LUISS Guido Carli

LIBERA UNIVERSITÀ INTERNAZIONALE DEGLI STUDI SOCIALI

Department of Business and Management *Chair of M&A and Investment Banking*

The EU financial supervision in the aftermath of the financial crisis.

Focus on the banking industry: toward a European Banking Union"

SUPERVISOR

Prof. Luigi De Vecchi

CANDIDATE

Antonio Caruso

643011

CO-SUPERVISOR

Prof. Francesco Cerri

ACADEMIC YEAR 2012/2013

Table of Contents

Introduction 1

1. Background 1

2. Financial Supervision in the European Union 3

2.1. The macro-prudential arm: the ESRB 7

2.2. The Micro-prudential arm 7

3. Towards a European Banking Union 8

3.1. Why a Banking Union? 10

3.2. How far we are towards completing a banking union? 11

4. The Single Supervisory Mechanism (SSM) 12

4.1. Scope of the SSM 13

Conclusions 15

References 18

Introduction

Most of the literature in the last five years focused the attention on the "financial crisis". Rivers of ink have been spilled and millions of pages have been written in the attempt to address this matter and understand, clearly, what were the causes and the direct effects of one of the most severe crisis, if not even the worst, experienced by mankind in the last century.

However, a crisis is an opportunity to address long overdue problems in a major way, since usually a crisis revives old issues and raises new ones. As the President Obama's chief of staff Rahm Emanuel observed, *"You never want a serious crisis to go to waste"*.

The main goal of this thesis is not to analyze causes and effects of both the financial crisis of 2007 and of the European sovereign debt crisis. A lot, perhaps too much, has been written about. Rather, the aim is to depict a complete overview of how the financial supervision in the European Union has been reformed in response to the crisis, both following the De Larosiére report (2009) addressing the main regulatory and supervisory shortcomings of the "first" part of the financial crisis, and then focusing on the current reforms, notably the forthcoming establishment of a European Banking Union, affecting the banking industry as policy responses to the European sovereign debt crisis.

1. Background

"When the United States sneezes it means the Western world has a cold"

The above common saying perfectly epitomizes the current European economic and financial situation, considering that the majority of European Member States are still facing one of the most severe crises in their history, probably the worst one. This crisis, began thousands of kilometres away, has reached a global level: from private debt crisis to sovereign debt one, from financial and real estate crisis it became industrial crisis and labour market crisis hitting the real economy.

After the default of the investment bank Lehman Brothers, the financial crisis escalated and many systemically important European financial institutions were faced with severe liquidity problems and massive asset write downs. In this emergency situation, both confidence in and the proper functioning of the financial system declined. As in the other parts of the world, governments in the euro area adopted several emergency measures to stabilize the financial sector and to cushion the negative consequences for the real economy. However, the impact of the financial crisis and the subsequent severe economic downturn underlined the need for coordinated interventions.

At the international level, the G7 countries agreed at the Washington summit of October 2008 to use all available tools to prevent the default of systemically important financial institutions (the so-called "too big to fail" institutions), to unlock credit and money markets, to ensure that banks can raise sufficient capital from both public and private sources

and to ensure that national deposit insurance and guarantee programmes continue to support confidence in the safety of the deposits. Afterwards, during the several G-20 summits (Washington in November 2008, London in April 2009, Pittsburgh in September 2009, Toronto in June 2010 and Seoul in November 2010), a reform agenda for financial regulation and supervision was defined. The basic principles set at the international level inspired the action plan undertaken in the European Union.

From a monetary standpoint, since the beginning of the financial tensions in the middle 2007, the ECB reacted swiftly and decisively to the deteriorating economic and financial circumstances with the aim of maintaining price stability. In addition to reducing interest rates, the Eurosystem implemented a number of non-standard monetary policy measures during the period of severe financial market tensions. In order to ensure the proper transmission of the monetary policy and to preserve credit flows to the euro area economy beyond what could be achieved by reducing interest rates, the ECB's Governing Council adopted a number of non-standard measures in October 2008, subsequently referred to as "enhanced credit support". These non-standard measures focused specifically on banks in the euro area and comprised the following elements: fixed rate full allotment, extended list of assets accepted as collateral, and long term refinancing operations (LTROs).

Furthermore, the efforts taken by EU Member States with respect to fiscal consolidation and structural reforms, along with EU initiatives such as the Stability and Growth Pact and the new European System of Financial Supervision were crucial to create the necessary conditions for recovery, economic growth, job creation, improved competitiveness and so to help Europe in getting out from the crisis.

If from one hand the global financial crisis has been considered the direct result of macro-economic imbalances, on the other it was the consequence of the regulatory and supervisory framework inadequacy that led financial institutions to underestimate risks, to excessive risk taking and to systematically failing in risk assessment. The cumulative effect of these failures was the overestimation of the ability of financial institutions to manage their risks and this led to underestimate the capital they should hold. Despite their crucial role, both financial regulation and supervision failed in preventing the financial crisis.

In addition, the mismatch between the financial sector and the supervisory framework further worsened the supervisory failings. By 2005 more than 20% of the banking activity in Europe was already of a cross-border nature, largely exceeding the levels in the American or Asian-Pacific financial sectors. However, despite this percentage of cross-border banking activity, the financial supervision in the European Union remained almost exclusively a prerogative of Member States. For these reasons, the asymmetry between the financial sector and its supervisors continued to increase, requiring even higher level of cooperation and coordination between national supervisors. This was one of the major shortcomings of the financial supervision during the crisis, or, when the circumstances required an EU-level intervention, the national responses prevailed due to the lack of coordination and sometimes the unwillingness to cooperate and share relevant information.

According to the De Larosière Report (2009) , regulators and supervisors focused too much on the micro-prudential side and not sufficiently on the more general developments and systemic risks of contagion (macro-prudential supervision).

These supervisory failings led to a structural reform of the supervisory architecture in the European Union, started in October 2008 with the mandate conferred to Mr. Jacques De Larosière to chair an outstanding group of people to give advice on the future of European financial regulation and supervision. This resulted in a set of reforms and it was welcomed as a significant step toward the post-crisis recovery.

2. Financial Supervision in the European Union

The Global financial crisis revealed the weaknesses of the existing under-regulated system, leading to a significant political mobilization in order to overcome the economic and financial crisis and prevent future ones by restoring confidence, repairing the financial system and strengthening financial regulatory and supervisory frameworks.

