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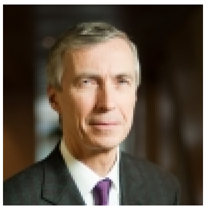
EDIS: what prospects for an EU Deposit Insurance Scheme?

Speakers

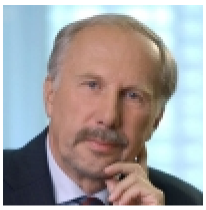
Esther De Lange
European Parliament , MEP, Committee on Economic and Monetary Affairs



Nicolas Duhamel
Groupe BPCE , Head of Public Affairs

José Manuel González-Páramo
Banco Bilbao Vizcaya Argentaria (BBVA) , Board Member

Elke König
Single Resolution Board (SRB) , Chair



Ewald Nowotny
Oesterreichische Nationalbank , Governor

Patrick Pearson
European Commission , Head of Resolution and Crisis Management Unit, DG for Financial Stability, Financial Services and Capital Markets Union

Karl-Peter Schackmann-Fallis
Deutscher Sparkassen- und Giroverband (DSGV) , Executive Member of the Board

Roman Turok-Heteš
Ministry of Finance, Slovak Republic , Director General, Financial Market Section

François Villeroy de Galhau
Banque de France , Governor

Objectives of the session

The “Five Presidents’ report” highlighted common deposit insurance as a desirable and realistic objective for the financial sector. The aim of this session was to discuss the key success factors needed for the adoption of the legislative proposal of the EU Commission for a common deposit insurance scheme.

Speakers were also be invited to assess the improvements brought about by the EDIS proposal to the Banking Union and the added value of tackling at the same time the risk reduction measures in the banking system (notably bank exposure to sovereign risk).

Executive Summary

The Commission’s Proposal on EDIS

The key objective of the EDIS is to enhance the effective deposit guarantee framework with a view to protecting depositors, in the banking union, against the consequences of deposits becoming unavailable.

According to the European Commission’s legislative proposal the European Deposit Insurance Scheme would be established in three successive stages. During the reinsurance period of three years, the national DGSs would have to be exhausted first before EDIS could be used, providing with national schemes an additional source of funding. This reinsurance phase would be followed by a progressive mutualisation of deposit insurance over a period of four years. To reduce moral hazard, the EDIS proposal contains some safeguards. For instance, in the first two phases, the national scheme has to comply with the obligations of the DGS Directive (adopted in June 2014), in particular with regard to the required annual target levels, before receiving any extra support by EDIS. The full insurance of depositors would fall under EDIS from 2024 onwards.

Everybody had an opinion on EDIS, many of which differed. However, a majority of those opinions were in favour of EDIS, and there was agreement that it would be a good thing for a lot of European citizens.

7.2 trillion of the 15 trillion of deposits in the EU were protected by deposit schemes. The current average of DGSs in Europe was 0.62% of covered deposits. From that they could conclude that EDIS would initially need to provide liquidity support; it needed to be designed to avoid unfair disadvantages to less funded schemes; it had to be cost neutral compared to current schemes for participating banks; and it had to take into account risk based contributions. The first stage of EDIS that the Commission had proposed helped because it accounted for those legacy issues.

For full coverage, they also needed to consider bank structures because those under joint liability schemes or IPS would never trigger EDIS. Furthermore, they needed to discuss the alternative use of DGSs in other countries, and the safeguards in the Commission’s proposal.

The legal basis could be discussed, but they were confident that it was correct.

Some felt that the discussion was actually about the singleness of money, and not EDIS, and that questioning EDIS was questioning the single currency.

The Commission had said that they needed to work in parallel on risk reduction measures. It was agreed that they needed to do so, and they had worked on many over the past few years. In terms of risk sharing, the SRF would not be mutualised until 2024. They therefore had to work on risk education and risk sharing in parallel. If they did so, they could create stability and protection for savers anywhere in Europe.

Some had already established teams to deal with EDIS, anticipating that it would be both important and difficult. The real question on EDIS was not whether it should be implemented, but on the timing of the sequencing, and various tasks needed to reach completion before EDIS could progress.

