Peter Praet: Creating an enabling environment for pan-European banks in the Banking Union

Remarks by Mr Peter Praet, Member of the Executive Board of the European Central Bank, at the Eurofi Financial Forum 2018, Vienna, 5 September 2018.

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In recent years, the European Union has achieved major progress towards financial integration. We now have a single supervisor and a single resolution authority, and banks are subject to the same European rulebook. The Banking Union contributes to providing effective mechanisms for cross-border risk-sharing and broadening the sources of funding within a country, thereby promoting macroeconomic stability and growth.

However, we still observe a number of obstacles that hinder the fungibility of capital and liquidity of banking groups. Very often, these obstacles relate to regulatory fragmentation and ring-fencing of national markets. Further harmonisation would help to address many of the issues, while appropriate prudential safeguards can be put in place to address possible financial stability concerns by national authorities.

First, a number of national options and discretions are hindering the practical application of cross-border liquidity waivers within the Union. While such waivers are explicitly allowed by the CRR, and already contain prudential safeguards, so far the ECB has received almost no application for their use from the banks it supervises. An important reason for this lack of applications is the existence of national large exposure limits on intragroup exposures in several European countries. These limits prevent institutions in these countries from transferring liquidity within the group in a flexible manner and thus represent practical obstacles to the use of liquidity waivers. Effectively, they are hindering the free flow of liquidity in the Banking Union and should be harmonised further.

Second, the proposal to have cross-border capital waivers within the EU was not taken forward in the on-going review of the CRR, which is a missed opportunity. Such waivers would be consistent with the establishment of the SSM and the Banking Union and help to support the free flow of capital across the Union. On the one hand, it is understandable that some national authorities are concerned about the possible financial stability implications of the proposal. On the other hand, such concerns could be addressed by making the waivers subject to additional prudential safeguards, and by putting in place appropriate transition arrangements that account for the planned further progress on the Banking Union.

Third, the major progress we have made in our Banking Union needs to be recognised also in the international regulatory framework. For example, the G-SIB framework currently penalises cross-border transactions within the Banking Union by attaching a higher systemic risk score to banks with more of such transactions. This goes against the very rationale of the Banking Union, as it reduces the incentives for cross-border transactions and risk diversification. The international regulatory framework should recognise the progress that has been made in the Banking Union and exclude intra Banking Union positions from the cross-jurisdictional indicators in the G-SIB methodology.

Fourth, there are also some resolution related aspects that warrant further consideration. In particular, the allocation of internal MREL has turned out to be an area of tension between national jurisdictions. Jurisdictions with a foreign bank subsidiary prefer to have a high pre-positioning of internal MREL to ensure an orderly resolution of its local subsidiary. However, this implies a certain degree of ring-fencing to the detriment of the foreign parent bank. The compromise reached by Member States in the Council only allows that internal MREL is waived if the resolution entity and the subsidiary are located in the same Member State, neglecting the fact that we have achieved so much in terms of joint supervision and resolution among euro area countries. To account for this progress, internal MREL waivers on a cross-border basis in the Banking Union should be allowed as this would contribute to continuous cross-border banking, e.g. by generating efficiency gains and promoting further integration. Therefore, it should also be possible to use guarantees to replace internal MREL and allow for more flexibility in the allocation of resources within the Banking Union. Of course, to install confidence it will be important to have adequate safeguards in place, including that there is no legal or practical impediments to the provision of support by the parent to the subsidiary, in particular when the resolution action is taken.