Changes in both the size and structure of the European and global financial systems have seriously tested regulators' ability to safeguard financial stability. For a long time, financial sectors grew faster than the real economy, with many countries where total financial assets represented a multiple of their annual GDP . This has led to a huge responsibility for the industry, supervisors and regulators. However, the financial crisis painfully revealed what can happen if basic checks and balances fail, if incentives are misaligned and if the system as a whole results under-regulated. Considering also the increasing complexity of financial systems, in terms of financial innovation and in the opacity of many structured financial products, the assessment of financial risks and vulnerabilities of the market became much more difficult.

As a result, financial systems became more interlinked and therefore exposition to contagion and systemic risks increased over time. In the EU, the emergence of large cross-border groups, posed substantial challenges, especially if we consider that some 40-45 large cross-border banking groups accounted for almost 70% of all banking assets in Europe.

The crisis underlined the inadequacy of the existing regulatory and supervisory framework both at international, EU and national level, demanding a profound reform of the systems for the finance industry in order to favour a return to business ethic, responsible government and with the aim to restore confidence among investors. Furthermore, it has shed light on the fragmentation of financial supervision in the European Union, exposing serious failings in the cooperation, coordination, consistency and mutual confidence between national supervisors, undermining the integrity of the European financial markets . In order to address these shortcomings, in October 2008, the President of the European Commission, José Manuel Barroso, conferred to Mr Jacques de Larosière, a former Managing Director of the International Monetary Fund (IMF), the mandate to chair a high level group to give advices

on the future of European financial regulation and supervision. The so-called "De Larosière Report" was presented on 25th February 2009.

The financial supervisory system that was in place at the outbreak of the financial crisis was the result of an evolution going on for decades. It had been influenced by the integration of the EU's financial markets leading to an harmonization of the legal framework that equally required the definition of the responsible supervisor. This legal framework posed certain difficulties pertaining to the effectiveness of supervision and coordination between supervisors.

The crisis revealed a wide range of weaknesses in the global financial system, shedding light on the fragility of financial institutions and on the inadequacy of the regulatory and supervisory framework relative to the dimension and complexity of the financial sector at that time. the following table summarizes the major regulatory inconsistencies existing during the financial crisis.

Table 2.2 - Existing regulatory inconsistencies in the EU

- ✓ Differences regarding sectoral extent of EU supervision
- ✓ Diversity in reporting obligations
- ✓ Diverse definition of core capitals from one Member State to another
- ✓ Different accounting practices for provisions related to pensions
- ✓ Divergence in transposition of the insurance mediation directive
- ✓ Differences in the definition of regulatory capital regarding financial institutions
- ✓ No single agreed methodology to validate risks assessment by financial institutions
- ✓ Substantial differences in the modalities related to deposit insurance
- ✓ No harmonisation for insurance guarantee schemes

Source: The De Larosière report (2009)

If from one hand regulation suffered several inconsistencies, on the other, each element of the supervisory process showed weaknesses during the financial crisis. The existing supervisory arrangements focused too much on the supervision of individual financial institutions, and too little on the macro-prudential side. The prevailing common belief was that market discipline and self-regulation would be enough to ensure financial stability. However, healthy institutions do not necessarily imply a healthy financial system, whilst the analysis of systemic risks needs the attention deserved. The following table summarizes the main shortcomings in supervision during the financial crisis according to the De Larosière report.

Table 2.3 - A multitude of Supervisory Shortcomings

- ✓ Lack of adequate macro-prudential supervision
- ✓ Ineffective early warning mechanisms
- ✓ Problems of competences
- ✓ Failure to challenge supervisory practices on a cross-border basis
- ✓ Lack of cooperation between supervisors
- ✓ Lack of consistent supervisory powers across Member States
- ✓ Lack of resources in the Lamfalussy level-3 committees
- ✓ No means for supervisors to take common decisions

Source: The De Larosière report (2009)

On the basis of the De Larosière recommendations, the Commission elaborated several legislative proposals for the establishment of a new European System of Financial Supervision. Finally, on 22 September 2010 the European Parliament gave green light to a new financial supervisory architecture approving the Commission proposals. Then, on 17 November 2010, the Council of Ministers adopted the legal texts establishing the European Systemic Risk Board (ESRB) and the three new European Supervisory Authorities (ESAs). The following table summarizes the main steps in the creation of this new framework.

Table 2.4 - Main steps in the establishment of the ESFS

- ✓ **October 2008**: the EC mandate Mr. De Larosière
- ✓ **February 2009**: publication of the De Larosière report containing the recommendations
- ✓ **March 2009**: the EC communication "Driving European Recovery" welcomes and supports the recommendations proposed
- ✓ **May 2009**: the EC communication "European Financial Supervision" sets the basis for the architecture of the new ESFS
- ✓ **June 2009**: The ECOFIN Council of 9 June and the European Council of 18-19 June agree with the Commission's suggestions
- ✓ **September 2009**: the Commission adopts legislative proposals regarding the ESRB and the three new European Supervisory Authorities (ESAs)
- ✓ **September to November 2010**: the legislation is adopted by the EP on 22 September and by the Council on 17 November
- ✓ **December 2010**: the legislation is published in the Official Journal of the EU and enters into force on 16 December 2010
- ✓ **January 2011**: the new framework starts to work
- ✓ **January 2011**: the Commission adopts legislative proposals further clarifying the powers of the new ESAs