Scepticism

Some contended that, on EDIS, it was inadequate to consider phase II and III of the EU Commission‘s legislative proposal and that they should consider renaming the regulation to EDRIS (European Deposit Reinsurance Scheme), because reinsurance was an effective long term solution. A second reason for caution was that the EU needed to translate TLAC in the EU legislation and precise the interaction between TLAC and MREL. Third, priority needed to be given to transposing and implementing DGSD II in all Member States. Fourth, it was common sense to check risks before sharing them.

An argument against EDIS was that there were already common standards for a DGS, including mandatory pre financing. If the DGSD were fully implemented by all Member States, there would be equal protection across Europe. The EDIS proposal was therefore unnecessary.

It was suggested that there could be interesting relationships between the DGSD and EDIS. The DGSD proposal had a voluntary mutual assistance mechanism and they could consider how to implement the EDIS proposal into the DGSD. However, that was disputed, as an attempt to put mandatory lending between DGSs had faced unanimous rejection in the past.

It was thought that EDRIS would establish a good operational sharing of responsibilities between national funds and the reinsurance entity. Second, it would ensure better cost neutrality and a more centralised system. Third, it would increase operational certainty when it came to the breakdown of contributions between banks. Fourth, it would reduce moral hazard. It would also send the right message and create two interlinked capsules: the national DGS and the European mechanism. Finally, citizens would know that they were protected at two levels.

A reinsurance system appeared pragmatic, efficient, and a good compromise between eurozone members, which would respect the principle of subsidiarity. Others were advised to consider it.

However a public decision maker reminded the audience that EDRIS was the first half of the journey. The second half was building on reinsurance and moving towards co insurance. They had to complete both parts.

The ECB ‘s support to EDIS

The ECB saw EDIS as a logical and necessary third pillar. They had said that a well performing banking union required further steps beyond the establishment of the EDIS, and that progress on other risk reducing measures had to be achieved in parallel with the establishment of the EDIS. They had also said that delays could be caused by a solution that made transition from one phase of EDIS to another dependent on progress, and that if conditional phase in of EDIS was supported, any milestones on risk reduction had to be precisely defined ex ante.

The ECB had considered that an impact assessment could have been warranted on the most important elements of the proposal; it was recommended that they did so.

The treatment of sovereign exposures was something to be discussed at Basel level. It would have been problematic to have a single European solution to it. Europe should have had a decisive role in Basel, but there was also the key question of what Europe’s strategy in Basel was.

Sovereign risk was typically at the forefront of discussions on risk reduction. Not all sovereigns were alike, so they had to find ways to limit the exposures of local banks to local sovereigns. Europe could use the opportunity to foster diversification at the level of local banks. There were ways of entering hybrid approaches with long phase in periods that could produce a diversified market for sovereigns in Europe. They therefore warned against rushing ahead of the international process.

Building a compromise

EDIS was a topic of growing political pressure. There were two consequences to avoid: first, was that they should not forget the progress they had made with the Banking Union; second, was that they could not pour all resources into the debate, as they also had to make progress elsewhere (e.g. fostering investment through the Juncker plan, progress on economic coordination).

One way forward was to build a compromise, comprised of three elements. The first step was the Commission’s proposal on reinsurance; second was a fiscal common backstop on resolution; and a third was added on governance of EDIS because of the proposed different bodies and voting mechanisms which made it too complex. Instead a weighted voting system like in other European institutions should be contemplated.

Conclusion

There were three phases of EDIS, and it was suggested that support would decrease as they progressed along the scale. On the first phase, EDRIS would solve the problems of citizens to a large extent, but they had to consider how markets would react to them sticking to the first half. The only way to reach the final stage of EDIS, with support decreasing as they progressed, was to have risk reduction increasing.

Singularity of money as the necessary third pillar and the need for a legal debate about text were key takeaways from the debate. They all saw EDIS as a necessary component of a Banking Union. However their job was to determine which pillars, beyond sovereign risk, were required to support EDIS.

Detailed Summary

Introduction

The key objective of the EDIS is to enhance the effective deposit guarantee framework with a view to protecting depositors against the consequences of deposits becoming unavailable. EU legislation already ensures that all deposits up to €100 000 are protected, through their national deposit guarantee scheme (DGS), in case of a bank failure. However, national DGS can be vulnerable to large local shocks. EDIS provides a stronger and more uniform degree of insurance cover for all retail depositors in the Banking Union, ensuring that the level of depositor confidence in a bank would not depend on the bank's location.

