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The banking union from the perspective of a non-eurozone host supervisor[1]

Stanisław Kluza

Centrum Europejskie Natolin

Centrum Europejskie Natolin
ul. Nowoursynowska 84, 02-797 Warszawa
tel: 48 22 54 59 800· fax: 48 22 646 12 99
www.natolin.edu.pl

Abstract:

This article presents the topics related to a banking union, as an initiative targeted at improving integration and security of the financial system of the European Union. The author discusses the origins and shaping up of a banking union, but first and foremost he demonstrates the banking union as a political and economic process in response to the financial crisis in the EU, which simultaneously takes place in the conditions of a search for solutions in the dispute related to the scope of competences and responsibilities between home and host supervisors. The article stresses in particular the doubts and questions concerning the cohesion of the EU and a banking union, which emerge in the context of a different economic situation and differences between ownership structures in the financial sectors of countries undergoing systemic transformation.

1. THE ORIGINS AND PROCESS OF EMERGENCE OF THE BANKING UNION

In June 2012 European politicians presented for the first time the banking union concept publicly, although many problems and issues pertaining to the deployment thereof have been addressed by financial supervisors in the debate on the topic that has been raging for many years.

The banking union project is rather aimed to consolidate and order a wide range of related issues, but first and foremost it plays the role of an accelerator for earlier - quite slow - works, being part of evolutionary improvement of supervisory competencies by the European Supervisory Authorities (ESAs)[2]. An additional stimulus speeding up the creation of a banking union was the issue of better preparation for management of the financial crisis in the European Union, requiring resolution in the face of the emergence and intensification of financial sector problems, which were spurred in particular by so-called Greek crisis, which broke out in April 2010[3]. And finally the banking union is a venture of deeply political dimension. It is meant to enhance political and economic integration within the Union. This intention is corroborated also by choice of the European Central Bank (ECB) as the institution around which the banking union is created. Although this choice has many advantages under current circumstances, it also gives rise to significant controversies. Even disregarding the very issue of the ECB, of central relevance is the feeling that the proposed solutions will help distribute reform costs evenly across particular countries. Let us look e.g. at the countries of northern Europe, which in the past created a more responsible supervisory model, also incurring the related costs, and consequently they coped with the crisis better. It is justified to ask whether those countries should participate jointly and severally in the costs of rescuing the states that used to be less responsible in their supervisory policies, while also making far less economic sacrifice. Equally important is parallelism in transfer of competencies and responsibilities to banking union institutions. A principle should be applied here that the costs of potential system failures and weaknesses are covered by those who had the competencies of prevention and counteracting. Unfortunately those matters are still not fully resolved. This concerns both the outcomes of erroneous decisions made at the European supervision level, and an even more controversial issue of potential non-performance of actions one is authorized to, which may result in costly disturbances of crisis-genic nature.

On the one hand, the ECB is considered as one of the most powerful and most effectively operating EU institutions. It not only enjoys very good opinion, but also benefits from a wide scope of competencies and significant independence. The fact that it is headquartered in Frankfurt matters too, because Germany is associated with strong and efficiently operating central bank and it is also in the group of states least affected by the outcomes of the recent crisis. Owing to organizational backup support of the ECB, it is possible to establish swiftly entire structures of the banking union, which will be able to start working soon. Nevertheless placement of European-level supervision with the ECB, which enjoys far-reaching independence, will not adequately contribute to either lessening or betterment of the political independence of supervision. At the same time there is a risk that the very same political pressures will impact upon monetary and supervisory policies in parallel and in comparatively equal scope.

On the other hand the choice of the ECB, i.e. the institution responsible for monetary policy, gives rise to controversies as regards materialization of competence dualism risk. It is definitely more beneficial to build independence and separation of monetary policy from supervisory one. The interferences taking place due to deployment of both policies within a single institution may prove crisis-genic in the long run. In particular attention must be drawn to the risk of weakening the independence of supervisory policy in relation to priorities of monetary policy. As a result of the adoption of the proposed solution, and in contrast to declarations, the separation of the two policies may prove illusive in practice.