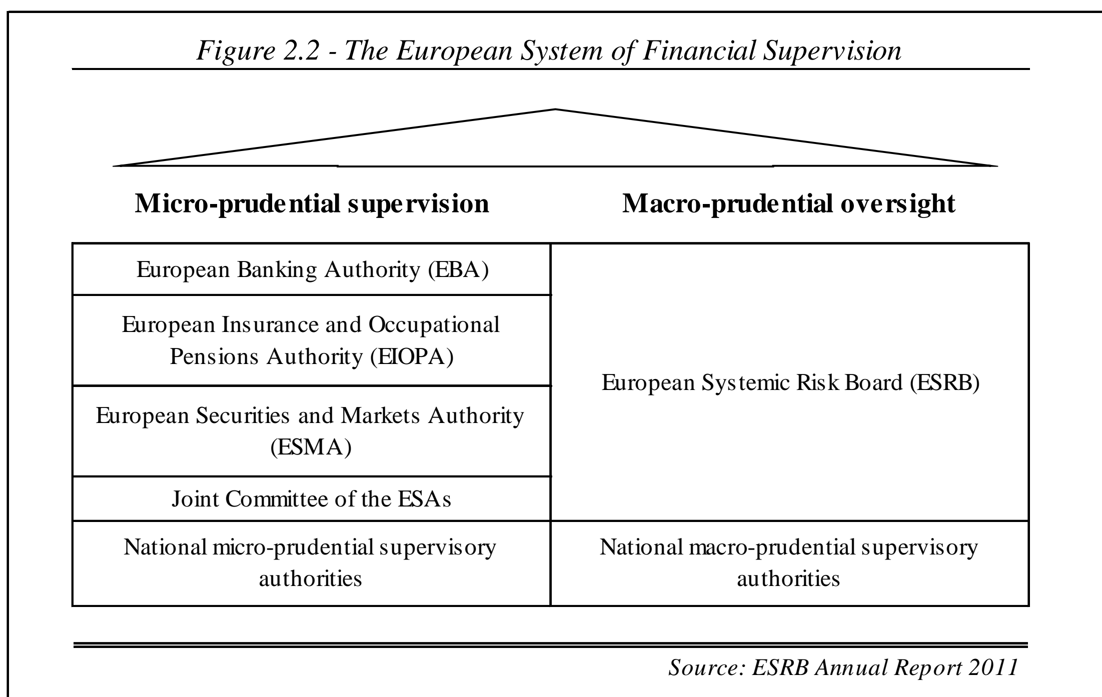
Source: personal elaboration

The new framework started to work as from January 1, 2011 replacing the old level-3 supervisory committees. Quoting the words of the Commissioner Michel Barnier, *"Europe is learning the lessons from the crisis and that is why today, it is giving itself a new apparatus of surveillance and supervision. To detect problems early and to act in time in a coordinated and efficient way. These new structures are the control tower and the radar screens that the financial sector needs."*

The renewed system consists of three levels of supervision: the EU, the cross-border and the national level. The most important change regards the EU level supervision that has been assigned a bigger role than was previously the case with the level-3 committees.

This system is based on two pillars, namely the macro-prudential oversight and the micro-prudential supervision. Macro-prudential oversight is under the responsibility of the ESRB and the competent macro-prudential authorities in the EU Member States, while micro-prudential supervision is undertaken by the three new European Supervisory Authorities (ESAs), i.e. the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA), by the Joint Committee of the ESAs and by the competent micro-prudential supervisory authorities in the EU Member States, as specified in the regulations establishing the ESAs.

Figure 2.2 - The European System of Financial Supervision



Source: ESRB Annual Report 2011

The ESRB Regulation, pursuant to the principle of sincere cooperation in accordance with Article 4(3) of the Treaty of the European Union, explicitly calls upon the parties to cooperate with trust and full mutual respect, notably by ensuring an appropriate and reliable flow of information.

2.1. The macro-prudential arm: the ESRB

The ESRB is an independent EU body whose purpose is to ensure supervision of the European Union's financial system. According to the ESRB Regulation, *"The ESRB shall be responsible for the macro-prudential oversight of the financial system within the Union in order to contribute to the prevention or mitigation of systemic risks to financial stability in the Union that arise from developments within the financial system and taking into account macro-economic developments, so as to avoid periods of widespread financial distress."*

To perform its challenging mission, the ESRB is expected to carry out the following tasks: 1) supervision of the financial system through the collection and analysis of all relevant and necessary information; 2) identification and prioritization of systemic risks and the consequent issuing of warnings and recommendations; 3) provide follow-up on its recommendations and 4) report of the results and interaction with other public bodies.

Despite its importance, the ESRB faces several limits that could undermine its effectiveness. A clear limitation consists in the "soft" nature of its warnings and recommendations, i.e. they are not legally binding. Even if the ESRB follows an "act or explain" approach, this lack of coercive power leads the ESRB to rely mainly on its reputation. Another limit resides in the size of the General Board that makes the work of the ESRB even more complicated. In addition, the ESRB's membership relies strongly on central banks, therefore, the role attributed to the non-central bank supervisors, i.e. sectoral experts, is very limited. The lack of sectoral representation can hamper the ESRB's ability to prevent and mitigate systemic risks, by detecting and responding to them.

2.2. The Micro-prudential arm

Although the macro-prudential supervision is an important aspect of supervision, it cannot replace the micro-prudential one, since the latter is the first line of defence against any financial sector difficulties. Under the new framework, the EU micro-prudential supervision is carried out by three new European Supervisory Authorities (ESAs), a Joint Committee of ESAs and a Board of Appeal.

The three ESAs represent the most important elements of this new structure. Each of them deals with a specific subset of the financial sector. According to the ESAs Regulations the three authorities have an almost identical wide range of tasks to fulfil. However it is likely that the ESA's role will diverge over time to better address the problems relative to the specific subset of the financial sector they deal with. The following table provides a summary.

ESAs' Tasks

- ✓ Supervisory tasks
- ✓ Working on a European Single Rulebook
- ✓ Enforcement of EU rules
- ✓ Dealing with distressed situations
- ✓ Fostering supervisory cooperation and convergence
- ✓ Consumer protection
- ✓ Reporting and relationship with other entities

Source: ESAs Regulations

Despite the ESAs are to carry out several tasks, most of them of a complex nature, there exist some limits that threat the role played by the Authorities and may hinder their future evolution. Starting from a mere financial standpoint, the ESAs face severe budget constraint that also leads to a staff constraint. This hinders the proper fulfilment of the tasks they are expected to perform.

Regarding the supervision, the ESAs' role remains limited. They are not empowered to conduct day-by-day supervision, but they can only collect information and monitor market developments. Even if they detect a problem, they can only act by forcing national supervisors or financial institutions, and only if there have been breaches in EU law or if the Council has declared an emergency situation. Therefore it is very difficult for the ESAs to seriously exert influence over financial markets. Furthermore, even if the ESAs have been endowed with several binding competences, their role remains restricted due to the lengthy process and/or their subordination to an EU Institution. Finally, the ESAs' activities are limited by the presence of a fiscal safeguard clause.

3. Towards a European Banking Union

In 2010, while the world tried to shake off the real and financial consequences of the global crisis, a new hotbed emerged in the Euro area. After the financial turmoil of 2007-2008 and a temporary improvement in the market climate afterward, characterized by the supportive measures undertaken by central banks and governments, new tensions emerged in late 2009.

The financial instability of Greece triggered a new wave of mistrust among international investors, this directed time towards the euro area sovereign bond markets. Since then, the sovereign spreads rose sharply for many of the EU Member States, representing one of the biggest challenges for the European Monetary Union (EMU) since its creation. Raising investor concerns about sovereign risk, had adverse effects on banks and financial markets,

due to the link between debt-burdened governments and troubled banks, where each side negatively impacted on the other, resulting in a vicious circle that threatened the stability of the "single market" in the European banking sector.

