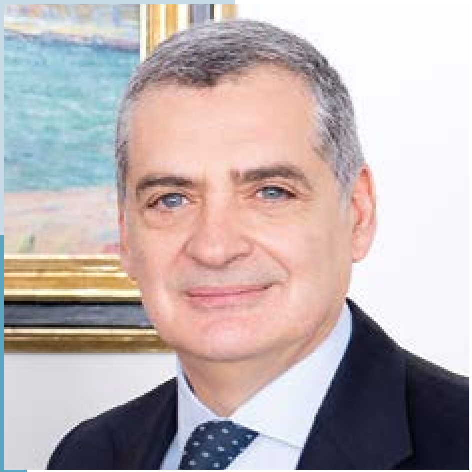
BANKING UNION



GIUSEPPE SIANI
Director General for Financial Supervision and Regulation - Banca d'Italia

The CMDI review: an opportunity to make progress on the path of integration

Many steps have been undertaken to increase convergence and harmonization in the fields of banking supervision and crisis management, until the set-up of a single European banking supervision system and a single European resolution mechanism, as a response to the great financial crisis of 2008.

In principle, the current negotiations on revising our crisis management framework will not be a conclusive step for EU integration. More critical factors like convergence in the management of public finances, market integration, and deposit guarantee mutualisation are influential. However, we should look at the crisis management review as an opportunity to move in the right direction, not only by promoting higher harmonization, and therefore by confirming the will of Member States to progress on the path of integration, but also by fostering a better understanding of national frameworks and specificities, thus facilitating cross-fertilization between different frameworks, and ultimately building mutual trust.

In particular, this objective can be pursued along three main lines: gaining a deeper comprehension of the most efficient methods for managing banking crises; recognizing the presence of different types of banks within the EU banking system, and therefore the need for proportionality; addressing the protection needs of the most sensitive bank liabilities. i.e. deposits. While finding a compromise on these issues will not immediately resolve the current deadlock, it could promote the transition to the finalization of the banking union.

Indeed, an improved CMDI framework – where a wider access to the DGS can ensure an orderly exit from the market of small and mid-sized banks and facilitate the access to the SRF without inducing destabilizing effects - can strengthen confidence in its functioning and could overcome the resistance of some countries to mutualise losses. This, in turn, would facilitate the creation of the EDIS and a truly integrated single market, fostering the free flow of capital and liquidity across borders.

Considering the three main factors, there seems to be an increasing international consensus favoring transfer strategies over piecemeal liquidation, despite some countries being unfamiliar with these strategies involving DGS intervention. This is very clear at least from two perspectives: first, they ensure the continuity of access to deposits, which in a digital era - where banks runs are faster - is key to reassure depositors and avoid widespread contagion; secondly, they preserve value as selling the business as a whole is the most efficient way to realize the assets of the failed bank: the franchise value is maintained and the overall cost of the crisis reduced.

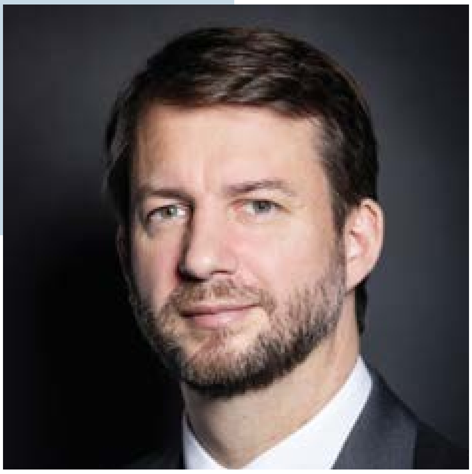
Additionally, recognizing the diversity among banks, especially smaller ones lacking access to wholesale capital markets for issuing MREL, is of paramount importance if we truly want to preserve a European banking system where different types of banks coexist, with benefits for financial stability and financial inclusion. For many small and medium-sized EU banks adopting resolution would not be proportionate; yet, as widely recognized, public policy concerns may arise when they fail.

