Bank Governance Leadership Network
ViewPoints

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The future of cross-border supervision in Europe: practical and political challenges in establishing a European banking union

Supervision of large global banks has been changing dramatically over the past few years, and participants in the Bank Governance Leadership Network (BGLN) have been discussing those changes since the network's inception. Although there have been substantial improvements in the focus and execution of supervision, challenges remain, especially when it comes to cross-border supervision, which is plagued by what some BGLN participants describe as *"balkanization."* European Banking Authority (EBA) Chairman Andrea Enria summed up the challenge: "Strengthening regulation is not enough if it is not coupled with more effective supervision, especially for those large and complex groups that are active on a cross-border basis and may generate systemic risks across jurisdictions."[1]

The introduction of a European banking union (EBU) will greatly alter cross-border supervision for those operating in the eurozone, and also for many banks operating outside the eurozone. During the first few months of 2013, BGLN participants shared their perspectives on the need for, and challenges of, establishing an EBU. These discussions culminated in a meeting in London on 19 March of 13 non-executive directors, two executives from large banks and two officials from the policy and supervisory community.[2]

This *ViewPoints*[3] captures the thrust of those conversations, in which four key themes emerged:

- Despite improvements, cross-border supervision is still far from optimal
- A European Single Supervisory Mechanism (SSM) is coming, but key questions remain
- The SSM can only work if other building blocks are in place
- The debate on the EBU is a microcosm of the debate on European integration and power shifts

Despite improvements, cross-border supervision is still far from optimal

Global regulators have made improving supervision of the largest global banks a priority, and BGLN participants have welcomed the improvements. In particular, they see value in the following efforts:

- To better understand banks' strategies and business models: where and how do banks make money?
- To increase the focus on corporate governance, particularly risk governance
- To deepen engagement with executives and board directors and to build what has been described as a "ladder of relationships" between various levels of the bank and supervisory organizations
- To improve the quality and seniority of frontline supervisory staff

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[1] Andrea Enria, "Financial Integration and Stability in Europe: The Role of the European Banking Authority" (speech at the 15th China Beijing International High Tech Expo, Beijing, 23 May 2012), page 9.

[2] A list of participants can be found in the Appendix.

[3] This *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule whereby comments made during conversations with participants are not attributed to individuals or organizations. Quotes in italics are directly from conversation participants, before and at the meeting.

- To coordinate cross-border supervision via international groups (e.g., Senior Supervisors Group, the Financial Stability Board's Supervisory Intensity and Effectiveness group), supervisory colleges and bilateral agreements between major-market supervisors

Despite those advances, a number of issues continue to pose challenges, some in the very areas in which supervisors are striving to make improvements. Prior to the March meeting, participants identified the following:

- **Different priorities and areas of focus.** While supervisors globally have moved toward increasing intensity of supervision, the degree and focus of these changes varies significantly across national supervisors. One example emerging from the BGLN is the level of focus on risk governance and how different supervisors are assessing banks' implementation of risk appetite frameworks.[4]

- **Different engagement models.** Some supervisors have focused on deepening engagement with non-executive directors; others are much less engaged. Different governance structures across jurisdictions add to the complexity. Some directors said they regularly meet with supervisors in as many as three or four different countries. Some supervisors prefer informal communication, while others use more formal methods of communication.

- **Limited global coordination and information sharing.** Despite supervisors' efforts to coordinate cross-border supervision, BGLN participants still find a lack of coordination among supervisors. BGLN participants would like to see better information sharing among supervisors, especially regarding recovery and resolution planning. Some directors have decried the standoffishness of the supervisory colleges, which were established to improve group supervision of global banks. One director said of the colleges, *"I don't understand how [the colleges'] information has been collected or how they read that information … They should be giving feedback … and give us the opportunity to correct [their] view if we believe the information is being misread."*

- **A tendency toward nationalistic solutions.** One director said, *"The crisis has proven that national supervisors are unable to resist national pressures – when there is a boom, they are unable to resist the pressure."* Another asserted, *"The real problem we have is [that] the national regulators are nationalist and making it very difficult for cross-border banks because they are protecting politicians."*

- **Continued constraints on building supervisory talent.** Resource limitations have constrained supervisors' ability to assure supervisory staff have the level of seniority and experience that banks say is necessary to achieve expanded objectives and engage fruitfully with senior bank leaders and directors.