Another issue concerns equality in treatment of all EU countries, including non-euro zone ones, with also the countries that do not even wish to accede to the euro zone. This makes for division into countries within and without the euro zone, with the latter offered only apparent choice of joining the banking union nor not. When a non-euro zone state declares accession to the banking union, its participation therein will be a second-class one, following e.g. from the fact of absence from the euro zone and the related inability to take part in the supervisory decisions and processes made in the zone. Non-participation in the banking union is in a way illusive too. This will exactly the banking union where many standards of central relevance for bank operations within the EU will be set. We can hardly pretend that application of those rules can be avoided altogether. If a given state decides against participation in the banking union, it must be aware that such non-participation is illusive, because through large banking groups operating at the same time in many EU member states, the rules biding in the union will also find way to the banking systems of the countries that for the time being would like to remain outside the union. This is how the competencies of the banking unions will extend to subsidiaries and branches of baking groups operating in the counties not belonging to the union. The host countries (majority of which are undergoing systemic transition) are most at risk of such impact. First, owing to their history they are far less adjusted to standards of participation within the euro zone, with most of them still remaining outside. Second, the share of so-called host capital in the banking sector is the greatest in those states. Third, they are most prone to risks emerging during pro-cyclical transfer of crisis-genic stimuli from highly developed economies (in majority so-called home ones) to those "catching-up" via the financial sector.

2. POLAND'S NEGOTIATION POSITION

Leaving aside the final decision about Poland's accession to the banking union, our country has adopted one the worst possible diplomatic strategies to communicate its postulates and manage the process of participation in the banking union. The prime minister and minister of finance are particularly responsible for strategic leadership in this area. We must first of all critically assess the fact that Poland so resolvedly stressed its "ignorance" and so explicitly stressed the willingness to "make the choice after establishment of the banking union". Waiting is a wrong strategy; we should "co-create" the banking union, even more so because this does not restrict the freedom of choice as concerns future participation in the project, and even helps provide better justification for the final decision on that matter. Of greatest value for Poland is the possibility to become involved in the process of creating the banking union. Such involvement would open to our country – which at the same time plays the role of the leader of the region consisting of host countries – the leeway to present and enforce its postulates. Even lack of a final decision regarding presence in the banking union does not rule out the possibility to declare regularly the willingness to participate therein under certain, precisely defined conditions. The behaviour of Poland departs from attitudes of other countries in our region, which in a decisive majority declared willingness to participate in the banking union without waiting, among others, for Poland's involvement in the process of co-creation of the banking union. On our part there is also no positive signal that we will resort to cooperation in the future. There are many solution adopted in connection with the establishment of the banking union that deserve praise, and this in no way precludes to Poland the possibility to expressly voice its dilemmas from the perspective of a host country. Particularly untrue is the argument that any negligence connected to non-participation of Polish experts in the works on the banking union followed from Poland's absence in the euro zone.

The transparency of the debate on the banking union is also disturbed by the communication policy of the National Bank of Poland (NBP). Particularly incoherent is the position of the central bank, which underlines such negative aspects as deprivation of the tools needed to pursue independent local macroeconomic and macro-prudential policies in the relations between Poland and European Union. At the same time, at the initiative of - among others – NBP, works are carried out on the act on macro-prudential supervision, which will result in restriction of the independence of supervision over the financial sector in Poland[4].

The interferences caused by implementation of monetary and supervisory policy under the ECB, may prove crisis-genic in the long run.

The a priori critical position and approach of the government and NBP weakens the possibility to enhance relations with other states involved in the banking union project. The fact that Poland remains on the fringe of the mainstream, will not stop the process of the banking union emerging in Europe, while restricting to our country the potential to submit substantive, constructive postulates and recommend candidates for top managerial and analytical positions in the emerging structures within the ECB. And this is exactly what happened in autumn 2013 when recruitment began for the Single Supervisory Mechanism (SSM), which will perform micro-prudential supervision over the banking sector in the EU. The top-tier staff of the ministry of finance and of the central bank not only failed to submit their own candidates, but also remained passive towards persons who themselves applied for the recruitment. Actions aimed to better prepare Poland for establishment of the banking union are undertaken only by the Polish Financial Supervision Authority.

