

**Few comments on R. Maserà's and G.B.
Wolff's presentations
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**EUROPEAN BANKING UNION
AND ITALY:
DESIGN ISSUES, FINANCIAL
FRAGMENTATION, IMPACT ON THE
ITALIAN BANKING SECTOR**

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Preamble

- Banking Union Process based on three pillars:
Single supervisory mechanism (SSM);
Recovery and resolution mechanisms (RM/
SRM);
Deposit guarantee schemes (DGSs).
- According to the European Council (December 2012), SSM + direct recapitalization of banks by ESM + RM + SRM + DGSs = effective in the first half of 2014.
Planned delay: European integration of DGSs.
- Actual implementation = sequential transition.

Outline of my discussion

- Hence, three main problems:
 - (1) Some weaknesses in the design of SSM;
 - (2) Working of SSM with various (coordinated) RMs (no SRM as an independent authority);
 - (3) Working of SSM and RMs/SRM without a European integration of DGSs.
- My conclusion: efficient SSM ← efficient SRM ← EI-DGSs.
- Hence a fourth crucial question:
Possible implementation of SRM and EI-DGSs without any amendment in the Treaty.

1. SSM design: some weaknesses

- To protect entering non-euro MSs (“close cooperation arrangement”):
divergent positions ECB’s Governing Council v/s SSM’s Supervisory Council → intervention of the Mediation Panel/exit.
Implication: single MSs = mild veto power.
- To protect non entering non-euro MSs: double majority at EBA on single ruling-book.
Consequence: UK and Sweeden = strong veto power.

2. Various coordinated RMs

- Two starting assumptions:
 - (i) SSM's decisions matter to begin a resolution action for a given bank;
 - (ii) efficient SRM/RMs: recovery initiatives and/or selected 'bail in' without contagion and instability in the national banking and financial markets.
- (i) – (ii) → MSs have incentives to use their veto power at SSM's level, whenever their specific RM makes it too costly the resolution actions.
- Coordination of RMs = insufficient;
SRM → lower probabilities.

3. SSM and SRM without EI-DGSs

- Financial crisis (2007-'09) → DGSs = crucial role for the stability of banking and financial markets (e.g.: traditional/new “bank runs”).
- Cyprus events → local DGSs = insufficient protection of insured depositors.
Economic theory → local DGSs = insufficient exploitation of risks diversification.
- Hence: EI-DGSs = necessary condition for the efficient working of SRM.

4. Conclusions: a new Treaty?

- Previous comment → possible time lags in the implementation of SSM, SRM, and EI-DGS cannot be too wide.

Hence: agreement reached at the European Council (December 2012) = efficient strategy, may be in the dreamland.

- Open question:
is a new Treaty a set pattern, or the German version of the “Damocles’ sword” game?