Tailoring crisis management options to the business model of small and medium-sized banks is key and consistent with increasing degrees of proportionality during going-concern scenarios in the field of prudential regulation. To this end, the expected moderate expansion of resolution should be complemented by a wider use of the DGS alternative measures across the EU to support transfer strategies also outside resolution, mirroring the crisis management strategy successfully adopted in the US.

A compromise on CMDI could promote the transition to the finalization of the Banking Union.

Finally, establishing a common understanding that a wider policy tool-kit is needed for more sensitive liabilities, i.e. those deposits that could lead to higher contagion risk, can lead to a more robust crisis management framework, alleviating fears of banks run, reducing potential ring fencing, and supporting future integration efforts. The banking turmoil of March 2023 reminds us that the perceived risk of bearing losses can lead uncovered depositors to run on banks that are - or seem to be - similar to the failing one. To avoid imposing losses on depositors when there is contagion risk, wider access to the industry safety-nets is of essence; it would also prevent a substantial amount of resources, as those collected in the Single Resolution Fund, from remaining 'frozen' and actually unavailable.

The current negotiations should draw inspiration by one man whom Europe owes a lot, Jacques Delors. Throughout his entire career, he consistently urged to set aside our inactive national habits in favor of an enthusiastic pursuit of compromise to not lose the accomplishments reached so far.



CHRISTOPHE BORIES

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Banking Union: strenghening trust and creating a new sense of purpose

The euro debt crisis laid bare the vulnerabilities of the European banking system and made clear that further integration in this area would help restore trust and buttress resilience at national and euro area levels. Since then, France has supported all the previous steps of the Banking union agenda, even where they meant significant transfers of sovereignty and financial resources to the Banking union level, with the vision that this would eventually make our banking system safer and more resilient to future shocks, and better able to finance our economy in any weather. We are confident that this was the same vision that motivated fellow Member States to support this agenda at the time, and that it was the main driver of all the progress that took place.

By definition our achievements are not easy to measure. But when we look at the series of shocks that hit us in the last 3 years, with the COVID pandemic, the Russian war of aggression against Ukraine, the paradigm shift on rates, and the March 2023 market turmoil ignited by the bank failures in the US and Switzerland, we can note that the robustness of our banking system was never put into question. This robustness and also its credibility show that we have come a long way in reaching the initial goals of the Banking union agenda. It doesn't mean that this agenda is now complete, especially if you look at its third pillar ("EDIS") is yet to be put in place, but we can all agree that we are way more than halfway through our objective of a safer banking system.

Nevertheless, we can only recognize that this positive achievement has not created sufficient momentum and confidence to enable taking additional ambitious steps on this agenda in the past couple of years.

It seems mostly due to the fact that the sense of purpose has been lost, now that many consider that most of the job is already. At the same time, we face an apparent paradox where objective reasons for trust and confidence in the Banking Union are higher than ever, but it does not translate into momentum for further progress on integration.

Thus, we need to find a new sense of purpose justifying new bold decisions in terms of transfer of sovereignty and pooling of resources. We also need to find out how to build sufficient trust to allow such progress. In that perspective, our agenda should be built on two main legs.

The first one would be to fill the remaining gaps in our risk management to get to the needed level of trust.

In the short term, we should focus on reaching compromises on the reform of the crisis management and depositor protection framework (CMDI). They should achieve a balance between expanding the toolbox to be able to deal with the failure of midsize and small banks in a way that is as harmonized and credible as possible, while not increasing moral hazard and systematic transfers of resources between national sectors, to avoid reducing chances of later agreements to more risk sharing. Here, our view is that the Commission proposal needs to be complemented by further "safeguards" that would include robust minimum level and quality of eligible liabilities and own funds (MREL) buffers for all banks, as well as a more balanced division of labor between the DGS and SRF interventions.

Ultimately, a good result on the CMDI review would provide new momentum and more trust that would help us move forward with the rest of the agenda. But it might not be enough.