According to the European Commission’s legislative proposal the European Deposit Insurance Scheme (November 2015) would be established in three successive stages. During the reinsurance period of three years, the national DGSs would have to be exhausted first before EDIS could be used, providing with national schemes an additional source of funding. This reinsurance phase would be followed by a progressive mutualisation of deposit insurance over a period of four years. To reduce moral hazard, the EDIS proposal contains some safeguards. For instance, in the first two phases, the national scheme has to comply with the obligations of the DGS Directive (adopted in June 2014), in particular with regard to the required annual target levels, before receiving any extra support by EDIS. The full insurance of depositors would fall under EDIS from 2024 onwards.

One speaker asked whether the agenda title should have had a question or exclamation mark. They had always considered that there were three pillars to the Banking Union, and deposit guarantee was key as a foundation, and as an alternative to resolution. Both needed to be fit for purpose, have an answer for any bank failures and add to stability. That was what they needed to focus on.

A public authority speaker responded that there should be both a question and an exclamation mark. Exclamation was the emotion that surrounded EDIS; everybody had a high opinion on EDIS. The question mark was that all of those opinions differed. She believed that a large majority of the European Parliament were in favour of EDIS; they differed mainly on the timing, conditionality, and detail surrounding the conditions that would enable them to reach it.

The Commission's Proposal on EDIS

A public authority speaker explained the rationale behind the Commission's proposal. He stated that there was total agreement that, in the end, they needed EDIS. He wanted to talk through how they should do it and to explain some of the obstacles.

Regarding the Banking Union objectives, he said that Minister J. Dijsselbloem had stated during the Eurofi gala dinner that there was a political agreement in Europe to break the doom loop between banks and sovereigns. In Europe the lives of banks had been mutualised through the Single Supervisory Mechanism (SSM), and their burial had been mutualised in recovery and resolution through the Single Resolution Board (SRB). However, their lives after death had not been mutualised: the DGSs.

Despite the view of some people that there is already a sufficient Deposit Guarantee Scheme (DGS), he explained that if they designed supervision and resolution at the European level then national authorities would no longer have control of how and when they used DGSs for payouts or resolution. That did not make sense, so the liability to ensure that there were adequate financial means had to also be assumed at the European level.

He outlined some key features of the Commission's proposal on how to achieve that. Some had said that they should have a health check first and only cover the SSM supervised banks that had had an Asset Quality Review (AQR). That was interesting, but there were uncertainties around it that needed to be discussed further.

There were currently 15 trillion of deposits in the EU, with 7.2 trillion protected by deposit schemes. There were 38 DGSs in Europe and 28 Member States. Some DGSs were empty, others were half full. The current average of DGSs in Europe was 0.62% of covered deposits.

They could conclude from that that EDIS would initially need to provide liquidity support otherwise national schemes would still depend on national alternative financing measures. EDIS had to be designed to avoid unfair disadvantages for less funded schemes. The first stage of EDIS that the Commission had proposed, on reinsurance, helped because it took those legacy issues into account.

EDIS also had to be cost neutral compared to current schemes for participating banks. It made no sense to add additional costs for banks contributing to EDIS. EDIS also had to take into account risk based contributions. That was in the current directive and many Member States that had implemented the directive were already applying EBA guidelines for risk based contributions.

Discussing how that worked in the community of banks in Europe was also needed. To cover all banks, they had to look at their structures. Banks under joint liability schemes or IPSs would never trigger EDIS, because those protected the banks from entering into illiquidity in the first place. That needed to be looked at.

The alternative use of DGSs worked in some countries. They needed to discuss whether to look at EDIS' function there. Everybody agreed that they needed safeguards against abuse, so they also needed to discuss the safeguards in the Commission's proposal.

Some had said that there was a problem with the legal basis. The legal basis could be discussed, but they were confident that it was correct.

In that sense he agreed that the Commission’s proposal was good and should be welcomed, although he noted that there were many issues around how to get there and how to manage the risk reduction measures in the pipeline.