In the light of what has happened, and it is still happening, it is clear that the existing institutional framework of the European Monetary Union (EMU) based on the two building blocks of national competence and cooperation, it is not more a viable choice. Certainly, when it was created in the 1990s, with the most of banking activity confined to national markets, it was a right choice. However, the internationalization process of euro area banks plus the increasing interconnections of the banking system, posed new challenges to the existing framework, which failed to evolve in line with the industry. Nowadays, there is the need to move towards a more European solution for both banking supervision and crisis resolution at the EMU-level in order to preserve the proper functioning of the "single market" avoiding, or at least preventing, future crisis from occurring.

For the above reasons, the concept of a banking union has been revived during the last year. Built on a common single rulebook, it includes in the first place a fully integrated banking supervision for the euro area, with a competent supervisory institution, notably the ECB, being responsible for micro-prudential supervision with investigative powers. The creation of an integrated euro area Single Supervisory Mechanism (SSM) will have obvious advantages compared with the status quo. With integrated supervision, for example, all relevant data for euro area banks would be made available in an aggregate form, allowing the single supervisor to identify all the financial links between Member States, as well as concentrations and therefore possible arising threats. Furthermore, a single supervisor will be more independent when dealing with the so-called "national champions", being in charge of safeguarding the interest of the EU as a whole rather than the national interests.

Albeit the SSM constitutes a major step towards a more integrated financial framework, in order for it to work properly it is essential that both deposit insurance and resolution schemes are reformed and implemented at EU-level. The former will strengthen the credibility of the banking sector by ensuring that eligible deposits of all credit institutions will be sufficiently assured. The latter will permit an orderly winding-down of non-viable institutions and thereby protecting tax payer funds. In the light of the recent Cypriot crisis, these arguments result particularly relevant.

Although the idea of a banking union seems to be a new initiative borne out as a consequence of the crisis, actually it is based on an older debate. During the preparations of the Maastricht Treaty, in the early 1990s, there was already the strong conviction that a European system of banking supervision was a key element in the construction of the monetary union. This conviction was based on the logical observation that, since the single currency would have deepened financial interdependence in Europe, the latter would have required an integrated system of financial supervision. The force of this conviction explains why the Treaty on the Functioning of the European Union (TFEU) states at the Article 127(6) : *"The Council, acting by means of regulations in accordance with a special legislative procedure, may (..), confer specific tasks upon the European Central Bank concerning policies relating to the prudential supervision of credit institutions and other financial*

institutions with the exception of insurance undertakings". Therefore, the treaty left open the possibility to establish a single system of banking supervision.

Already in 1999, Tommaso Padoa-Schioppa underlined this possibility stressing that this was a highly significant indication that the drafters of the Treaty clearly understood the anomaly of the double separation between central banking and banking supervision and saw the potential difficulties arising from that. According to Padoa-Schioppa, this simplified procedure can be interpreted as a "last resort clause" provided in the case the cooperation between the Eurosystem and national supervisory authorities, turned out not to work effectively.

The concept of a Banking Union was revived in June 2012, after the publication of the report "Towards a Genuine Economic and Monetary Union", commonly known as the "Four Presidents Report". A Banking Union is one of the four essential building blocks (integrated financial framework, integrated budgetary framework, integrated economic policy framework and democratic legitimacy and accountability of EU decision-makers) envisaged to complete the European architecture for long-term stability and prosperity of the Economic and Monetary Union. This report was then followed by the Commission's proposals in September and then, in December, by a Council agreement. Furthermore, in March the Council published two final compromise texts and in late May the European Parliament gave its approval. However, the final vote is still scheduled for September 2013, and therefore the SSM will come into force as October 2014.

3.1. Why a Banking Union?

In an integrated currency area, financial stability is a matter of collective responsibility. The sovereign debt crisis and the contagion effect, made it clear the necessity to speed up the economic and financial unification process in the euro area. At the basis of the banking union concept, there are both conjunctural and structural factors. Those conjunctural are direct consequences of the financial crisis, notably of the European sovereign debt crisis, while the structural ones are related to the deficiencies showed by the European institutional framework during the crisis.

Table 3.1 - Why a banking union?

Conjunctural factors	Structural factors
✓ Bank-sovereign link	✓ Financial integration vs. national supervision
✓ Financial fragmentation	✓ Monetary policy transmission
✓ Restore credibility of the financial sector	✓ Reduce "ring-fencing"
✓ Preserve tax payers' money	

Source: personal elaboration

3.2. How far we are towards completing a banking union?

On the main elements of a genuine banking union, progress is currently positive on all fronts, but it is also uneven. First, the single rulebook, that to a large extent already exists, will be complemented by the agreement on the CRD4 (Capital Requirements Directive IV) expected in the near future. This will contribute significantly towards making the banking sector in Europe more stable by creating a level playing field.

Regarding the common resolution framework, a proposal for the establishment of a Single Resolution Mechanism (SRM) should be presented by the European Commission in the second half of this year. In the meantime, the Bank Recovery and Resolution (BRR) Directive should be adopted. This in turn will provide a better framework for coordinating resolution of cross-borders financial institutions providing national authorities with new resolution powers, i.e. writing down capital instruments and bailing-in creditors.

The creation of a common financial backstop in already underway with the possibility for the European Stability Mechanism (ESM) to directly recapitalise banks being currently one of the most important topic of discussion. However, only those banks joining the SSM will be able to apply for it. In the short-term this will help to weaken the bank-sovereign nexus, while in the longer-term the ESM could act as fiscal backstop to the resolution and deposit guarantee authority.

With regards to the establishment of a common system of deposit protection, the adoption of the Commission’s proposal of 2010 on deposit guarantee schemes is expected in the second half of this year. This will in turn help to restore confidence in the national schemes, by providing a harmonized framework at the EU-level.

Finally, the progresses on the Single Supervisory Mechanism are already well advanced. The two regulations setting up the SSM have already been approved the last December by the Council. In March the Council published two final compromise texts that are now being discussed by the European Parliament. The latter partially approved the draft legislative texts at its Strasbourg plenary session on 22 May 2013. The final vote is expected to take place on the next September plenary session.

4. The Single Supervisory Mechanism (SSM)

In the time span of less than one year, the Single Supervisory Mechanism, part of the broader European Banking Union project, moved from being a simple idea formulated in the June 2012 "Four Presidents" report , to Commission proposals (just three months after), to a political agreement by the European Council to finally land to the partial approval by the European Parliament on 22 May 2013 Strasbourg plenary session.

The pace at which the establishment process of the SSM run demonstrates once again that the European Union has the political will and capacity to act quickly in dealing with potential common threats affecting the single market, in order to preserve and strengthen the overall European project during this ongoing severe financial and economic crisis.