Indeed, one aspect of the insufficient level of trust among supervisory authorities at the moment has to do with the limited formal solidarity within banking groups, between the legal entities that operate in different Member States. There has been progress on that front with the recent reviews of the so-called "daisy chains" that improve the functioning of the loss transfer and recapitalization mechanisms within groups. But we should explore whether we could go further by introducing a new regime for intra-group financial solidarity that would replicate for subsidiaries the same level of support that exists for branches that are not separate legal entities. This could be discussed within the CMDI negotiation.

The second leg of our agenda, focusing on creating a new sense of purpose, should be to improve significantly the productivity of our banking system. At a time when the relative competitiveness of Europe and its banks is eroding against the US, and as large amounts of financing will need to be mobilized to deliver the green and digital transitions, increasing productivity should be a much more prominent goal in our agenda than it has been in the past. Identifying the regulatory levers and action plans that could contribute to that objective should be the key priority for the next Commission. Interestingly, this could also be a way to connect the Banking union agenda with deliverables of the Capital markets union agenda, where the focus should also be on how to scale up our financial system.

We need to find a new sense of purpose justifying new bold decisions in terms of transfer of sovereignty and pooling of resources.

In any case, this is a policy discussion that is taking place in Europe for many industries and there is no reason why we should not have this discussion for the banking industry. That is where a new sense of purpose can be found: scaling up the capacity and effectiveness of our banking and financial system so that they can help deliver on the promise that Europe will lead the way in transitions.

To conclude, for good or bad reasons, the past years have shown that EDIS as a unique policy objective is insufficient to move the banking union forward. We need another engine, and we should focus on delivering a productivity shock to our banking system, which together with EDIS could propel us again towards the completion of this agenda. The CMDI review gives us the opportunity to build the level of trust that we need to succeed in that endeavor.

PETER PALUS
Member of the EFC/EWG & Head of Financial Unit - Permanent Representation of the Slovak Republic to EU

Completing the Banking Union: how to escape the prison of success

The development of the Banking Union project can so far be considered a fairly success story. A decade since its inception, the EU banking sector is more resilient, banks have stronger capital positions, a macroprudential level of supervision has been established together with an EU resolution framework. The robustness of the system was tested and proofed during the US banking turmoil last March, when the EU regulatory framework and stringent Basel requirements proved to be the difference.

The Banking Union safeguards public finances, as the need to use national budgets to rescue banks is diminished. It benefits citizens and businesses, since their funds are better protected and it supports the EU economy in general, as banks can fulfil their core role of financing the economic activity.

Paradoxically, the success the Banking Union has achieved so far is diminishing the pressure to take further steps towards its completion. To be sure, the potential of the Banking Union is far from being achieved, particularly when it comes to potential benefits for the banks themselves. The EU banking sector has so far avoided the necessary consolidation, which would lead to greater efficiency and boost its competitiveness on the global stage, where the European banks are still falling behind.

Furthermore, we are yet to adequately address the risk of negative spill-overs from the real economy to the banking sector, which is perhaps one of the key lessons learnt from the Great Financial Crisis. It also explains the continued connection between economic strength of a Member State and deposit protection. This leaves our banking sector vulnerable and insufficiently prepared for the challenges ahead of us, especially in the area of EU open strategic autonomy, increasing global competitiveness and addressing the needs of the twin transition.

The success the Banking Union has achieved so far is diminishing the pressure to take further steps.

We should no longer rely on Monnet's famous statement, that "Europe will be forged in crisis, and will be the sum of the solutions adopted for those crises". This time, failure to timely and properly address the challenges we are currently facing might have irreversible adverse effects on the EU.

How can such a scenario be avoided? How can the Banking Union escape the prison of its own success? I consider the following five principles to be the key:

1. **Highlight the political significance of the Banking Union:** it is necessary to realise, that in view of the current geopolitical challenges the EU is facing, the Banking Union is a key economic as well as political project.

2. **Overcome home bias:** What appears to be urgent at the EU level may not always appear urgent at the national level, especially as Member States are constantly looking for competitive advantage. Crucially however, working together will benefit both Member States and the EU as a whole.