Alternative views on how to proceed towards EDIS

A regulatory body representative emphasised that almost everybody agreed that, in the end, they needed EDIS. He had explained why they needed it and how they suggested doing it, and wanted to consider some obstacles.

On 24 November 2015 the Commission had said that they had to work in parallel on risk reduction measures when it adopted a Communication on "Towards the completion of the Banking Union" at the same time as the legislative proposal on EDIS. EU decision makers had looked at risk reduction. Over the past three and a half years they had worked on risk reduction measures including SSM, CRD, CRR IV, the SRM, BRRD, bail in, and TLAC. Risk reduction was therefore clearly on the Commission’s and Member States’ agendas. He continued that in terms of risk sharing they had the Single Resolution Fund (SRF), which would not be mutualised until 2024. A common backstop had been agreed in 2013, but works had not yet started. The discussion therefore had to be rebalanced; they had to work on risk reduction and risk sharing in parallel and on an equal footing.

A leader of the industry stated that singleness of money is based on single rules, single supervision, single resolution and protection for depositors. Putting into question the necessity of EDIS was putting into question the decision to go to a single currency. He added that since 2008 they had already reduced risk through many avenues, such as going to the SSM through an AQR and stress testing, going to the BRRD, or introducing the bail in principle, the TLAC and the MREL. Therefore he could not understand why there was a need to link the EDIS proposal to risk reduction. It looked like the debate on risk reduction had focused on one thing. “Why are you talking to me about love if you mean something else? he said.

Another public decision maker said that the risk reduction agenda had been proposed by the European Commission, but in a different way. EDIS was a legislative proposal and risk reduction was a communication. Risk reduction would be linked to the issue of EDIS. Responding to a regulatory body representative, she noted that the train was on its way, but had not yet caught up with the train related to risk sharing. The only way to ensure the continuation of the process was to ensure that those trains were moving in parallel. If they could do that, they could create the stability they wanted and protect savers anywhere in Europe. That was the main driver for the European Parliament, but the conditions needed to be right. If they were successful, she said that she would spend the following years of her life working on something that would hopefully never be used.

The key questions were what the most relevant risk reduction measures that should be tackled were, how they should be tackled, and when. EDIS was deliberately a gradual proposal, and so there could be different times when they had to check it against the risk reduction agenda.

One speaker agreed that there had to be conditionality. Many things had been implemented, and they needed to see them working. She also hoped that the SRF was an instrument that made the industry a safer place.

One public authority representative said that he had already established a responsible team to deal with EDIS because they were taking over the Presidency in the second half of the year. They considered EDIS an important file. It would not be easy, but they were ready to fulfil their responsibility. He assured them that they would move with the file after the Dutch Presidency and would do their best to be successful in creating the third pillar of the Banking Union.

He thought that the question on EDIS was not on whether it should be implemented, but on the timing of the sequencing. First, the deposit protection directive needed to be implemented in all states. A lot of national discretions mentioned in the deposit protection directive also needed to be resolved. The loan facility agreement connected with the SRM needed to be signed by all countries to create a level playing field, after which they could progress with EDIS.

Challenges to achieve Obstacles

There were ghosts in the sector that had to be addressed. The most urgent ones were implementation of existing legislation. BRRD and the national DGSs were on their way. A second important category was the translation of TLAC into European legislation, in which they eagerly awaited the Commission's proposal. A further issue was non performing loans.

On the convenience of EDIS

An industry representative outlined that, referring to pragmatism and efficiency as features of real common sense, he could sum up his position on EDIS with two main ideas:

First, it was not adequate to even consider phase II and III of the EU Commission's legislative proposal. Second, he suggested renaming the regulation to the European Deposit Reinsurance Scheme (EDRIS), because he thought that reinsurance was an effective long term solution.

It was inadequate to think of phase II and III for several reasons. He noted that they surprisingly did not currently have an impact assessment of EDIS, and asked why they did not have an economic analysis of how it interacted with other regulations such as SRF and BRRD. They had pointed out in a previous roundtable the fact that rules had to be delivered without undue consequences. He asked if in the case of EDIS they expected it to be promoted by better regulation.

A **second** reason for being cautious on the EDIS proposal was that the EU needed to translate and precisely define the interaction between TLAC and MREL. He asked if they should wait until the full resolution mechanism was legally complete, before rushing the EDIS proposal.