The SSM is expected to ensure homogenous standards of supervisory intensity across the euro area, by independently and autonomously assessing the European banking system and, in doing so, removing national distortions. This will be in turn decisive in restoring and safeguarding confidence in the banking sector, helping to reverse the trend towards financial fragmentation, on the basis of a system that involves the European Central Bank (ECB) and national supervisors. In this context, the SSM should be best placed to address systemic risk, by taking into account negative externalities and spillovers in a fully integrated economic area.

More than fifty years ago, John F. Kennedy during a speech in Indianapolis said: *"When written in Chinese, the word crisis is composed of two characters. One represents danger, and the other represents opportunity"*. Well, the current economic and financial crisis is giving a huge opportunity to move toward "more Europe", laying the foundations for a prosperous future for all participating Member States, and therefore such crisis must not be wasted. The Europe does not need another crisis to be able to address its major structural shortcomings, but it needs to keep pace with the momentum now.

Following the Commission proposals of September 2012, the ECB was requested by the European Council to express its opinion on the proposed regulations. In its opinion, the Governing Council of the ECB presented a set of guiding principles for establishing the SSM.

Table 4.1 - Fundamental ECB principles

✓ Effective supervision without any risk to the ECB reputation
✓ The ECB should remain independent in carrying out all its tasks
✓ Strict separation between Supervisory and Monetary Policy tasks
✓ The ECB shouls have full recourse to the knowledge, expertise and operational resources of national supervisory authorities
✓ Consistency with the single market in financial services, so welcoming non-euro Member States in the SSM
✓ Compliance with the highest standards of accountability for the supervisory tasks

Source: ECB Opinion (2012)

According to the proposed regulations, the SSM will be a mechanism composed of the ECB and national competent authorities of euro area countries, with the national competent authorities of non-euro area Member States being able to participate by establishing close cooperation with the ECB, whereby the responsibility for specific supervisory tasks will be conferred to the ECB. The ECB will be responsible for the functioning of the SSM, and it will be charged of supervisory tasks in virtue of the Article 127(6) of the Treaty, that permits the ECB to perform specific supervisory tasks, except for insurance undertakings, without recurring to the heavy Treaty amendment procedure.

4.1. Scope of the SSM

The scope of the SSM under the proposed regulations is very broad, covering more than 6,000 credit institutions licensed in the eurozone . The fact that all credit institutions established in the euro area fall within the scope of the SSM is a key element of the mechanism. Safety and soundness of large and systemically relevant cross-border banks is essential to ensure the stability of the financial system. However, the recent financial crisis illustrated that not only larger banks can pose systemic risks . As the experience of the Spanish Cajas has demonstrated, small banks with correlated risks can represent a serious threat for the sovereign and European financial stability . In this context, the interconnectedness of banking sectors and the interlinkages between banks and sovereign, played a key role . Even if covering only the so-called “systemic” banks, with difficulties arising from different views regarding systemic bank nomenclature, could be potentially easier in terms of technical and political implementation, it would only partially address these systemic risks. Therefore, the ECB should be able to exercise its supervisory tasks in relation to all credit institutions authorized in, and branches established in, participating Member States .

The proposed SSM Regulation envisages a differentiated approach regarding the conduct of supervision for those credit institutions falling under the direct supervision of the ECB and those credit institutions that will primarily be subject to the supervision of national supervisors. It means that the ECB will directly supervise those financial institutions that are considered to be significant.

Table 4.3 - ECB coverage under the SSM

✓ Credit institutions falling within the thresholds outlined by the Article 5(4) of the SSM Regulation
✓ Credit institutions licensed in non-euro Member States that established a close cooperation with the ECB
✓ The three most important credit institutions of each of the participating Member States
✓ Credit institutions that have established subsidiaries in more than one participating Member States and with significant cross-border assets and liabilities
✓ Credit institutions that requested or received public financial assistance directly from the EFSF or the ESM
✓ Any other credit institution if deemed necessary by the ECB in order to preserve the financial stability

Source: SSM Regulation COM (512) final

As it is designed, the scope of the ECB's supervisory competences is essentially limited in three ways: geographically, in terms of coverage of the financial sector, and with regard to the tasks the ECB executes. Geographically, since the precise scope of the SSM still remains unclear as it will depend on the Member States' willingness to join it. Therefore, the SSM will not become the EU-level supervisor, as it will encompass only some of the EU Member States. Secondly, the different definition of credit institutions in the national legislations limits the SSM's scope, i.e. the EU definition of credit institution partially covers the European financial sector as it does not include investment firms, hedge funds, pension funds, central counterparties and insurance firms. These types of financial institutions will continue to be supervised at the national level. Finally, the proposed SSM Regulation endows the ECB with a specific set of supervisory tasks. Consequently, national competent authorities will continue to perform all supervisory task not deemed "essential", i.e. the supervision of credit institutions from third countries establishing a branch in the Member State and matters related to consumer protection, money laundering and payment services.

Under the SSM, the ECB will be responsible for an extensive set of tasks ranging from the authorisation and withdrawal of authorisation of credit institutions to carrying out early interventions in the case of financial distress of an institution. The ECB will be empowered of both macro and micro-prudential tasks in respect of the Treaty provision that allow conferring only specific supervisory tasks onto the ECB . Therefore, the list mentioned in the SSM Regulation is extensive and concerns the essential components of bank supervision.

The ECB will perform these supervisory tasks by adopting guidelines and recommendations. Furthermore, it will be subject to binding regulatory and implementing technical standards developed by the EBA and to the provisions of the European supervisory handbook that will be developed by the EBA in accordance to the SSM Regulation.

In order to carry out its tasks effectively, the ECB will be able to require all necessary information , and to conduct investigations and on-site inspections, where appropriate in cooperation with national competent authorities . In addition, to ensure compliance with supervisory rules and decisions by credit institutions, the ECB has the power to impose effective, proportionate and dissuasive sanctions in case of breaches. On the other hand, national authorities will remain able to apply sanctions in case of failure to comply with obligations stemming from national law transposing Union Directives.

Conclusions

In this thesis I focused the attention on the evolution of the financial supervision in the European Union in the aftermath of the financial crisis, analysing the major innovative steps in the landscape of EU-level supervision, namely the creation of the European System of Financial Supervisors (ESFS) and the upcoming establishment of a Single Supervisory Mechanism (SSM) part of the broader project of a European Banking Union. The SSM is, after all, the most significant development in financial supervision in the history of the European Union. A banking union is obviously not a panacea, but it can be pivotal in fighting the current crisis by weakening the vicious circle between banks and sovereigns, stabilizing the financial system, reversing the process of financial market fragmentation resulting from the retrenchment behind national borders in order to curtail contagion and restore the proper monetary policy transmission.

