European banking union: quick and transparent, please!

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On 29 June 2012, leaders of the Eurozone promised "to break the vicious circle between banks and sovereigns" by charging the European Central Bank (ECB) with prudential supervision of banks and, once this had been achieved, allowing direct bank recapitalisation from the European Stability Mechanism (ESM).

Lees de column in het Nederlands - Europese bankenunie: snel en helder, graag!

René Smits

Thus, propping up banks would longer automatically result in weakening sovereigns by adding to their budgetary woes. Three quarters of a year later, the promise has not yet materialised.

Worse, as Competition Commissioner Joaquín Alumnia publicly said in Brussels on 8 March, during a seminar on state aid to the financial sector organised by the Bruegel think tank, European leaders "are not delivering" and "the obstacles are bigger than the arguments in favour". 'Unusually strong criticism' is how Thompson Reuters reported these remarks which I heard myself while attending the event.

Member States don't deliver and they dilute the idea. 'Banking union', as the idea for single supervision of banks in the Euro Area is called, consists of three elements: (1) giving the ECB prudential supervisory powers, cooperating with national competent authorities in a 'Single Supervisory Mechanism' (SSM), (2) establishing EU-wide resolution mechanisms to unwind banks in trouble and (3) providing Europe-wide deposit insurance.

The outcome of the discussions among the Ecofin Ministers on the SSM is an intricate compromise with the ECB having only systemically important banks under its direct supervision but able to have ultimate command over all banks' supervision, also when exercised by national competent authorities.

The legal text makes difficult reading. There is no clear-cut dividing line between centralised and decentralised supervision and, worse, there will not be really unified EU rules on which to base supervision, whether exercised nationally or by the ECB.

The 'single rule book' which Europe leaders have also promised is not forthcoming. There are important discrepancies between EU legal acts and the world-wide agreement on rules for banks ('Basel III'). Karel Lannoo of CEPS, another Brussels think tank, was very critical of the state of affairs in last week's edition of this newspaper, citing national discretion in requiring extra, anti-cyclical capital buffers, and the absence of a leverage ratio.

The ECB's operational tasks in prudential supervision will thus be exercised on the basis of diverse rules, written down in national laws in many different languages. Direct access to the ESM to recapitalise banks has been obfuscated by a German-Finnish-Dutch communiqué of the Ministers of Finance of 25 September 2012 who claimed that "legacy assets should be under the responsibility of national authorities", with only new cases eligible for direct access to EMS funding.

The two other challenges of 'banking union' (a single resolution regime and common deposit insurance) are not even properly being addressed, with resolution powers of national authorities being harmonised now and the deposit guarantee directive (which States need to implement in national law) not yet replaced by a deposit insurance regulation (which operates directly across the Union).

These elements will, moreover, face great legal hurdles: insolvency law needs to be harmonised or, at least, a single set of rules on winding down a financial institution need to be adopted, for single resolution to work properly.

Looking from abroad, the rest of the world must wonder why EU leaders seem unable, or unwilling, to follow up on their expressed intentions. Looking from within, the lack of progress on this and other issues may go a long way in explaining the electorate's disgruntled attitudes about European integration. It is high time for European banking union to be realised, and with more transparency, please!