

Foster trust between home and host authorities and harmonizing liquidation: two next challenges for the Banking Union

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*Panel 3 - “The Future of Resolution and Liquidation – the Road Ahead”
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Ex ante ring-fencing represent an obstacle to the emergence of truly cross-border banking groups

- *A safer and more integrated banking system would better support the currency union*
- *It would foster a more effective allocation of resources across the EU*
- *It would restore and improve savings allocation mechanisms to address productive investment opportunities*
- *BUT faced with uncertainties regarding the level capital and liquidity at the local level in case of crisis, authorities have a tendency to implement ring-fencing measures:*
 - Ex ante requirements by supervisors: minimum level of capital and liquidity, activation of macro prudential tools, imposing the creation of subsidiary instead of a branch...
 - Similar decisions taken by resolution authorities where there is a doubt over the effective implementation of a single point of entry (SPE) strategy: internal TLAC, internal MREL

How to foster trust between home and host countries

- *To ensure an effective resolution regime in Europe, one should consider possible solutions to tackle the lack of trust between home and host authorities:*
 - The banking Union has strengthened the European cooperation for supervision and resolution. This framework should now fully deliver confidence that there will be no national/home bias, thanks to a centralized power
 - Joint decisions on the adoption of resolution plans and of MREL requirements: these are binding obligations which force to find a common approach
 - Confidence of host Member states can be ensured by more robust ex-ante arrangements: intra-group arrangements could be requested to reinforce the protection given by the parent banks to their subsidiaries

EU has a framework for resolution, but nothing in case of liquidation

- *The treatment of banks failures outside the resolution scope could be further harmonized:*
 - The directive 2001/24/EC on the reorganization and winding up of credit institutions is a beneficial legal basis for further progress
 - How can the SRB assess the no-creditor-worse-off principle with different insolvency regime
 - It does not consider the situation of banking groups
 - Improvements could be put in place, for instance through a reinforced regime for the enforcement of intragroup support in case of liquidation