The implication of the SSM on the ESFS

The SSM is still at an embryonic stage and it is yet not possible to accurately assess its future implications on the ESFS. In this phase the only possible answer is “it depends”. It depends because in principle the effectiveness of the SSM, and its impact on the ESFS, will be a function of how many Member States decide to participate. Naturally, the more Member States join, the better it will be for the efficiency of the SSM itself and for the functioning of the ESFS, as in a first stance, having as many as possible countries, both eurozone and non-eurozone, will probably reduce the scope for coordination failures. Furthermore, higher participation rate will permit to better safeguard the single market in financial services, increasing the consistency in the application of supervisory and regulatory practices. In addition, hoping that the Single Resolution Mechanism (SRM) will be as soon as possible established, a wide SSM membership could diminish the single market’s distortions caused by the divergent fiscal positions of sovereigns, as countries that are part of the SSM will also

have access to the SRM. However, at the time of writing the negotiations regarding the establishment of a resolution mechanism and a resolution authority seem at a stalemate.

Regarding its interactions with the ESFS, it is difficult to say how the latter will be affected by the SSM without knowing its exact composition. Surely, the SSM will have a great impact on the European Banking Authority and to a lesser extent on the European Systemic Risk Board.

The EBA will be affected in particular regarding its commitment toward the creation of a single rulebook. While the EBA will remain responsible for developing regulatory policy and technical standards that will form the basis for a single rulebook for credit institutions across Europe, the SSM will play a key role in improving coordination between different national supervisors supporting the accomplishment of the EBA's mandate. The upcoming SSM will also affect the EBA, as the latter will be responsible of drafting a supervisory handbook in order to encourage supervisory convergence in Europe. The existence of the SSM will facilitate the work of the EBA, as all countries joining the SSM will probably converge in their supervisory practices. Again, the broader the participation to the SSM, the higher its efficacy. Finally, the EBA will be affected by the SSM regarding the conduct of stress tests. According to the proposed SSM Regulation, the ECB, in carrying out its prudential supervision function, is to conduct a comprehensive assessment of the banks that then it will supervise directly. Well, these stress tests, and the future ones, undertaken as part of the SSM, will be conducted in close cooperation with the EBA. In the light of the above, the EBA is expected to evolve with the upcoming establishment of the Banking Union, although now it is too early to exactly envisage how it will evolve.

To a lesser extent, also the ESRB will be affected by the establishment of the SSM. Under the latter, the ECB will be in charge also of macro-prudential tasks, and therefore a close cooperation between the two bodies will be essential. In addition, as experience has showed, macro-prudential oversight can only work well if it is accompanied by good and strong micro-prudential supervision. Well, the creation of the SSM provides an opportunity in this regard. However, some concerns may arise again regarding the participation of Member States to the SSM, since with the upcoming banking union, the ECB could perform macro-prudential oversight for the participating Member States, while the other countries would it do nationally. This would be a grave mistake, because Europe needs, as a union, an independent body that looks behind its borders and is also concerned by possible contagious effects. Therefore, in the near future the ESRB must be reinforced, both in terms of resources and powers, as in its current setting it is only able to exert pressure having no "real" powers.

Finally, regarding the SSM's interaction with ESMA and EIOPA, in the current framework it will have few implications, as, according to the Treaty, the ECB, under the SSM, may carry out prudential supervision toward "only" credit institutions. However, it is likely that in the future things will change and therefore these authorities will need to evolve accordingly.

Despite some delays, the SSM is on the right track and, even if the system may not be perfect due to several legal constraints, it is an essential step towards truly addressing the

causes of the financial crisis. However, the creation of the SSM, in the context of the broader concept of a Banking Union, raises several challenges. Will the ECB be able to take up effectively these supervisory tasks? If so, will this system prove better than the previous supervisory structures? In the nearest future the ECB will have a heavy agenda as, for instance, it has to swiftly develop supervisory competences and practical arrangements to deal with national competent authorities. Furthermore, coordination between EU-level direct supervision of banks under the SSM and the national supervision of the rest of the financial sector could be a source of tension.

Although the SSM represents a major step towards a more integrated financial framework, in order for it to suitably function it is essential that a Single Resolution Mechanism (SRM) is created. It is crucial that a framework for banks resolution is in place once the SSM will be operative, in order to avoid the risk of encouraging supervisory forbearance based on the expectation of the implicit guarantee provided by central banks, i.e. by providing liquidity in case of financial distress.

The other fundamental pillar of the Banking Union, complementary to both the SSM and the SRM, is a common European deposit guarantee scheme. Currently, in the European Union, deposit guarantees are provided by each Member State separately, with certain common minimum requirements set at the EU-level . In the light of the upcoming Banking Union, national-level deposit guarantees are not compatible with a EU-level supervision and resolution. This because, if a sovereign's financial health is under pressure, depositors could question the government's ability to guarantee their deposits and this would lead to national bank run, as it happened in Cyprus the last February. For this reason, a EU-level deposit guarantee scheme, at least for all SSM participating countries is deemed necessary, even if not urgent as the Single Resolution Mechanism. However, it is likely that in the near future the European deposit guarantee discussion will not be addressed, since there are more urgent issues to tackle, i.e. supervision and resolution. In addition, being a very delicate political subject as it could involve large money transfers between Member States, in the light of the upcoming September German elections and the next year renewal of the European Parliament, I think it is very unlikely that a political agreement will be reached within the next 18 months.

As Rome wasn't built in a day, the European Banking Union, being a very complex and delicate project, will take time to get it up and running effectively. However, the continuous delays, due mainly to political issues and frictions between Member States rather than technical points, could undermine the credibility of the overall project. This sort of procrastination policy seen until today sends wrong signals. Both the SSM and the SRM, but also the DGS, are the elementary pillars for the recovery and reintegration of the European banking system and therefore they must be implemented swiftly and decisively.

References

- Angeloni, I. (2012). *Towards a European Banking Union*, CESifo Forum, April 2012.

- Angeloni and Wolff, (2012). *Are Banks affected by their Holdings of Government Debt?*, Bruegel Working Paper 2012/07, March 2012.

- Bank for International Settlement (BIS), (2011). *The impact of sovereign credit risk on bank funding conditions*, Committee on the Global Financial System (CGFS) Publication n.43.

- CEIOPS, (February 2010). *List of groups for which College of supervisors is in place.*

- CEBS (2010). *Stress tests results*, July 23, 2010.