Third was that priority needed to be given to transposing and implementing in all Member States the Deposit Guarantee Schemes Directive (DGSD) adopted in 2014. They knew that that would take time, as existing stocks in national DGSs were very different. French banks have reached 60% of an 0,5% target level, while in certain countries, contributions are only beginning, or sometimes the fund is strongly indebted.

The final reason was that it was common sense to check risks before sharing them. This is why a preliminary examination of the asset quality of all other banks than the banks directly supervised by the SSM should be mandatory. This examination could be done in a pragmatic manner by national supervisors under the ECB framework, benefitting from the experience acquired with the biggest banks. This examination remains a necessity before developing the EDIS scheme for the long run.

Another industry representative felt that his position was well known on the panel and in the audience. He noted that the proposal of the Commission had raised many questions: one being that in the current proposal their institutional protection scheme (IPS) had not been mentioned at all. He had concluded that it would be abolished in the final stage of EDIS. He noted that that may have been an uncomfortable conclusion, but the presentation had given him the impression that the Commission was open to debate on that, and the elements in the different Member States that were decisive for the application of a DGS may be discussed later on. He was therefore confused about the position of the Commission.

He stated that they had opposed EDIS from the beginning. He highlighted one argument. In the past few years they had seen the completion of the European Banking Union: the SSM had been established, and they had an SRM in place with a common resolution fund. However almost everyone seemed to have forgotten that there were common standards for a DGS, including mandatory pre financing. If the DGSD were fully implemented by all Member States there would be equal protection across Europe. Each scheme would be obliged to hold a target level of 0.8% of covered deposits. That meant that a €1 deposit in Portugal was protected by the same ratio of insurance as a €1 deposit in the Netherlands; thus there was no need to fear a deposit shift to other countries. He therefore concluded that the EDIS proposal was not necessary.

He outlined that one argument remained in favour of EDIS: they needed a new transfer mechanism. However, that was not a logical basis for this EDIS proposal. Looking at the DGSD they had a link to the current EDIS proposal. He thought that there could be very interesting relationships between the two. In the DGSD proposal they had a voluntary mutual assistance mechanism; EDIS built up gradually from pre insurance and co insurance to the insurance state in 2024 and mandatory mutual assistance. He suggested that they think about how to implement the EDIS proposal into the DGSD.

A regulatory body representative clarified that IPSs were referred to in the proposal. Article 1 referred to DGSs; and article 2 to DGSs as defined in the DGSD. DGSs referred to in the DGSD were recognised IPSs.

The previous speaker of the industry added on DGSs and why they had not built on the directive, that they had tried to put in mandatory lending between DGSs; it was rejected unanimously by all Member States three years and five months ago, and had not worked.

He noted that one public authority panellist, in his written contribution to the Eurofi Magazine, had mentioned that they needed a sound and proper analysis of the economic environment, which meant a kind of impact assessment of EDIS. Moreover he quoted an MEP spokesperson‘s contribution to the Eurofi Magazine where she mentioned that we had to take into account other systems that existed and the national and European levels at the same time, which meant discussing opportunities of moral hazards of certain Member States or financial institutions, taking into account risk reduction and perhaps sovereign risk; otherwise the risks would be built on quicksand, which he fully agreed with. Lastly a regulatory body representative had mentioned in this Magazine that if we took into account the possibility of moral hazard in the respective member States or by financial institutions, you should establish a system which ruled out moral hazard but created a system of mutual assistance which could fulfil the objectives of EDIS without destroying functioning mutual assistance systems or IPSs.

Could EDRIS be an alternative?

An industry representative stated that it was necessary to conduct the examination, even in the reinsurance scheme case. He then outlined the advantages of a reinsurance scheme which should have been put on the long run.

First, it would establish a good operational sharing of responsibilities between national funds and the reinsurance entity. At the national fund level there were lots of things to do. Payout conditions with a deadline of seven days were operational tasks which were the in hands of national funds by essence. That kind of process was based on national information systems. He wondered how it could be organised at the level of the centre.

Second was that it would ensure better cost neutrality and a more centralised system. Third, it would increase legal certainty when it came to the calculation and the breakdown of contributions between banks. Fourth, it would reduce moral hazard. There would be no incentive for a jurisdiction to think that others would pay on its behalf. The national fund would pay first and be emptied prior to any intervention at the European level.