[4] See Bank Governance Leadership Network, "Seeking Progress on Risk Appetite Frameworks: Bridging Divides on Understanding, Implementation and Impact," *ViewPoints*, 19 October 2012.

A European Single Supervisory Mechanism (SSM) is coming, but key questions remain

While BGLN participants differ over the benefits of unified European supervision, many are supportive of the SSM. Said one director, *"This move was absolutely necessary; national supervisors failed."* The SSM could also address some of the ongoing cross-border supervision challenges, at least for those banks domiciled in the eurozone. The challenge is implementation. One participant said, *"There are a host of issues, some practical, some theoretical, some political, all of which have to be settled."*

Who will actually supervise what?

In September 2012, the European Commission released its proposal to create a banking union among the 17 eurozone countries. The commission proposed a SSM within the European Central Bank (ECB) and a single supervisory handbook, created by the EBA, to ensure coherence across all 27 EU countries. In early December 2012, after nearly four months of negotiation, eurozone finance ministers agreed to a plan for the SSM under which "the ECB will take direct responsibility for banks that have more than €30 billion in assets or balance-sheets accounting for 20% or more of national GDP, leaving it with oversight of around 200 banks. Smaller banks, like Germany's savings banks, will be looked after by national supervisors but the ECB will have power to step in if need be."[5] The ECB's supervisory powers will be comprehensive: it will authorize banking groups' right to operate and to validate their models. The SSM will be composed of national authorities and the ECB, and non-euro-area member states will have an opportunity to opt in.[6]

On the same day that BGLN participants met in London, European lawmakers reached an agreement with member states on how the SSM would be structured.[7] The European Parliament, the Council of the European Union and national governments all accepted the key supervisory structures for the EBU, subject to a formal vote by the Council of Ministers and Parliament. There will be a one-year period of preparation, and the SSM should be functioning by mid-2014.[8] Legislation officially authorizing its establishment is expected this summer.[9]

While the ECB will have legal responsibility for supervision of the largest European banks, it is not yet clear what that will mean for day-to-day interaction with the banks. According to the *Financial Times*, "the smaller the bank, the more ECB supervision would in fact resemble current national arrangements on a day-to-day basis."[10] But how different will the new arrangements be for the largest banks? The *Financial Times* noted, "[The ECB] has no direct experience of supervision, no dedicated staff for the job."[11] Indeed, a report commissioned by the ECB said that the ECB would need to "more than double its manpower and

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[5] "A Measly Triumph," *Schumpeter* (blog), *Economist*, 13 December 2012.

[6] Vítor Constâncio, "Establishment of the Single Supervisory Mechanism; the First Pillar of the Banking Union" (speech at the 11th Annual European Financial Services Conference, Brussels, 31 January 2013).

[7] Laurence Norman, "EU Takes Step toward Bank Supervisor," *Wall Street Journal*, 19 March 2013.

[8] Tom Newton, "Major Part of Banking Union Set for Mid-2014, Says ECB Official," *Central Banking*, 20 March 2013.

[9] Ibid.

[10] Michael Steen and Alex Barker, "Debate Rages on Eurozone Banks Supervisor," *Financial Times*, 9 December 2012.

[11] Ibid.

hire around 2,000 bank supervision staff to put the eurozone's banking union into practice."[12] Several participants asked, *"How quickly can the ECB get up to speed?"*

Meeting participants predicted that up to half of the new ECB supervisory staff will come from national supervisors to ensure they have the necessary experience and to provide some continuity in relationships. Relationships will be important, as senior executives and non-executive directors are going to want direct contact with those in the ECB with decision-making authority. If they cannot have it, there are likely to be complaints, such as US bank executives have had regarding interactions with the Federal Reserve Board in Washington. Some executives have complained about a disconnect between their day-to-day interactions with regional Fed supervisors and the ultimate reports emerging from the central bank in Washington.

