Andreas Ittner
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Opening Remarks

Ladies and Gentleman,

I warmly welcome you to the first Session of today’s conference Toward a European Banking Union: Transitional Issues. I am privileged to present you two speakers for this session, which are well known as two of the most prominent protagonists in the process of implementing the European banking union. It is indeed a pleasure for me to welcome Danièle Nouy and Elke König. I would like to thank both of you very much for finding the time to participate in this conference and to share your views on the banking union with us. Though I am convinced that you are well known to the audience, let me briefly introduce Danièle Nouy and Elke König.

Danièle Nouy has been appointed early this year as the first Chairperson of the high level decision making body of the Single Supervisory Mechanism (SSM), the Supervisory Board. Previously, she worked for many years in the area of supervision in various leading positions at the national (French) as well as the international level, like for example as secretary general of the Basel Committee on Banking Supervision. Hence, she is certainly recognized as one of the most experienced and acknowledged supervisors in Europe.

Elke König has been President of BaFin, the German Federal Financial Supervisory Authority, since 2012. Before her present position she gained extensive financial industry experience through various high-level management positions including positions in the management board as well as the supervisory board of insurance companies and banking groups and as a member of the International Accounting Standards Board (IASB).

Before I leave the floor to Elke König and Danièle Nouy, let me briefly highlight 4 important general aspects of the European banking union:

1. The Banking Union Constitutes the Most Considerable Step of European Integration since the Introduction of the Euro

The creation of the banking union constitutes a fundamental reform of Europe’s financial architecture. It certainly represents the most considerable step of European integration since the introduction of the euro. When political consensus was reached regarding the establishment of a European banking union in autumn 2012, a major objective was to break the vicious circle between sovereign and bank debt. In order to do so, it was necessary to establish a regulatory framework that allows weak banks to exit the market without major disruptions in the financial system so that the extensive use of tax-payers money for rescuing these banks can be avoided.

With the adoption by the European Parliament of the Single Supervisory Mechanism (SSM) in November 2013 and the adoption of the Single Resolution Mechanism (SRM) together with the Banking Recovery and Resolution Directive (BRRD) and the Deposit Guarantee Scheme Directive (DGSD) in April 2014 the legislative process for establishing the three well known pillars of the banking union has been completed on the European level. However, besides the legislative implementation on the
national level, we face still enormous challenges in order to make the banking union operational.

2 Creating the Legal Basis Has Been Crucial – Making the Banking Union Work However Is a Long-Term Project – It Will Face Numerous Challenges and Requires Stamina and Tenacity

Most progress has already been made regarding the first pillar of the banking union – the Single Supervisory Mechanism (SSM). The ECB as well as national supervisors are intensively preparing for handing over direct banking supervision of around 120 to 130 significant European banking groups to the ECB in November 2014. Though I am confident that this deadline can be held, we have to be aware that we still face a series of operational challenges.

Just one example is the Comprehensive Assessment that has to be conducted by the ECB prior to the take-over of full responsibility for supervision under the SSM in November 2014. The assessment is being carried out in cooperation with national supervisors and third parties. The aim of this exercise is to obtain greater transparency regarding banks’ balance sheets and to restore investors’ and clients’ confidence in the European banking sector. The outstanding nature of this exercise becomes clear, if one recalls a few figures in this regard: balance sheets of the 128 largest banking groups in the euro area are reviewed. About 6,000 supervisors and auditors are involved in the review of 760 portfolios and 135,000 individual loan files. With a total of risk weighted assets of approximately EUR 3.7 trillion this corresponds to a review of almost 60% of credit risk taken by participating firms.

3 The SRM is Key to Complete the Banking Union – Without a Properly Functioning SRM, There Will Be No Delinking of Sovereign and Bank Debt

The second pillar – the Single Resolution Mechanism (SRM) – is certainly the most important element for breaking the vicious circle between sovereigns and banks. Hence, it was crucial for the completion of the banking union that a respective agreement has been reached before the elections to the European Parliament in May 2014. Without a common resolution mechanism the banking union would certainly not work. A well-functioning common supervision has to go hand-in-hand with common rules for bank resolution, if market-exit of weak or failing banks shall be established as a credible option. However, the establishment of the SRM will even be more challenging than the creation of the SSM. While in the case of the latter involved institutions – the ECB and national supervisory authorities – were already established this is not the case for the SRM: In many countries national resolution authorities are not yet installed and the central body, the Single Resolution Board to be located in Brussels, has to be built from the scratch.

As regards the third pillar – the Deposit Guarantee Scheme – the main chal-
The challenge will be to maintain depositors’ confidence in the safety of their savings, despite of the potential market exit of weak or failing banks in the future.

4 Completeness of the Banking Union Is Not Just about Its Three Pillars, It’s also about Geographical Scope

As stated before, the regulatory framework for the banking union has been completed recently and making it operational is the main challenge we currently face. However, completeness not only refers to the framework itself, but also to the number of countries that participate. So far, the banking union has been established for the euro area. I believe that it is also of utmost importance for its success that as many of EU Member States outside the euro area as possible choose to opt-in. I am convinced that joining the banking union is not only in the interest of a country like Austria with banks heavily engaged in non-euro countries in Central, Eastern and Southeastern Europe, but also beneficial for these countries themselves. As the legal framework of the banking union has been completed now, the time has come for them to think about the pros and cons of opting-in and it is my conviction that in most cases the advantages of joining the banking union will clearly outweigh the disadvantages in most cases.