3. **Overcome the prisoners' dilemma:** We are faced with a lack of trust between Member States, banks, regulators, and EU institutions. Our underlying target must be Europeanization of banks and institutions.

4. **Develop the capital markets:** The Capital Markets Union must be seen as complementary to the Banking Union. A fully-fledged CMU cannot be achieved without a well-functioning banking sector, which plays the crucial role of an important liquidity provider. The BU cannot be completed without achieving progress in the CMU, especially when it comes to macrofinancial stability. Not to mention the need to enhance the area of securitisation, which would free up banks' balance sheets for further funding of the economy.

5. **Follow a holistic approach:** The current discussion is dominated by particular interests, not by effort to achieve optimal functioning of the banking sector. Some see priority in prevention of negative spill-overs, others in removal of cross-border barriers and take full advantage of the internal market, protection of specific banking models or ensure the financial stability at the national level. Yet, all these goals are equally important and cannot be politicly achieved separately.

RUI MIGUEL CORREIA PINTO

Member of the Board of Directors - Banco de Portugal

The CMDI review is a step in the right direction but more is needed...

Supervision and Resolution in Europe have come a long way throughout the last decade and although operating in different lanes (as they should) they act as two faces of the same coin, with a clear alignment and ultimate common goals. A healthy and robust banking market cannot do without both a strong supervision and a strong resolution function. And they are inextricably linked, which means that good communication and healthy interaction are a requirement, not a "nice to have".

European supervision and regulation work together and do carry out their missions in an environment of mutual trust. Past experience is a testament to this statement as many and fruitful interactions and discussions take place between the SSM and SRB in a business-as-usual mode. While respecting the division of competences entrusted to one another, the close cooperation and sharing of information between supervisors and resolution authorities is set up for crisis situations and stable times as well. This allows both supervisory and resolution authorities to take swift and coordinated actions. And it should be evident that agility and quickness of response is a critical success factor when dealing with a crisis.

Despite all these achievements, there is, however, meaningful work still to be done.

First, we must not lose sight of the original project for the Banking Union. While an agreement was found more than a decade ago on the set up of the supervision and resolution pillars, the Banking Union still requires the third pillar to be completed. Whereas the framework is now in place to allow banks to be truly European in life, national frontiers are still standing when it comes to their demise.

The second task to be delivered relates to the regulatory landscape. The legal framework that supports the first two pillars of the Banking Union is entering its second decade this year. Concerning specifically to the crisis management framework, the lessons learned over the past years have led both Member States – pursuant the Eurogroup statement issued in the Summer of 2022 – and the European Commission to conclude that an important review is still necessary.

The current framework, as it stands, is still not prepared to deal with the failure of every bank, regardless of their size, when considered necessary to safeguard financial stability, ensure continuity of critical functions provided to the economy and protect depositors.

The current framework, as it stands, is still not prepared to deal with the failure of every bank.

The Commission's proposed review of the Crisis Management and Deposit Insurance Framework of April 2023 is a step forward in addressing the issue, by proposing to broaden the scope of resolution and presenting an idea of "resolution for all and not just for the few", namely through the enhancement of internal and external funding of such banks.

Firstly, by introducing a degree of proportionality through additional criteria to calibrate MREL for banks whose resolution strategy envisages an exit from the market, as they usually correspond to small and medium-sized banks. This is about internal funding and the build-up of adequate and proportionate loss absorption capacity by a larger number of institutions.

Secondly, by enhancing the role of industry funded safety nets, such as Deposit Guarantee Scheme (DGSs), overcoming the existing limitations to the access and use of the resolution financing arrangements.

While DGSs may be called to intervene more in resolution, they are, at the same time, being spared from the expensive pay-out events and the inefficient and very lengthy insolvency proceedings they entail.

As the failure of medium-sized and smaller banks can also be a threat to financial stability, solutions that strengthen the regulatory framework and prevent leaving the task of addressing such possible failures to national regimes alone are welcome.