- De Larosière, et al. (2009). *The high level group on financial supervision in the EU*, Brussels, February 25, 2009.

- Deutsche Bank (2009). *Annual Report 2009.*

- EBA (2011). *Capital exercise final results*, December 8, 2011.

- EBA (2011). *Stress tests results*, July 15, 2011.

- Ecofin Council (2009). Conclusions *on Strengthening EU financial supervision,* Luxembourg, June 9, 2009.

- ESRB, (2011). *Annual Report 2011.*

- Euro Area Summit (2012). *Statement*, Brussels, June 29, 2012.

- Eurogroup (2011). *Press conference by Jean-Claude JUNCKER, President of the Eurogroup and Commissioner for Economic and Monetary Affairs Olli REHN*, Brussels, February 14,2011.

- Eurogroup (2010). *Statement*, Brussels, May 2, 2010.

- Eurogroup (2011). *Statement*, Brussels, June 20, 2011.

- European Central Bank (ECB), (2010). *Euro Area Fiscal Policies and the Crisis*, Occasional Paper Series N. 109/April 2010.

- European Central Bank (ECB), (2013). *Financial Integration in Europe,* Report, April 2013.

- European Central Bank (ECB), (2007). *Financial Stability Review*, June 2007.

- European Central Bank (ECB), (2012). Opinion CON/2012/96, November 27, 2012.

- European Central Bank (ECB), (2010). *The ECB's response to the financial crisis*, Monthly Bulletin, October 2010.

- European Commission (2012). Communication, *A Blueprint for a deep and genuine economic and monetary union – Launching a European Debate*, COM (2012) 777 final, Brussels, November 11, 2012.

- European Commission (2012). Communication, *A Roadmap towards a Banking Union*, COM(2012) 510 final, Brussels, September 9, 2012.

- European Commission (2009). Communication, *Driving European Recovery,* COM (2009) 114, Brussels, March 4, 2009.

- European Commission, (2009). Communication, *European financial Supervision*, COM (2009) 252 final, Brussels, May 27, 2009.

- European Commission (2013). *European Financial Stability and Integration Report 2012*, April 2013.

- European Commission (2012). *Facts and figures on State aid in the EU Member States – 2012 Update, accompanying the EC document COM(2012) 778 final*, Staff working document.

- European Commission, (2009). *State Aid Scoreboard – Report on State aid granted by the EU Member States – Autumn 2009 Update*, COM (2009) 661 final.

- European Commission, (2010). *State Aid Scoreboard – Report on State aid granted by the EU Member States – Autumn 2010 Update,* COM (2010) 701 final.

- European Commission, (2012). *State Aid Scoreboard – Report on state aid granted by the EU Member States – Autumn 2012 Update*, COM (2012) 778 final.

- European Council (2011). *Conclusions*, Brussels, July 21, 2011.

- European Council (2012). Conclusions, Brussels, December 14, 2012.

- European Council (2012). *Conclusions on completing EMU*, Brussels, October 18, 2012.

- European Council (2012). Inter-institutional file 2012/0242(CNS), ECOFIN 1080, EF 316, Brussels, December 14, 2012.

- European Council (2012). Inter-institutional file 2012/0244(COD), ECOFIN 1081, EF 317, CODEC 3057, Brussels, December 14, 2012.

- European Council (2012). *Towards a Genuine Economic and Monetary Union*, report, Brussels, June 26, 2012.

- European Council (2012). *Towards a Genuine Economic and Monetary Union*, interim report, Brussels, October 12, 2012.

- European Council (2012). *Towards a Genuine Economic and Monetary Union*, final report, Brussels, December 5, 2012.

- Financial Services Authority (FSA), (2009). *The Turner Review: A regulatory response to the global banking crisis*, March 2009.

- Financial Stability Board (FSB), (2011). *Shadow Banking: Strengthening Oversight and Regulation*, Report, October 27, 2011.

- G-7 Finance Ministers and Central Bank Governors (2008). *Plan of Action,* Washington DC, October 10, 2008.

- G-20 London Summit (2009). Leaders' Statement, April 2, 2009.
- G-20 Special Leaders’ Summit on the Financial Situation (2008). Washington DC, November 14-15, 2008.

- Garicano, L. (2012). *Five lessons from the Spanish Cajas debacle for a new euro-wide supervisor*, VoxEU.org, October 16, 2012.

- Gerlach, Schulz and Wolff, (2010). *Banking and Sovereign Risk in the euro area*", Centre for Economic Policy Research (CEPR), Discussion Paper n.7833.

- Goodhart, et al. (1998). *Financial Regulation: Why, How and Where Now?*, Routledge, London.

- International Monetary Fund (IMF), (2013). *A Banking Union for the Euro Area*, IMF Staff Discussion Note, February 2013.

- Kindleberger, C.P., (2000). *Manias, Panics and Crashes: A History of Financial Crises*, Fourth Edition.

- Lamfalussy, et al. (2001). *Final Report of the Committee of Wise Men on the Regulation of European Securities Markets*, Brussels, February 15, 2001.

- Liikanen, et al. (2012). *High-Level Expert Group on Reforming the Structure of the EU Banking Sector*, Brussels, October 2, 2012.

- Mody, A. (2009). *From Bear Sterns to Anglo Irish: How Eurozone Sovereign Spreads Related to Financial Sector Vulnerabilities*, IMF Working Paper WP/09/108, International Monetary Fund.

- Mody and Sandri, (2011). *The Eurozone Crisis: How Banks and Sovereigns Came to be Joined at the Hip*, IMF Working Paper WP/11/269, International Monetary Fund.

- Padoa-Schioppa, T. (1999). Lecture, *EMU and banking supervision*, London School of Economics, February 24, 1999.

- Schoenmaker, D., (2011). *Financial Supervision in the EU*, Encyclopaedia of Financial Globalization.

- Schoenmaker, D. (2011). *The European banking landscape after the crisis*, Duisenberg School of Finance Policy Paper No. 12.

- Schoenmaker and Van Laecke, (2006). *Current State of Cross-Border Banking*, LSE Financial Markets Group Paper Series, Special Paper 168.

- United States National Commission on the Causes of the Financial and Economic Crisis, (2011). *The Financial Crisis Inquiry Report.*

- Verhelst, S. (2011). *Renewed financial supervision in Europe - final or transitory?,* Egmont Paper No. 44, March 2011.

- Verhelst, S. (2013). *The Single Supervisory Mechanism: A Sound First Step in Europe's Banking Union?*, Egmont Institute, March 2013.