Those who have followed or been directly involved in the SSM negotiations to date reported the following:

- **National supervisors want to retain responsibility for day-to-day supervision.** Prior to the meeting, several supervisors said they believed national supervisors will retain a lead role in on-site supervisory activities, with oversight from a board of European supervisors led by an ECB representative. One described supervisors' expectations: *"As a matter of principle, the idea is that the day-to-day supervisory work shouldn't change … The idea today, in terms of organization, is that [national supervisors] keep the basic relationship with the banks and that we will have to participate in joint supervisory teams that would look like some college or technical board, gathering people from home and host countries and chaired by the future [ECB] general director of big-bank supervision."*
- **Information sharing and coordination will increase.** The SSM will involve more information sharing and coordination than has hitherto been common – for example, cross-border supervisory teams overseeing multinational banks. According to one supervisor, *"There will be more cooperative work than there is today, work where the home country and host countries will propose specific actions, so it will be a more collective decision-making process, and the national supervisors will interact more with the ECB and other countries."*

How the supervisory colleges will operate under the SSM has still not been decided. One meeting participant said, *"There are a number of scenarios that you can think of. There will be new colleges, and [those] will include non-euro-zone members, but who will be the eurozone representative? ECB? National authorities? Or will that depend on the banking group?*

Creating a handbook for EU supervision will be challenging

Currently, national supervisors use different risk assessment methodologies, engagement models and ways of communicating with banks regarding issues, and they employ different enforcement options. Many of these approaches were modified or developed following the financial crisis. However, more change is required to implement the SSM. The EBA has been charged with developing both a single rulebook for the EU and a single supervisory handbook. The latter could prove highly challenging and political because it goes beyond

[12] Alex Barker and Michael Steen, "EBC Told to Double Its Manpower," *Financial Times*, 4 February 2013.

rule setting: it requires defining an approach to supervision. A meeting participant said, *"The truth is, we don't know how the SSM will operate or what the supervisory handbook for the EU will include."* Another participant pointed out that *"there are 27 member states negotiating with the ECB [on the topic], and we don't have insight into the full dynamics, politics and the sheer complexity of those relationships."*

Meeting participants highlighted four key questions about the supervisory handbook:

- **What will be in the handbook?** One meeting participant observed that *"there are quite important questions as to who will [actually] write the handbook [and] how detailed it will be."*
- **How broadly and rigorously will it be applied?** The handbook will apply to all 27 countries in the single market. According to one meeting participant, *"The single handbook will apply to the UK, which is outside the SSM. The EBA will write it for the whole single market, but it is not clear to what extent it will be binding."* The EBA faces a significant challenge, with one meeting participant commenting, *"Trying to get 27 national regulators to talk and walk in the same direction is not easy."* Another participant questioned how the supervisory handbook will be enforced: *"What will happen if a national regulator will not comply with rules? There are many situations where local supervisors will not relinquish power."*
- **How much will supervisory approaches need to change?** In a discussion prior to the meeting, a supervisor predicted that extensive changes to national approaches would be unnecessary: *"The national supervisors participate in working groups … We share the same objectives and tools, so what will be done will not be a brand-new model, but a synthesis of practices. In the colleges, we use the same risk assessment – the elaboration of Pillar 2 requirements – so we already have a common approach in the joint risk assessment where we define the risks and have criteria for rating risk."* According to this supervisor, the handbook will *"[describe] the organization and what tools we will use. What will come out will be something that looks very similar to what we already do."* However, at the meeting, participants pointed out that even though European countries are used to more standardized rules, *"how you supervise against those standards is a different question … The supervisory handbook is different because all supervisors have an operating model that they believe fits their market,"* and those operating models differ from one another.
- **How much discretion will be left to national supervisors?** A major challenge will be to *"avoid putting supervisors in a straightjacket and allow the colleges to continue playing their role."* There were differences of opinion in the BGLN meeting about the need for discretion. One participant said, *"You need to allow for differences in countries, for example in mortgage markets, and in calculating the risk appetite for the supervisory framework,"* but another hoped that in developing the handbook, supervisors would ask, *"Are these differences always justified? … When national differences remain, you can at least ask questions."*