Looking back on everything that has been achieved, there are good reasons for being optimistic that Member States can agree on some fundamental changes to the regime, so we are able to fulfil the promises that underpinned the creation of the Banking Union: one single supervision and one single resolution as well as one Deposit Guarantee Scheme.

These three pillars would support a truly integrated banking market operating under a single rulebook and in a framework that provides a set of tools which guarantees flexibility and proportionality of treatment in the system. This allows to deal with banks in their going concern mode and to deal with banks in a crisis mode. Simultaneously preserving the provision of critical functions and depositor's confidence but also protecting taxpayers.

TANATE PHUTRAKUL
Chief Financial Officer - ING Group

Banking Union – As urgent as ever

With 2024 announcing itself as an agenda-setting election year, EU institutions and member states rightfully want to focus on making Europe more competitive in an increasingly fragmenting world. A competitive Europe will ensure the continent remains relevant in a transitioning global economy and will ensure Europeans' standards of life will continue to improve.

While primarily meant to address financial stability concerns, the European Banking Union can also be a strategic enabler for the EU's competitiveness objectives. It will complement other priorities including improving the single market and further enhancing the EU's capital markets.

After having successfully implemented single supervision and single resolution, the next five years provide a good window to finish the job.

What positive changes would Banking Union bring?

Beyond financial stability considerations, Banking Union is necessary because banks remain fundamentally unable to leverage the single market to the benefit of their clients. This has negative consequences for the economy: competition for savings remains largely national, opportunities to deploy capital where it can create the most growth are constraint, and lack of scale means European banks cannot compete in all aspects of global finance.

The promise of Banking Union for the European economy is that it will allow bank lending – by far Europe's leading source of financing - to be offered in a real single market, by strong cross-border banks that deploy the scale and diversity of the EU to the benefit of the European economy.

And as opposed to many current economic policies, a successful Banking Union does not require fiscal stimuli. On the contrary, it helps protect governments from further fiscal constraints, and allow public means to be used where they are most useful like for the green transition.

This can bring concrete benefits. Better deployment of capital and liquidity will allow Europe's accumulated wealth to be used to finance new ideas and growth. In a Banking Union, European business and consumers would enjoy a more competitive and nimble banking industry deploying resources in the places where they make a difference. It may even stimulate stronger capital markets because banks remain important intermediaries in these markets.

Banking Union will also help European banks close the valuation gap with global competitors, meaning they will be better able to use their own profits for investing in their services, and be able to participate in cross-border banking consolidation.

Stronger European banks will help Europe finance its ambitions. They are amongst the most committed to global and European climate and environmental goals. This is because Europe is deeply committed to reaching these goals, which brings welcome policy clarity for those banks predominantly active in Europe.

Top 5 to do list for policy-makers

Allow cross-border deployment of capital and liquidity - today, bank subsidiaries in different Banking Union countries have to maintain separate balance sheets and apply prudential requirements that come with it (capital, liquidity, MREL, leverage limits, etc). Allowing banks to manage balance sheets centrally, rather than country-by-country, would be a gamechanger for efficient deployment of capital and liquidity. This can be done by allowing banks to apply the prudential rulebook at group level only.

Pursue a single macro-prudential policy - European banks are not treated equally because their macro-prudential buffers are not set in a harmonised way. In a Banking Union, it should not matter where a company's headquarters are located inside it. The Banking Union's macroprudential policy should be made centrally.

EDIS - The absence of a European Deposit Guarantee Scheme creates the perception that not all depositors are equal. In absence of EDIS, banks should be able to transfer their paid-in contributions between national DGSs in case of mergers or changes to corporate structures.

End sovereign-bank doom loop risk - banks should diversify and limit concentration risk to sovereign bonds. This will not only make banks more resilient, but also take away a major source of distrust between European countries.

Ensure credible liquidity backstop for resolvable banks – Even when banks are fully resolvable and have sufficient MREL, market reaction could lead to severe liquidity problems in resolution. The currently liquidity tools (such as the Eurosystem's Emergency Liquidity Assistance) are not designed for supporting failing banks that can be orderly resolved.