There are several alternatives to the presently implemented banking union concept, which is furnished with an extensive bureaucratic structure, but no particular attention has been attached to them in the debate going on in the EU. I think that much safer, cheaper and more effective solution would be comprised by basing this projects on the "trust, delegate, control" principle. This would not prevent organisation of financial supervision under the ECB (and also outside the ECB, if member states express such political will in the future). According to such formula, the greatest attention would be attached to reinforcement by the ECB of the competencies and effectiveness of local supervisors. The ECB would be then the coordinator of supervisory standards and would have the right to participate in supervisory activities at the local level. It would be also furnished with control competencies, owing to which the institution could control how local supervisors operate. Despite some reservations related to the actions undertaken by some domestic supervisors, one can assume that as a rule they perform their tasks efficiently and reliably. Possibly in some cases the issue of greater reliance of financial supervision on domestic policy may require improvement, because consequently it is an easier and safer answer to the situation to base the new financial supervision structures on already existing local supervisors, instead of turning upside down the efficiently operating system without certainty that the new solutions will be better. But let us return to sources of the crises. Attention should be attached first and foremost to impact of local crisis-genic factors in the financial sector and differences of economic parameters and financial markets among various EU countries. Therefore an optimal, "tailor-made" supervisory policy should follow from a diagnosis concerning local determinants, and only on that basis pan-European standards can be related to.

Strengthening of domestic supervision does not contradict the idea of establishing the banking union. Nevertheless such solution shifts the limits of competencies and responsibilities and increasingly stresses their division between domestic supervisors and European supervisors. The banking union is definitely needed by Europe; this follows at the very least from the fact that the EU needs to catch up with the realities and changes in the banking sector. The key elements of the safety net are currently placed at the domestic level: they include supervisory framework, deposit insurance schemes, state aid costs. At the same time the operations of important banks in the EU have a definitely international dimension, which opens many options for arbitrage and relocations. This allows for significant relocations of costs and risks. Consequently financial institutions can (even unintentionally) cause disturbances of the stability of economic processes in particular countries , e.g. breaching the deposit base or transferring pro-cyclical phenomena from home to host countries. This is attributable to their propensity for (or assent for) planning of the volume of lending separately from local economic parameters. At the same time the size of some financial groups (and consequently the potential for herd mentality coming to play in this case) is so large that they can effectively resist actions taken by some states in economic policy domain.

3. STRESS TEST AND FEEDBACK

Whether the solution consisting in placement of banking supervision with the ECB is pertinent will be shortly tested. The first trial will be related to organisation of stress tests. Their completion is scheduled for second half of 2014. Excessively superficial control over banks will not only decrease the effectiveness of supervisory practices in the first phase of the operations of SSM, but will also contribute to lowering of the position of the ECB. This is how supervisory practices may put not only the banking union but also the ECB itself at risk of reputation loss. This edition of stress tests will be also about a specific feedback. Not only banks will be controlled, but the main goal of the undertaken actions will consist in verification of the credibility of the developed banking union model. Will this model win trust, or at least enable a reliable diagnosis to be made?

Non-participation in the banking union is illusive. Its framework will set key standards for banks operating within the EU. We can hardly pretend that application of those rules can be avoided altogether.

Officially the trials will cover 128 banks corresponding to approximately 85% assets of the banking sector of the euro zone. Generally speaking they will be performed in three stages: the first stage is comprised by supervisory risk assessment, the second one by asset quality review (AQR), and the third by stress tests[5].

The following risk areas deserve particular attention if safe banking sector is to be created in the future:

- economic growth rate slowdown (and its translation into increased value of unpaid loans),
- disturbances in financial markets (with impact on lowered value of instruments held by banks, e.g. bonds),
- increased financing costs (declining trust for banks translating into higher costs of money, higher risk premiums, enhanced competition for deposits).

Similar stress tests as those in Europe will be also carried out in Poland. The tests are planned to cover over a dozen entities holding 75%–80% of all assets. Performance of such tests does not depend on whether Poland declares readiness to participate in the banking union.