Other important practical issues still need to be resolved

A number of unresolved issues could add to the complexity:

- **Defining the ongoing role of the EBA.** According to Michel Barnier, the European commissioner for Internal Market and Services, "The European Banking Authority … will remain the forum for coordination of bank supervision and the place where detailed rules are drawn up. And EBA decisions will have to be approved by a majority of countries outside the Banking Union. This is a strong safeguard."[13] But several directors have questioned how much long-term influence the EBA will have, with one going so far as to say, *"The EBA was never more than a political compromise because they couldn't set up a central regulator. It's never gotten the teeth of a regulator. It's a representative body. I think the EBA will disappear."* Another participant said that *"the EBA hopes to play a role as a point of entry for third-party country regulators to negotiate common approaches regarding, e.g., resolution and recovery on behalf of EU regulators."*
- **Resolving disagreements.** Several participants questioned how disagreements among supervisors or between banks and supervisors will be resolved. One asked, *"What do you do in cases of disagreement? Does a national supervisor have the ability to challenge [the] ECB?"* Another observed, *"If you ask the EBA, they are not at all comfortable arbitrating between the Bank of England and the ECB."* A supervisor acknowledged that conflicts could prove problematic: *"We will negotiate with the ECB as we would another national regulator."* In the March discussion, participants asked how politically sensitive decisions would be made: *"Would the ECB supervisor allow a bank to hold domestic sovereign bonds?" "Is a large bank free to decide to sell a large quantity of government bonds, given the relationship among directors, regulators and politicians?"* A meeting participant asserted, *"You need something that allows you to avoid the decisions being made on the fly, as in Cyprus."* Mr Barnier has said, "If banking union were already in place and functioning today, the management of these difficulties would be considerably easier."[14]
- **Engaging with non-EU authorities.** BGLN participants questioned how the SSM will impact relationships with authorities outside the EU. One asked, *"Who will be responsible for third-country relationships? ECB? EBA?"* Another asked, *"What will be the relationship between EBA and ECB? And how does this relate to information sharing with third countries? The UK has a number of [memoranda of understanding] or cooperation agreements with the United States, but how do you create a level playing field? … We have just seen bilateral cooperation between the FDIC [Federal Deposit Insurance Corporation] and the Bank of England on information sharing. That's something that does not exist on a large scale in the eurozone or crisis management groups."*
- **Navigating a new and potentially more complex web of relationships.** One participant noted that with the continued role of the EBA, the need to retain relationships with national supervisors, the emergence of the SSM and potentially a new, independent resolution authority, the

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[13] Michel Barnier, "The Single Market: Europe's Path to Growth and Jobs" (speech at the Conference on the Single Market and Growth in 2013, London, 1 February 2013).

[14] Laurence Norman, "EU Takes Step toward Bank Supervisor."

number of interconnected relationships among supervisors, banks and regulatory bodies could go into the thousands. Banks want to know who will ultimately be the "lead" supervisors from a relationship perspective. Several suggested domestic supervisors will want to retain relationships with bank leaders, with one saying that *"national supervisory authorities will fight to retain relationships with the CEOs and the boards of domestic banks."* However, some directors now believe they will need to develop working relationships with new supervisors. One asked, *"Do you have to build a relationship with the ECB, or will it be like it is at the moment, where we communicate through national supervisors? As a national supervisor, who do you contact?"*

The SSM can only work if other building blocks are in place

However challenging it is to develop the SSM, it is just one of the many building blocks that need to be in place for the EBU to work. As Mr Enria stated in late February:

> If bank capital and liquidity is trapped in each single country because national authorities fear that in case of the crisis they would fly to other jurisdictions … all the benefits of the Single Market would be lost. It is a "prisoner's dilemma" situation: if everybody believes that in a crisis all different stakeholders, in each Member State, will be subject to an equitable treatment and the crisis management will be a joint responsibility, a cooperative outcome could prevail; banks could operate as European entities, as they would be resolved as European entities; but if there is a fear that in a crisis *"chacun pour soi"* policies would prevail again … the Single Supervisory Mechanism is a major step forward. We now need to complete the Banking Union with strong institutions for crisis management and resolution … It is a delicate political point, which requires a deeper and stronger underpinning for the European Union.[15]

