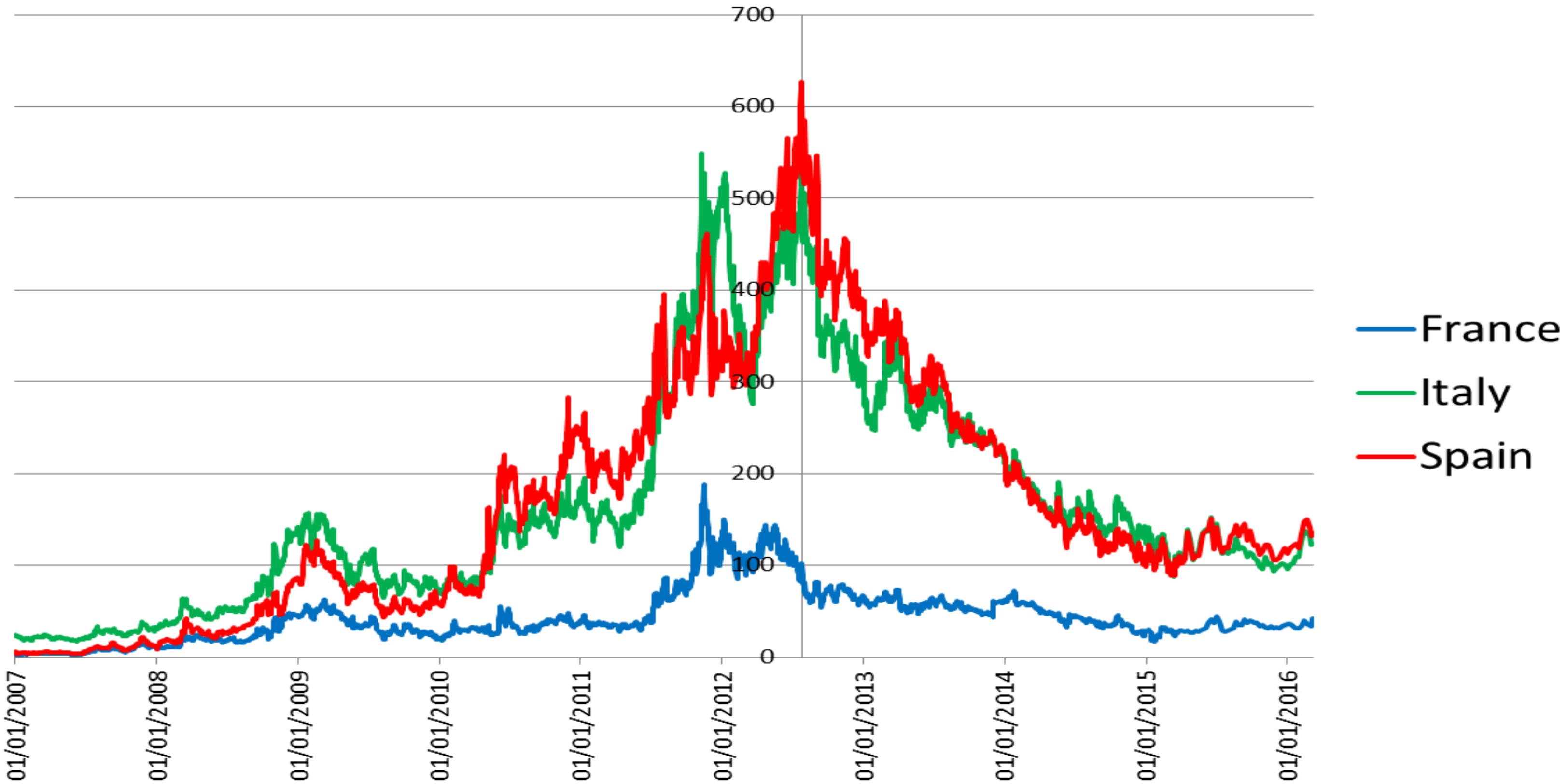
Source: ECB, Financial integration in Europe, 2016

… but still below pre-crisis level

Where do we stand?

Sovereign spreads: 10y spreads declined significantly w.r.t. 2012 peaks, although:

- still far from pre-crisis level
- still affected by spikes of volatility



What is still to be done

- European Deposit Insurance Scheme
- Euro public backstop
- Bank insolvency when resolution does not apply; “spillovers” on resolution (eg, creditors hierarchy) due to different national regimes

Challenges and way forward

- The cost of an unfinished design
  - Uncertainty
  - Risk of weak bank governance and supervision
  - Fragmentation and renewed sovereigns-banks loop

- Complete the design, but need to balance between micro and macro

Thank you

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