From technical point of view, stress tests allow for conclusions to be drawn concerning conditions of safe operation of banks when their market environment deteriorates significantly. The conservative model of supervisory practices in place in Poland promises better results of domestic stress tests than those performed in the euro zone. In the case of banks and states posting good results in stress tests, owing to their informative value the positive outcomes of the "examination" may significantly contribute to attainment of good reputation and trust by entities operating in the banking sector. Even satisfactory results of stress tests define the directions of a future potential preventive supervisory policy. In Poland such policy is deployed through recommendations for the entire sector or as individual recommendations for banks.

In the case of many European states one of the likely results of correctly performed stress tests is comprised by identification of risks and of significant loss of the value of corporate liabilities. What is more, many of those liabilities may prove impossible to recover without new investments and restructuring of companies at risk of failure. At the same time the banking sector will be frequently unable to finance such companies through loans again. Recovery of debts or their restructuring will not be possible without soliciting new investors. From the viewpoint of banks, it may be attractive to recover fast and release at least part of the threatened assets. On the one hand, such action will consist in deleveraging, but in mid-term it will prove indispensable for improvement of the balance sheets of banks and reduction of their susceptibility to credit risk. On the other hand, it will improve liquidity of financial institutions. Private equity funds will be potential partners of banks for resale of such assets.

4. THE BANKING UNION FROM THE PERSPECTIVE OF SUPERVISED ENTITIES

From the viewpoint of supervised entities (banks in this case) introduction of new regulations should be treated as a factor increasing the outlays. Regulations do cost, but they also improve security. The first factor is of more short-term nature, visible in the results of entities from year to year. It is revealed at the level of each entity individually. But the issue of security refers to a much greater degree to long-term balance at the level of the entire sector.

Regulatory policy should always aim to find the right proportions between development potential of the sector and its security. Both too restrictive and too lenient supervision bring huge losses to economy. In the former case such action slightly slows down the economic growth every year. In the latter case we deal with the effect of boom overheating, which may by cyclical.

Effects of too lenient supervision and utopian thesis of self-regulatory potential of the financial sector played an important role as one of the reasons underlying the recent financial crisis. The scale of consequences of this crisis alone may be testified to by e.g. the public cost of management of the so-called first wave in the period 2008–2009. In the best developed G-20 states the direct state aid to financial institutions at that time amounted to 3.7% GDP of 2008. In Poland that would translate to approximately PLN 47 billion[6]. At that time in our country no banking entity fell or needed state aid. Consequently not only a lot of public funding was spared, but this also worked as a significant pro-development factor, while many EU countries struggled with recession. Reputation is an additional, important element of the presence of the banking sector in economic life. Conservative, but not excessively restrictive supervision optimizes the trust variable.

Let us remind that state aid is not provided by spending some abstract money from the public purse. In practice those costs are borne by taxpayers. The state is just a hostage participating in the decision-making process aimed to mitigate adverse outcomes of the crisis, i.e. constitute an answer to the question whether it is a more beneficial solution from the viewpoint of public interest to let a particular financial institutions fall (which also translates into social and macroeconomic costs of the state), or prevent spectacular failures of financial institutions, but at the same time de facto reach into pockets of taxpayers.

Creation of the banking union and implementation of a new supervisory policy at the European level is really a question about the role of banks in the market economy of the EU, as well as about the role and responsibility of the state for the outcomes of imperfections of the financial system's operations. Management of so-called systemic risks is central here. A state can ex ante reduce the likelihood of crisis events, and lower the costs of crisis management. A tool to be used here is collection of contributions towards deposit insurance system. Unfortunately at the EU level those issues are still a matter of dispute among EU countries.

5. WEAK TOWARDS THE STRONG, STRONG TOWARDS THE WEAK

Slowing down the process of the establishment of the banking union is not - and should not be - the goal of host countries or non-euro zone ones. On the other hand, the banking union should develop fair principles, allowing for equal treatment of the said countries and take due account of their interests. Such solution should result from a dialogue, and not from a pressure exerted on those countries, because a decisive majority of them have weaker economies, while the present ownership structure in the financial sector and the level of economic development are a consequence of past events preceding the systemic transformation.