A reinsurance system would furthermore send the right psychological message and create two interlinked capsules: the national DGS and the European mechanism. Citizens would also know that they were protected at two levels.

He concluded that a reinsurance solution appeared pragmatic, efficient, and a good compromise between the different eurozone members, and would respect the principle of subsidiarity. He implored others to remember EDRIS. A speaker had said in a previous session that the best was sometimes the enemy of the good. He asked others to reconcile the best and the good by adopting the 'R' in the title of the project.

A speaker noted that one speaker had spoken of balancing risk and sharing with risk reduction, but they had then heard a plea for reinsurance. She added that in insurance and reinsurance there was always conditionality on what was covered in the system.

A regulatory authority spokesperson concluded on EDRIS that he had been told that a football match had two halves, and that one should never give up until they had finished the second half. EDRIS was the first half; the second half was building on reinsurance and moving towards co insurance in the Commission's proposal. They had to complete the course.

The ECB's Perspective on the Commission's Proposal

A public authority representative said that he was in a position to inform them about the discussion held the day before at the Governing Council of the ECB concerning the Opinion of the ECB on the proposal of the Commission and the Parliament. He said that the ECB saw EDIS as a necessary third pillar to complete the Banking Union, following the establishment of the SSM and the SRM; it was logical, and there was agreement about it.

The more specific aspects included the combination with other points of action. The Opinion of the ECB dated 20 April 2016 stated that "a well performing bank union required further steps, beyond the establishment of the EDIS". That was the connection with reducing risks. He added that the decisive sentence had been that progress on other risk reducing measures had to be achieved in parallel with the establishment of the EDIS, not only in order to ensure a level playing field but also promote financial integration; and there had been long discussions on the term ‘in parallel’.

This Opinion of the ECB stressed that ‘a solution that made the transition from one phase of EDIS to the next dependent on the progress, with regard to risk reduction, could cause delays; and if such a conditional phasing in of EDIS was supported, any milestones on risk reduction had to be precisely defined ex ante”. The speaker explained that that meant that the notion of ‘in parallel’ should not have meant that things depended on each other because one had to be aware that amongst those risk reduction measures there were measures that needed a lot of discussion. The main point was the treatment of sovereign exposures, which they all knew was a difficult point of discussion. He saw it as something to be discussed at the Basel level, and thought that it would have been problematic to have a single European solution to that.

One speaker asked if it would have suited Europe to push Basel rather than to pull. A public authority representative responded that Europe should have a decisive role in Basel, but the first question was what Europe was in the Basel context. In many cases they did not have a unified European position. He agreed with the speaker, but said that it led to a second question of what Europe’s strategy in Basel was.

The public authority representative continued that the ECB considered that an impact assessment could be warranted on the most important elements of the proposal. He advised that that was something they should do. It was better to be cautious and have a strategy, but to be knowledgeable about the different steps involving the strategy.

A banking representative agreed with the public opinion of the ECB, and thought that it was wise. Another speaker noted that the ECB’s position was another way of making the points that had been made by an MEP representative beforehand. She noted that sovereign risk was usually at the forefront in discussions on risk reduction.

On the sovereign issue an industry representative agreed with the remarks from the Commission and the ECB. He said that Europe was a significant global entity, and so we should subject ourselves to the global guidelines, such as Basel. Unfortunately Europe did not currently have a position on Basel, but would decide on it when Basel produced guidelines. Therefore it was true that not all sovereigns were created or behaved alike, so they had to find ways to limit the exposures of local banks to local sovereigns. There were many ways to solve the problem. The sovereign was the key reference. Fixing prices in the financial sector and going into financial markets to use them as collateral was crucial in many respects.

In the case of Europe, he thought that they could use the opportunity to foster diversification at the level of local banks. Among the proposals offered by the Netherland EU Presidency, there were ways of going into hybrid approaches with long phase in periods that could produce a genuinely diversified market for sovereigns in Europe. He warned that they therefore should not rush ahead of the international process.

Another speaker commented that it was a long term project, but that even with the pace that the Dutch Presidency had shown, she did not think that they would reach a conclusion until the end of June.