There was a lot of discussion of the other core building blocks at the March BGLN meeting. Many of those in favor of the EBU agreed with one participant's view on the next steps: *"First, you have to define one capital, one liquidity standard. Second, you need a resolution fund. If it doesn't happen, the whole scheme will fall down. Third, you have to do something on a deposit guarantee system."*

Many acknowledged the political hurdles that policymakers face in implementing these additional steps:

- **Single resolution mechanism.** Regarding a single resolution mechanism, Vítor Constâncio, an ECB vice president, has said, "The Single Resolution Mechanism would have a Single Resolution Authority at its centre that would govern the resolution namely of significant banks, coordinate the application of resolution tools and reflect an organisational set-up similar to the SSM. It should have a comprehensive set of enforceable tools, powers and authority to resolve all banks in the SSM."[16] Prior to the discussion on 19 March, BGLN participants raised questions about the creation of such an authority. A supervisor stated, *"It all comes down to how do you resolve a cross-border SIFI?"* Another supervisor commented, *"Most obvious known unknowns: who will be the resolution*

[15] Andrea Enria, "The Crisis in Europe, the Impact on Banks and the Authorities' Response," pp 13, 15.

[16] Vítor Constâncio, "Establishment of the Single Supervisory Mechanism; the First Pillar of the Banking Union" (speech at the 11th Annual European Financial Services Conference, Brussels, 31 January 2013).

authority under the new mechanism? The ECB? Or does the European treaty not allow the ECB to take up that role? The EBA? Or do we create another third party? Or is it left up to national supervisors for non-SIFI banks? No one has an answer yet." On 19 March, even those participants supportive of the banking union questioned whether politicians would cede authority as long as domestic central banks and treasuries have financial responsibility for bailing out banks. One participant noted, *"The challenge will be the practical reality of who loses control and who pays."* Another said, *"Getting agreement on the resolution and recovery directive is very complex, and more so [as a result of the banking crisis in Cyprus]."* Some believe the ECB has to take on the role: *"Could the ECB stop at supervision? I don't think so. They will have to deal with resolution."*

- **Deposit guarantee scheme.** Prior to the discussion in March, a BGLN participant observed, *"Deposit guarantees will be an extremely important component. Without that, you won't get [ECB president Mario] Draghi's objective of equalized flows across the eurozone. What is designed has to be sufficiently robust that BaFin [the German Federal Financial Supervisory Authority] won't worry about relationships with Portuguese or Italian banks … If you get deposit guarantee and use the European stability mechanism as a backstop guarantee, then you get a system that could be working."*
- **Financial backstop.** The *Economist* wrote in December, "The thread that runs through the euro crisis is the question of who pays when things go wrong within individual member states. So it is again. If the ECB demanded that a failing bank in Italy be wound down, the bill at the moment would still land in Rome … That means the poisonous link between weak sovereigns and weak banks in the euro area remains intact."[17] But a BGLN participant said, *"The central bank in any country is officially the lender of last resort, and the ECB refuses to do that because it will impact their independence and neutrality."* Some question whether the EBU can work if the ECB continues to avoid the lender-of-last-resort role.

How will macroprudential policy work alongside the EBU?

BGLN participants have previously raised questions about how macroprudential tools can or will be used. The issue came up again in the context of the EBU:

- **The concept of macroprudential intervention is untested.** A director observed, *"It is hard to find leading indicators for [central] banks to intervene early. If we had serious macroprudential tools, then we could say that Italian banks need to sell Italian government bonds while Germans would purchase [them], but we are not going to have [such] macroprudential tools in place."*

continued overleaf

[17] "A Measly Triumph," *Schumpeter* (blog).