Banking Union can also be a strategic enabler for the EU's competitiveness objectives.

In addition, policymakers need to be aware of other roadblocks for cross-border M&A. For example, accounting rules may mean paper losses lead to excessive capitalisation requirements in case of a cross-border M&A. Even with a perfect Banking Union, this type of roadblocks can prevent meaningful consolidation.

To stay relevant, Europe needs more bold action. Banking Union is a necessary and urgent step.

CHRISTIAN CASTRO

Head of Public Affairs - CaixaBank

Banking Union and windfall taxes

The benefits of the European Banking Union have been widely commented. What's more, recent history provides a number of objective reasons to strive for such a policy objective at the EU level. These include the acute consequences —including economic and financial crises— that can be triggered or amplified by: self-reinforcing linkages between sovereigns and banks due to financial fragmentation; divergences in regulatory and supervisory approaches due to the absence of common rules and practices; lack of a credible and usable crisis management framework for banks; and finally, disturbances to the smooth transmission of monetary policy through the bank-credit channel.

Those policy measures, necessary to prevent such a kind of issues, have also been extensively discussed. In fact, important achievements have been made mainly on a common set of regulatory rules, a unified supervision, and different pieces to enhance banks' resolution. All this seeks to ensure integrated and well-functioning EU financial markets.

However, there is a significant source of undue financial fragmentation that stubbornly remains: ad-hoc taxes to the banking sector. This has been a problem from the beginning and an increasingly growing on as result of the recent normalisation in interest rates giving rise to the so-called 'windfall taxes' to banks. At present, there are around six European countries with a windfall tax already in place. Four countries are in adoption process. And five countries have discussed the possibility to implement this type of tax. This is more than half of the member states in the EU-27. So, no doubt this is a quite material issue at stake.

The motivation, design and expected duration (theoretical and actual one) of the levies vary significantly among member states. They range from levies to tax 'extraordinary' profits from banks due to the hike in interest rates (eg: Croatia, Czech Republic, Hungary, Italy, Lithuania, and Spain) and/or to contribute to specific goals (eg: support reconstruction after severe floods in Slovenia). Further, their design (eg: completely new tax, a surcharge on an existing one), scope (eg: all banks, some banks) and discretions (eg: option to increase capital in Italy) are also significantly heterogeneous. All this constitutes a major source of financial fragmentation, misalignment with internal market practices, and unlevelled playing field for European banks. A potential stigmatization of the banking sector can also lessen a fair competition for funding in stock markets.

The European Central Bank has emphasised the negative consequences of windfall taxes. On the Spanish tax, the ECB warns about its effect on banks' resilience, capital and credit provision, as well as on market competition and level playing field. These last two aspects are particularly relevant for the Spanish tax since the levy only applies to certain Spanish credit institutions, not to all banks with activity in Spain. In addition, the tax is calculated on the basis of the interest income plus net fees (income based) rather than on profits. So, the tax is not based on the allegedly excess profits and does not capture the effect of inflation on expenses.

There is a need for a fundamental rethinking of policy regarding windfall taxes to banks.

One should also bear in mind that banks, as any company, are subject not only to tailwinds but also headwinds, sometimes stiff ones. The pandemic and the zero-interest rate environment were poignant examples of such headwinds. The increasing profits in the sector are part of the gradual normalisation in interest rates following such an extreme scenario in monetary policy and the global economy.

In addition, ad-hoc taxes to the banking sector amplify uncertainty and impair investment decisions, ultimately affecting economic growth and monetary policy transmission. As said before, this a problem for the whole European Union since it undermines the normal functioning of financial markets within the country and across the whole Banking Union.

This all suggests the need for a fundamental rethinking of policy regarding windfall taxes to banks. Key aspects to consider include: the need to eliminate or minimise distortions to normal banking activity; or at least to retain the temporary nature of these taxes; and to avoid unfair competition and/or discrimination across entities, economic sectors and jurisdictions. Further, due consideration should be given to those features that may help to preserve resilience (eg: using tax revenues to support most vulnerable segments of population) and to support economic development (eg: factoring in sector contributions to key policy goals). Some coordination and guidance at the EU level on this matter could also be thought.