The main postulates voiced in the debate and lines of the disputes have remained unchanged for years. Those include in particular:

- home-host country supervisory relations,
- proportional transfer of power responsibility between European and local supervision,
- supervisory adequacy depending on various levels of systemic and individual risks generated by banking entities relative to their size and range of operations, including the issue of the rules governing functioning of entities that are too big to fail.

Another dividing line of EU countries is the issue of the experiences of the financial sector gathered during the recent crisis. In Europe the main dividing line is between conservative North and excessively expansive South. The states of the North not only experienced hardly any significant weakening of their financial sectors, but also covered the costs of a stable safety net arrangement in the sector. Good examples here include not only Poland, but also Scandinavian states. In historical periods, prudential, preventive, counter-cyclical actions have had the character of costs for the economy (resulting, among others, in cooling and toning of the economy). Positive effects of such move became manifested in worse times, when it was not necessary, among others, to rescue the financial sector with public funding. At the same time, once expansive countries of the South failed to build safety systems; this generated additional development stimuli in the past but today brings quite opposite results. Therefore a dilemma emerges whether the countries that incurred in the past costs of increased safety of the financial sectors should now provide aid to the states that refused to cover such costs in the past. An attempt to resolve this problem for the benefit of either party will weaken long-term effectiveness of EU institutions.

One can improve trust for European institutions and enhance the level of European integration through proper balancing of the expectation of various groups of EU member states. The fast pace of the creation of the banking union and disregard for most postulates of “weaker” countries gives rise to an impression that the latter are treated unfairly.

Owing to significant differences between views and interests of various EU member states, the second and third pillars of the banking union emerge slowly. Adoption in March 2014 of general solutions concerning bank resolution creates a chance to develop detailed rules of functioning in this area still this year. Nevertheless creation of a proper fund supporting those processes is bound to take longer. Even greater difficulties are to be expected during creation of a single deposit insurance scheme. Absence of an agreement results from costs and their distribution between particular states. Also if presently a bankruptcy of larger financial group were to be managed with the use of public funding, there is virtually no legible solution as concerns the degree to which costs of such measures would encumber the home and host country and how responsibility would be divided in such situation. Any potential disputes on that issue would constitute an additional risk factor undermining stability in the EU.

Many more doubts than those existing between groups of states are aroused by how banking entities themselves are treated. This concerns several dimensions. First, the problem concerns the area of creation of the “rules of the game”, i.e. the regulatory policy e.g. through the recently implemented CRR Regulation[7] and CRD IV Directive[8]. Second, diversified leniency of regulators applied towards various entities when the latter are in trouble. Third, double standards are applied depending on the home country of a given entity. The banking union is an opportunity to regulate those issues. Nevertheless, the feeling of injustice is growing presently that European supervision is “strong towards the weak (small entities) and weak towards the strong (large entities)”. This may follow from various reasons. Large financial groups have certainly a stronger own sectoral lobbying; moreover their interests are asserted by representatives of the states characterized by far-reaching interdependence between the political sphere and the banking sector. Such state of affairs is not an argument against the banking union, but provokes a reflection on its sound design and maintenance of proper proportions when due account is taken of the diversified sizes and profiles of the entities functioning in the financial sector.

In crisis, absence of a banking union (or a closer cooperation of supervisors) accompanied by further weakening of host supervisors may provide an incentive to transfer (or even intentionally export) the costs of crisis from home to host countries. Unfortunately the postulates presently discussed under the banking union also fail to resolve this issue. Poland can be an example of a state that has already experienced effects of this process to some extent. Despite good business outlook and ability to cope with the crisis within a few recent years, there has been disproportionately high cooling of lending by the banks whose owners have their seats outside Poland. Those actions have been the more intense, the harder the home country of a given banking groups has experienced the crisis. They have been also correlated with the financial standing of the parent bank, and not with the standing of a given entity in the domestic market.

Regulatory policy should aim at finding the right proportions between the development potential of the banking sector and its security.

For many years EU solutions have failed to adequately take into consideration the issue on non-linear risk growth, which increases with the size of the banking entity. In particular this concerns the so-called systemically important entities, which are in a decisive majority treated as too big to fail.