How will macroprudential policy work alongside the EBU? *continued*

- **Macroprudential policy is extremely political.** A director observed, *"Macroprudential policy is economically extremely difficult, but it is even more so politically."* Another said, *"Even if you talk to people inside the ECB, they acknowledge it is very hard to have the tools to spot [problems] in advance, and even if you have tools in advance, that means telling people in Spain that their real estate market is too high and restraining credit. You need not only economic tools but political tools. I think it's fascinating in theory, but I look at it from a practical point of view, and I'm not sure we're ready."* Another said, *"When you start imposing the right answer, which creates losers, and the losers are in different jurisdictions, that is a problem."*

- **There is potential for conflicts with monetary policy.** A participant observed that it is unclear how macroprudential powers will interact with monetary policy: *"The European Systemic Risk Board can opine, maybe very sensibly, but they don't have any control, and that's a very significant change, and it has implications within the ECB insofar as that nobody has thought about it as monetary policy. How do you interact between monetary policy and macroprudential regulations?"* A director went a step further, suggesting that the objectives of a regulator and those of a central bank may be at odds: *"The objective function of a regulator is not that of a government or central bank – If I'm a regulator, I would advise [banks] to rid themselves of government bonds."*

The debate on the EBU is a microcosm of the debate on European integration and power shifts

One participant at the March meeting said that the primary justification for unifying bank regulation in Europe is to *"[break] the doom loop between banks and sovereigns."* However, others believe politics are at the root: *"Political dynamics are increasingly the drivers of what's happening."* It was apparent at the March meeting just how easily discussion of a banking union can move to a broader discussion about the future direction of the EU.

Europeans view a banking union as another inevitable step toward greater integration

Critics of tighter European integration believe the EBU is *"a symptom of a much bigger problem. The issues are not specifically related to banking. It is about a[n economic] framework that doesn't work."* Others expressed skepticism about the possibility of integration given today's regulatory realities: *"I feel like we live in two worlds: one is the real world in which nationalistic regulators are hoarding cash and closing borders, making pan-European business models impossible, and [the other is] one in which I hear high-level discussion of an EBU."*

But others, especially those from within the eurozone, insisted that *"the political will is there"* to strengthen the EU and that all necessary measures will be taken to ensure that the single currency works. One meeting participant stated, *"It is about making the eurozone function."* Given that goal, another said a banking union was inevitable: *"A single regulator is an essential component of the eurozone. Without it, I don't see how the transnational structures of many banks [can] remain viable."* Another participant observed that while the European sovereign debt crisis had caused ongoing speculation about a euro breakup, *"at the moment, all moves are toward centralization, and I don't see that changing."* Several participants were of the opinion that *"continued crisis"* would sustain momentum for the banking union, political obstacles notwithstanding, with one saying, *"In the eurozone, the force of the threat [from the crisis] will force nationalist politicians to cede power."*

The United Kingdom may find itself in an increasingly precarious, isolated position

The momentum for integration is within the eurozone, which means the United Kingdom is increasingly on the outside. The agreement on the SSM includes a "double majority" principle at the EBA that ensures that "any EBA decisions are at least approved by a plurality of countries outside the banking union – a principle with potentially wider application as Britain seeks to coexist within the single market with a more integrated eurozone."[18] But Britain does not appear particularly interested in this concession, having publicly stated its intention to remain outside of the SSM, rather than opting in as most – perhaps all – other non-eurozone countries will do. *"[It] could mean 27 countries are in EU, 26 are in the SSM, and one is outside,"* observed one meeting participant – and that's not even factoring in Prime Minister David Cameron's announcement that there will be a referendum on continuing the United Kingdom's membership in the EU if he is reelected in 2015.[19]

A meeting participant observed that increasingly, *"there is … UK isolation on a number of issues: risk weighting, Basel III, compensation and the SSM."* Another director said after the meeting that the United Kingdom is heading down a path that will lead to a *"splendid financial isolation."* Some worry that in the short term, the United Kingdom could be greatly affected by the SSM through the development of the new EU supervisory handbook. One participant observed, *"The UK just redesigned its framework around a judgment-based approach."* This person said the United Kingdom has an interest in being *"in the room when [the handbook] is drafted"* so it can advocate for its new approach.