- Vitaly, Bord and Santos (2012). *The Rise of the Originate-to-Distribute Model and the Role of Banks in Financial Intermediation*, FRBNY Economic Policy Review, July 2012

DIRECTIVES AND REGULATIONS

- Council Regulation 1096/2010 of 17 November 2010 *conferring specific tasks upon the European Central Bank concerning the functioning of the European Systemic Risk Board*.

- Council Regulation 407/2010 of 11 May 2010 *establishing a European financial stabilisation mechanism*.

- Directive 73/183/EEC of the European Council of 28 June 1973 *on the abolition of restrictions on freedom of establishment and freedom to provide services in respect of self- employed activities of banks and other financial institutions*.

- Directive 89/646/EEC of the European Council of 15 December 1989 *on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of credit institutions and amending Directive 77/780/EEC*.

- Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 *on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate*.

- Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 *relating to the taking up and pursuit of the business of credit institutions (recast).*

- Directive 2009/138/EC of the European Parliament and of the Council *on the taking-up and pursuit of the business of Insurance and Reinsurance – "Solvency II"*, Brussels, November 25, 2009.

- Directive COM(2011) 8 final of the European Parliament and of the Council, *Omnibus II*, Brussels, January 19, 2011.

- Proposal for a Council Decision *entrusting the European Central Bank with specific tasks concerning the functioning of the European Systemic Risk Board*, COM(2009) 500 final, Brussels, September 23, 2009.

- Proposal for a Council Regulation *conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions*, COM (2012) 511 final, Brussels, September 9, 2012.

- Proposal for a Directive *amending Directives 1998/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC, and 2009/65/EC in respect of the powers of the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority*, COM (2009) 576 final, Brussels, October 26, 2009.

- Proposal for a Directive *establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directives 77/91/EEC and 82/891/EC, Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC and 2011/35/EC and Regulation (EU) No 1093/2010*, COM (2012) 280 final.

- Proposal for a Directive …/…/EU of the European Parliament and of the *Council on Deposit Guarantee Schemes [recast]*, COM(2010) 369, SEC(2010) 835, SEC(2010) 824.

- Proposal for a Regulation *establishing a European Banking Authority*, COM (2009) 501 final, Brussels, September 23, 2009.

- Proposal for a Regulation *establishing a European Insurance and Occupational Pensions Authority*, COM(2009) 502 final, Brussels, September 23, 2009.

- Proposal for a Regulation *establishing a European Securities and Markets Authority*, COM (2009) 503 final, Brussels, September 23, 2009.

- Proposal for a Regulation of the European Parliament and of the Council *amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority) as regards its interaction with Council Regulation (EU) No…/… conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions*, COM (2012) 512 final, Brussels, September 9, 2012.

- Proposal for a Regulation *on Community macro prudential oversight of the financial system and establishing a European Systemic Risk Board*, COM (2009) 499 final, Brussels, September 23, 2009.

- Regulation 1092/2010 of the European Parliament and of the Council of 24 November 2010 *on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board*.

- Regulation 1093/2010 of the European Parliament and of the Council of 24 November 2010 *establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC*.

- Regulation 1094/2010 of the European Parliament and of the Council of 24 November 2010 *establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC*.

- Regulation 1095/2010 of the European Parliament and of the Council of 24 November 2010 *establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC*.

- Regulation 236/2012 of the European Parliament and of the Council of 14 March 2012 *on short selling and certain aspects of credit default swaps*.

SPEECHES AND STATEMENTS

- Barnier, M. (2011). Statement, *The date of 1st January 2011 marks a turning point for the European financial sector*, Brussels, January 1, 2011.

- Barroso, J. M. (2012). Speech at the European Parliament Plenary Debate on the European Council of 28-29 June 2012, Strasbourg, July 3, 2012.

- Barroso, J. M. (2012). Written Statement, Brussels, December 13, 2012.

- Constancio, V. (2013). Speech, *The nature and significance of Banking Union*, London, March 1, 2013.

- Goshev P. (2008). Speech at the International Economic Forum, *Faster Towards the European Union*, Ohrid, November 2, 2008.

- Kennedy, J. F. (1959). Speech at Indianapolis, April 12, 1959.

- Lagarde, C. (2011). Speech at Jackson Hole, *Global risks are rising, but there is a path to recovery*, August 27, 2011.

- Trichet, J.C. (2009). Speech at the University of Munich, *The ECB's enhanced credit support*, July 13, 2009.

- Trichet, J.C. (2011). *Statement by the President of the ECB*, Frankfurt, August 7,

PRESSE RELEASES

- Council of the European Union, *Extraordinary Council Meeting*, 9596/10 PRESSE 108, Brussels, May 9-10, 2010.

- Council of the European Union, *Financial Supervision: Council adopts legal texts establishing the European Systemic Board and three new supervisory authorities,* 16452/10 PRESSE 303, Brussels, November 17, 2010.

- EBA (2011). *Press release* of 15 July 2011.

- ECB (2012). *Technical features of Outright Monetary Transactions*, Press release, September 6, 2012.

- European Commission (2012). *A Blueprint for a deep and genuine Economic and Monetary Union: Launching a European debate*, Press release IP/12/1272, Brussels, November 28, 2012.

- European Parliament (2013). *Parliament backs EU banking supervisory system plans*, Press release, Strasbourg, May 22, 2013.

NEWSPAPER ARTICLES

- Callender, H., "Europe Wonders How Long U.S. Vote Will Hamstring It", *The New York Times*, November 9, 1952.

- Cody, E., "Sarkozy advocates systemic change after crisis", *The Washington Post*, September 26, 2008.

- Dixon, H., "Mario Draghi's poisoned banking chalice", *Reuters*, February 4, 2013.

- Schäuble, W., "How to protect EU taxpayers against bank failures", *Financial Times*, August 30, 2012.

INTERVIEWS

- Rahm, E., interview to *The Wall Street Journal*, November 19, 2008.

- Soros, G., interview with the Austrian daily *Standard*, January 22, 2008.

WEBSITES

- Bank for International Settlements, www.bis.org.

- Bank of Italy, www.bancaditalia.it.

- European Banking Authority (EBA), www.eba.europa.eu.

- European Central Bank (ECB), www.ecb.int.

- European Commission, www.ec.europa.eu.

- European Council, www.european-council.europa.eu.

- European Insurance and Occupational Pensions Authority (EIOPA), www.eiopa.europa.eu.

- European Parliament, www.europarl.europa.eu.

- European Securities and Markets Authority (ESMA), www.esma.europa.eu.

- European Systemic Risk Board (ESRB), www.esrb.europa.eu.

- International Monetary Fund (IMF), www.imf.org.

- The World Bank (WB), www.worldbank.org.