An MEP spokesperson shared the ECB’s thought that if they mixed everything up, they did not get everywhere. However that was not a reason to determine what the key elements of risk reduction that they should address were.

A speaker pushed the session towards resolution and whether they had introduced the national solutions for deposit guarantee in a way that was fit for purpose, or whether they had lost opportunities in terms of the tools at hand for deposit guarantee at the national or higher level. The question was on how to match resolution tools and how to fit DGS in as a solid part.

Building a reasonable compromise

A regulatory authority representative stated that he was pro EDIS, but was worried by the fact that the topic was the focus of growing political pressure, which they were very conscious about. He felt that they should keep in mind that if they linked everything with everything, they would never get anywhere.

He outlined that the forecast about the discussion could have had two other negative consequences. First, they would forget everything that they had done on the Banking Union, which was a tremendous achievement, but unfinished. Second was that they could not put all of their energy into the debate; they also had to foster investment through the Juncker plan and make progress on economic coordination.

He said that the way forward was not yet totally paved, and advised that they should build a reasonable compromise. He suggested three elements of a compromise. The first step was the Commission's proposal on reinsurance. The second was a fiscal common backstop on resolution in line with the agreement already reached at the European level as it was important to complete the second pillar. He wanted to add a third element about the proposed governance of EDIS that should be simplified in terms of bodies and voting mechanisms, especially with regards to an efficient decision-making process in times of banking crises. It should nonetheless give a larger place to a weighting of votes like in other European institutions. That was the easiest part of the compromise. They had to work on reasonable first steps.

One speaker added to the compromise. She asked if there was a need to have a clear look at the role of the DGS. They were looking at the FDIC, which had a very efficient model of dealing with smaller banks. It did not use the DGS as a pay box, but as a transfer mechanism.

Another area that had come up the day before was whether there were areas that they needed to focus on; not so much on the legal frame for insolvency, but also the efficiency of the process. She asked if that was something that needed to go hand in hand. She had always called it a triangle from a resolution perspective.

Closing Remarks

A regulatory body speaker first noted that there had been many wise words from various speakers. Singularity of money was the one takeaway from the debate: the necessary third pillar. He also acknowledged that they needed the legal debate about the text for clarity.

Another regulatory body representative said that, considering the contributions and imagining a scale from the national DGSs towards the three phases of EDIS, she saw support decreasing as they progressed along the scale.

On the first phase she agreed that EDRIS would, to a large extent, solve the problems of the citizens; from a citizens’ angle it would do very much to solve the major issues. The question was on how markets would react if they stuck to the first half. She had to consider that question when studying the proposal.

She said that the only way to reach the final stage of EDIS, knowing that support was going down as they progressed in discussing the three phases, was to have risk reduction increasing. She noted that the efficiency of insolvency frameworks in Member States, and the differences between them, was an element to add.

Conclusion

A public decision maker concluded that that they were in a city built on very unstable ground. Most houses in the centre of Amsterdam were supported by pillars in the ground. Their job was to determine which six pillars were required beneath the building of EDIS for it to stand; one of which was sovereign risk.

They all wanted to show leadership, and all saw that EDIS was a necessary component of a Banking Union. However, they needed to make up their minds about what the key pillars of risk reduction were otherwise they would be building on quicksand.

A speaker thanked the panellists for their contributions. She summarised that they had not solved the problems, but had spotted the issues.

Glossary:

AQR - Asset-Quality Review

BRRD - Bank Recovery and Resolution Directive

CRD - Capital Requirements Directive

CRR - Capital Requirements Regulation

DGS - Deposit Guarantee Scheme

DGSD - Deposit Guarantee Scheme Directive

EBA - European Banking Authority

ECOFIN - Economic and Financial Affairs Council

EDIS - European Deposit Insurance Scheme

EDRIS - European Deposit Reinsurance Scheme

FDIC - Federal Deposit Insurance Corporation

IPS - Institutional Protection Scheme

MREL - Minimum Required Eligible Liabilities

SRB - Single Resolution Board

SRF - Single Resolution Fund

SRM - Single Resolution Mechanism

SSM - Single Supervisory Mechanism

TLAC - Total Loss-Absorbing Capacity