The European financial epicenter may move faster from London to Frankfurt

Several participants said that the ECB is fast becoming one of the most influential institutions in Europe. One said, *"As long as member states refuse to organize themselves, it is no surprise that the European Union is giving more power to the ECB … When the ECB is in the room, it is clear that everyone is listening to the ECB."* Another observed, *"Why give this responsibility [for supervision] to the ECB, who has no expertise? Because they have the power."*

Participants predict that the EBU will accelerate the power shift to the ECB: *"As gravity pulls toward Frankfurt, it will speed up the process."* More broadly, some participants expect that over time, the pull from an increasingly powerful ECB will mean that more and more supervision will move to Frankfurt.

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[18] Alex Barker, "Eurozone Agrees Common Bank Supervisor," *Financial Times*, 13 December 2012.

[19] David Cameron, Speech on Europe (Bloomberg Television, 23 January 2013).

One said, *"A single banking zone with the ECB as the regulator becomes a very powerful beast. Over time, I can't believe things won't migrate to Frankfurt."* Another concluded, *"Because of the power of the ECB, Frankfurt will be a new financial center."* Several participants in the March meeting saw this as a major threat to London's position as a financial center. One director noted after the meeting, *"[the EBU] has very considerable implications for London, longer term."*

Given the growing influence of European politics, bank leaders should increase and improve engagement with European policymakers

The Treaty of Lisbon, which entered into force in December 2009, gave the European Parliament more power. With power comes responsibility: *"We need real political leadership in Europe,"* said one meeting participant. Another observed that unfortunately, *"politicians in Brussels don't talk about banking supervision – they say, 'We have solved the crisis in Europe.' They talk about control over local budgets, fiscal harmonization."* As such, several meeting participants suggested banks should make more concerted efforts to engage EU policymakers so that the development of the EBU unfolds in a way that serves everyone's interests. *"We see competition among regulators and confusion about what is going to happen,"* said one meeting participant. *"[We need] to establish a useful dialogue with the people who are putting together the European banking union. There is a lack of knowledge on both sides – banks and policymakers – about how the other works."* Another participant asked, *"How can we collectively help work out how the banking union will work?"* One meeting participant recommended that bank leaders get *"involved in Brussels' legislative process earlier – identify key authors of policies and find out which way it's going once it's tossed over the wall to European Parliament."*

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Global banks continue to face uncertainty regarding the future of supervision. The introduction of the EBU has the potential both to ease cross-border supervisory challenges for those operating in the eurozone and to make it more complex for those operating outside. There are some major challenges ahead in implementing the SSM and in putting in place the other necessary building blocks for an effective banking union. What's clear, at this stage, is that major power shifts are taking place in the area of bank supervision, and more broadly in the European financial markets and policymaking – so banks need to engage.

Bank Governance Leadership Network
ViewPoints

About this document

The Bank Governance Leadership Network (BGLN) addresses key issues facing complex global banks. Its primary focus is the non-executive director, but it also engages members of senior management, regulators, and other key stakeholders committed to outstanding governance and supervision in support of the mission to build strong, enduring, and trustworthy banking institutions.

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Appendix: Meeting participants

Directors

- Mr Andrea Beltratti, Intesa Sanpaolo
- Mr John D Coombe, HSBC
- Sir Sandy Crombie, RBS
- Mr Simon Fraser, Barclays
- Mr Michael J Hawker, Macquarie Group
- Mr Joost Ch L Kuiper, ING
- Mr Brian M Levitt, TD Bank
- Ms Rachel Lomax, HSBC
- Ms Nathalie Rachou, Société Générale
- Ms Lucrezia Reichlin, UniCredit
- Mr David Roberts, Lloyds Banking Group
- Mr Anton van Rossum, Credit Suisse
- Mr Anthony Wyand, Société Générale/UniCredit

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- Mr Roberto Nicastro, UniCredit

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- Ms Inge Veldhuis, EBA

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- Mr Ian Baggs
- Mr Robert Cubbage
- Dr David P Doyle
- Mr William Schlich

Tapestry Networks

- Mr Dennis Andrade
- Mr Mark Watson
- Mr Charles Woolcott