All this is necessary to avoid affecting the normal functioning of financial markets in the EU, an essential condition to ensure a fair, healthy and competitive Banking Union.

RIINA SALPAKARI
Head of Public Affairs, Finland - Nordea

Completing the Banking Union - Risk mutualisation or harmonisation?

Several steps have been taken since the financial crisis to ensure a strong and stable European financial system. The convergence of supervisory practices brought on by the Single Supervisory Mechanism (SSM) has been a positive development. Through increased transparency and predictability of supervision such as the coordinated and decisive approach to treating non-performing loans (NPLs) has had positive effects in times increasing interest rates. The drastic drop in NPLs across the Banking Union, with the remaining exposures duly capitalised, has been paramount to maintaining confidence in EU banks and in incentivise further lending.

Looking to the new Commission's term, the EU is currently facing severe economic, environmental, and security threats which require ample financing to overcome. Given these large financing needs in the coming years to finance, it is pivotal to ensure that the European financial industry can contribute to financing innovation and to resolving EU's challenges.

In order to ramp up further financing, the EU needs a better functioning internal market for financial services. This would increase competitiveness in the sector and could improve its efficiency.

We have seen consolidation in many industries both on EU and global level. Banking seems to lag behind especially in Europe, and consolidation has happened mostly within jurisdictions. Digitalisation could drive cross-border banking services given that one platform can be leveraged across several Member States. However, complex regulation coupled with a lack of harmonisation creates obstacles, making it difficult for a bank to contribute to the economy and/or expand abroad as a full service player.

Policy makers should rapidly shift their focus to further enabling banks and other providers of funding to finance the real economy. Areas remain where harmonisation is lacking and where existing regulation has not lead to sufficient regulatory convergence or a level playing field.

The EU needs a better functioning internal market for financial services.

First, same risk carries a differing capital requirement depending on where a bank is domiciled within the EU, and this is mostly driven by the macroprudential requirements. The EU needs to revise the macroprudential landscape to further harmonise conditions under which macroprudential buffers are set and to strengthen processes that ensure no overlaps with microprudential requirements or other capital buffers. There should be further entity level oversight of the aggregate capital requirements to ensure that the aggregate buffers reflect the risks of each institution, rather than relying on assessments at Member State level.

Second, microprudential rules also differ for cross-border banks. There should be further alignment between supervisors' division of responsibilities per CRD/CRR and the supervisors' practical say in banks' operations. Banks with operations in many Member States face supervisory expectations to align practices at group level, while at the same time host supervisors may have the preference to extend a large proportion of their expectations also to those entities. This makes operating cross-border banks increasingly complex.

Third, national policy instruments' impact on other Member States should be further considered. Recent initiatives from some Member States on bank taxes have affected banks' stock valuations across the EU, with implications also on financial stability. On the other hand, state aid structures are complex and vary across Member States, putting companies in differing positions depending on which jurisdiction they are located in. Similarly, differences in insolvency and privacy frameworks hinder the free movement of capital and services in the EU.

In discussing the completion of the Banking Union, focus has been on implementing the European Deposit Insurance Scheme (EDIS), and what obstacles should be overcome to achieve this. A credible deposit insurance system across the EU is of course important for managing bank failures, and deposit guarantee rules need further alignment. But agreeing on risk sharing in the form of EDIS seems to be difficult without breaking the bank-sovereign nexus. This in turn is likely to be achieved only by capitalising on the sovereign holdings' differences in credit and market risk.

However, there are good reasons to believe that a well-functioning single market for financial services can be achieved even before implementing EDIS. The banking sector has become markedly more resilient due to both regulatory and business changes since the last crisis, demonstrated by the low number of bank failures within the last decade. Regulators' focus should therefore be redirected from bank failure management to further enabling banks to provide funding to the economy in an efficient, risk sensitive manner. In order to achieve this, maximal alignment of prudential rules across the EU/EEA is required.