First, at a specific stage, after reaching certain size, the systemically important entities cease to be market players, and become market makers. This means that many areas of statistical risk management – in particular based on past correlation effects – cease to exist. In case of crisis of such an entity, decisions made on the basis of interrelations determined earlier will simply fail to bring about any effects, while the illusion that negative correlations will emerge only misleads. At the same time failure to account for the aforementioned statistical effects will result in growth of the level of capitalization against risk.

Second, the outcomes of a failure of one very large entity may hit to incomparably greater extent the taxpayers in the pocket. Consequences of such bankruptcy for use of state aid may be financially more severe than in the case of hypothetical bankruptcy of even several smaller entities. This is also of paramount importance for the stability of economic processes management at the state level. Therefore the requirement of prevention should urge states to secure the best possible protection against potential consequences of failures of exactly such entities. As concerns regulatory measures, in their decisions states should display more conservatism, and demand disproportionately high contributions to secure the stability of the entire system. Effective implementation of this rule would bring several benefits at the same time. It would weaken the pressure on excessive growth of banking groups, and would be consequently a factor conducive for competition.

Third, European regulations wrongly calibrate the management parameters that are taken into account in resolution of the optimization dilemma known from games theory as the "prisoner's dilemma". In this case we need to decide whether it is more beneficial for the owners and management of a given entity to develop it organically (slowly) and securely, or to rely on dynamic development at the cost of a much greater risk. EU solutions (including the recently adopted CRR and CRD IV) award and encourage faster growth more than security. In the times of prosperity such scenario guarantees higher profits, but in the times of economic slump it enhances the likelihood of serious disturbances. If a given entity is already big enough to be systematically important, it will be dealt with by the state and the costs of materialised risk will be borne by taxpayers. The bigger a given entity is, the greater the chance to transfer responsibility onto public sphere becomes. Reduction of asymmetry present under this scenario should be a priority of EU institutions. Nevertheless it will not be easy to arrive at such solutions, because lobbying actions aim at preventing their adoption.

Fourth, owing to the criterion of sustainable economic development, states should foster the greatest possible diversification of the structure of participants competing in the banking sector. Diversified forms of pursuance of banking operations help reach various recipient groups with competitive offers. As an example, the offer of big universal banks is differently designed than that of locally operating cooperative banks. This is accompanied by application of slightly different algorithms when creditworthiness is examined. Excessively automatic implementation of EU capital and liquidity requirements will be a factor imposing restrictions on small participants and awarding big ones. Moreover, this will not necessarily improve security of the biggest entities. Mismatch and inadequacy of regulatory requirements to the risk threatening various groups of entities will in long-term result in competitiveness distortions in local financial sectors. Weakening of cooperative forms of pursuance of banking operations generates the risk of development of shadow banking. From the viewpoint of the state, this is not only a risk related to financial sector, but also a problem of social nature.

Creation of the banking union and European supervisory policy is really a question about the role of banks in the EU economy, and about the role and responsibility of the state for consequences of the imperfections of the functioning of the financial system.

In the financial sector there will always be entities so big that their sudden and uncontrolled bankruptcy cannot be consented for. However we should reverse this thesis: we cannot accept and promote a business model that preys on the fact that it will obtain guarantees of state aid (or at least assumes likelihood of obtaining it). Such model of pursuance of business activity encourages entities for excessive growth in the shortest possible time and for threatening with potential consequences of their failures. This increases the probability that potential remedial actions will encumber taxpayers, while profits from expansion will remain in the pockets of the owners and managerial staff.

In the case of using state aid, the thought of the necessity to increase in such case the own capital or to find a new owner should somehow automatically come to minds of the owners and managers of such entities. The first stage should be comprised by forced resale of selected assets (including in particular the subsidiaries in other markets). Unfortunately this is not the case. Also the ECB itself is not a good model with regard to this issue (particularly within a few recent years). Therefore there is not only a temptation to develop banks to the detriment of their security, but even a reward is envisaged for such course of action.

