



EUROPEAN COMMISSION

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"European Banking Union in the making"

Euro 50 Conference

Lisbon, 15 September 2014

Good morning ladies and gentlemen.

Today, we have brought together a group of experts and distinguished professionals who have no doubt watched developments related to the establishment of the Banking Union with a careful, critical, and constructive eye. During the course of the day, panel sessions will provide the opportunity to analyse the merits of this important project, its key aspects, and dare I say possible shortcomings; questions will be raised about the rules we have spent many long nights negotiating, the structures we are in the process of implementing, and the impact these will have on financial health, stability, and market confidence.

I am thus grateful for the opportunity to open the discussion with some views on where we have come from, where we stand today, and where we want to be tomorrow. I say what I am about to say without any rose-tinted spectacles, fully aware that we are not yet across the finish line.

Why do we need a Banking Union? I believe that the Banking Union will provide a stable basis on which to build greater financial stability; that can help support future growth via a healthier, more resilient banking sector; and that can ultimately regain the market confidence this crisis has shattered. Financial fragmentation should diminish and credit to the real economy should be reactivated: this is an important pillar of our comprehensive strategy for growth and investment.

For years now, we have seen that the banking sector has often been either the source or an amplifier of shocks. And thanks to the ever-present banking-sovereign link, these shocks have reverberated, weakening national economies, spreading contagion across the EU and, in some cases, more broadly.

The financial crisis has made clear that not only for those countries which share the euro, but for the European Union as a whole, a deeper economic and monetary union and an integrated banking system are needed to support long-term financial stability. Banking Union is therefore not only a crisis management tool that enables us to repair the damage done by past loopholes or oversights. The objectives at its very core are to restore the proper functioning of the internal market by mitigating fragmentation, ending unnecessary national ring-fencing and thus completing the architecture of the economic and monetary union, as well as of the EU as a whole.

At its core lies a set of harmonised rules and powers applicable to all 28 Member States. The so-called single rulebook brings us significantly closer to comparing apples to apples and oranges to oranges across Member States. Although future work will be required to complete the necessary adjustment, the new regulatory framework establishes common rules for credit institutions and investment firms in all 28 Member States, laying down

improved capital requirements for the banking sector, regulating the prevention and where necessary management of bank failures, and ensuring better protection and greater transparency for depositors.

But we did not stop there. We have moved on to secure a centralised system of decision-making that will address fragmentation concerns. The two pillars of Banking Union now nearing completion represent a move towards a perspective of common utility as opposed to individual interest. While I acknowledge that this shift in perspective has been difficult and will not be completed overnight, I would remind us all that these very topics and initiatives would have been taboo or even unimaginable just a few years ago.

The Single Supervisory Mechanism, a critical backbone of Banking Union, represents a major breakthrough. Not only in terms of banking sector reform, but also from an internal market point of view. Establishing an institution for centralised supervision at European level will directly address the issue of national supervisory capture and, hopefully, to some extent forbearance. The ECB, as you know, is working diligently to build cross-border, cross-cultural supervisory teams that will better reflect the real operations of our significant banks and will help avoid untoward influence. For the first time ever, bank regulators will follow the same detailed supervisory manual from Helsinki to Nicosia, enforcing a consistent and comprehensive common approach.

In November, the ECB is expected to take on its full responsibilities with direct supervision of the largest banks, having completed an in-depth, comprehensive assessment of banks' balance sheets. This is yet another milestone. The scope of the exercise includes 131 credit institutions across 19 Member States, covering around 85% of bank assets in the euro area, including Lithuania. The asset quality review will be the first of this magnitude and will delve into the deepest corners of asset classifications and collateral valuations, and challenge the adequacy of banks' loan-loss provisions, capital and leverage. The stress test, which will be accompanied by a similar exercise by the EBA covering all EU Member States, will assess bank balance sheets' resilience under stress scenarios. These elements will ensure that the ECB has a clear view of directly supervised banks from the outset and that there are no more skeletons in the cupboard. It is a difficult and heavy exercise, but a necessary one. It is for instance thanks to the asset quality review that the problems that were hidden in Banco Espírito Santo, in Portugal, were identified and swiftly and efficiently addressed.

The ECB is, moreover, emphasising quality assurance and transparency to secure the stringency of the exercise. This and our communication strategy in the coming weeks and months, I believe, will be the key to this exercise's success.

To secure financial stability, however, centralised supervisory decision-making must be accompanied by a centralisation of costs in case bank failures do occur. Whoever takes the decision must be able to face its financial consequences. We cannot have a system where supervisory decisions would be taken at European level, but where the bill for possible supervisory failures would remain national. This is where the second pillar of the Banking Union comes in.

The Single Resolution Mechanism will allow bank resolution, especially in cross-border cases, to be managed more effectively and efficiently. The framework established by the Bank Recovery and Resolution Directive already means that bank failures can be tackled in a more orderly fashion by giving authorities the tools they need to keep critical functions alive. Under the Single Resolution Mechanism, common decision-making taken by a Single Resolution Board and financing from a Single Resolution Fund will produce additional advantages for the system as a whole. The introduction of clear bail-in requirements will also help reducing moral hazard and limiting to the maximum extent possible the direct exposure of taxpayers to bank failures. And finally, agreement on an

improved Deposit Guarantee Schemes Directive with harmonised coverage, ex-ante funding and faster payout periods will provide more certainty to depositors, an aspect of essence for the resolution framework.

When the financial crisis deepened in 2009, the EU came under heavy criticism for lacking a supervisory system and crisis management approach that adequately reflected its cross-border characteristics and potential for spillovers.

Banking Union, with its common framework of rules and powers, accompanied by centralised decision-making and financing, is the answer to that criticism. It has taken more than 200 years for the US to get there. This is a major step and a spectacular breakthrough for EU integration. Citizens may not realise it yet, but for the financial community, it is a game changer as important as the introduction of the euro. Of course, we are still in the early days of this new world and it will inevitably be a learning process.

But make no mistake: Banking Union amounts to a revolution. It will change the way the banking sector operates. It will change the way the EU addresses inter-connectedness and spillovers. It is about collectively cutting the Gordian knot that has linked for banks with their Sovereigns for centuries.

A successful Banking Union is absolutely necessary for our comprehensive approach to kick-start growth and investment. Alongside other strands – like the removal of sector-specific barriers to investment in energy, telecoms and transport, pursuing investment-friendly fiscal consolidation, and stepping up structural reforms – it will help to bring Europe back onto a path of stronger growth and job creation.

Thank you for your attention.