In the works on detailed solutions for the banking union and for the entire financial sector we should bear in mind the consequences of excessive awarding of large entities. The areas of negative outcomes include, among others:

- distortion of competition in the banking sector (which is inconsistent with the European principles of open market and free movement of capital), which will be anti-development and crisis-genic in the long run,
- weakening of trust for the ECB (and even more broadly speaking – for EU institutions), which in consequence will also translate into erosion of trust for the banking sector,
- increase of the expected costs of restructuring and of the consequences of crises in that sector in more distant future,
- awarding the business model of expansion and consolidation of financial groups instead of a strategy aimed at diversification and organic development,
- the risk of politicization and deepening of interrelations between economic policies of the states and the financial sector.

6. FINAL POSTULATES

Experiences gathered during recent crises affecting the financial sector indicate that regardless of the final reach of those crises and their depth, they have local origins. Therefore the remedies preventing crisis-genic situations in the future should include in particular strengthening of the competencies of local supervisors as concerns analyses, inspections, approval of internal risk management models, risk-based capital surcharges and liquidity parameters.

The European Union should set the standards or minimum criteria on its own and independently from the micro- macro-prudential policies pursued at the level of particular states. But it should not have the right to impose restriction if a state is willing to act more prudentially than minimum standards warrant. A hypothetical regulatory arbitrage would then take place only when a member state wants to pursue policies more liberal than so-called minimum standard.

The process of the convergence of supervisory policy at the EU level should have several dimensions:

- it should set the minimum standards for practices of national supervisors, including protection against temptation of supervisory arbitrage consisting in lowering of prudential requirements at national levels,
- it should transfer onto the European level the competencies of consolidated supervision over large financial groups, including introduction of coherent reporting requirements and calculate the scale of systemic risk, which should be reflected in capital guarantees,
- it should create rules of the game on the basis of the principle of symmetry as concerns competencies and responsibilities on the interface between the European, home and host supervision.

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STANISŁAW KLUZA holds a Ph.D. in Economics. He is the creator of financial supervision and the first Chairperson of the Polish Financial Supervision Authority (2006-2011), Minister of Finance and Deputy Minister of Finance (2006), Chief Economist and Head of the Analytic Team in Bank Gospodarki Żywnościowej (2002-2006). Dr Kluza is a scholar at the Warsaw School of Economics (Institute of Statistics and Demography). His research interests and experience encompass monetary policy, econometrics, macroeconomics, banking and business cycle research. He is an author of numerous presentations and papers on the financial market supervision and macroeconomic analysis.

[1] The article is in particular a synthesis of the opinions and experiences of the author, rather than a monographic paper.

[2] According to political aspirations of the European Commission, including President Barroso, two issues are central in the process of creation of the banking union:
– unification of the regulations concerning supervision over the financial market in member states and introduction of bank resolution in the EU,
– deepening of integration in the area of bank supervision and creation of a joint deposit insurance scheme.

[3] The works underway in the EU on the creation of the fiscal and banking union are relevant in several dimensions:
– they are an attempt at a constructive response from the EU to the crisis currently in place,
– they continue the process of deepening European integration, with particular stress on the countries already being in the euro zone,
– they are of reputational nature through activation of the EU in the area of security and stability of financial markets,
– they reduce potential benefits derived from regulatory arbitrage between EU member states.

[4] The fundamental doubts concerning pertinence of the solutions proposed in the act on macro-prudential supervision were listed in the article titled *Nowa rada nie ograniczy ryzyka*, „Dziennik Gazeta Prawna", 15.04.2014, p. A13.

[5] THE EUROPEAN PARLIAMENT, *SSM comprehensive assessment of selected euro area banks*, briefing, EP 528.735, 10.04.2014.

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[7] *Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance,* 2013 O.J. (L 176) 1 [hereinafter referred to as: CRR], URL: http://eur-lex.europa.eu/legal-content/PL/TXT/?uri=CELEX:32013R0575.

[8] *Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC*, 2013 O.J. (L 176) 338 [hereinafter referred to as: CRD IV], URL: http://eur-lex.europa.eu/legal-content/PL/TXT/PDF/?uri=CELEX:32013L0036&from=EN.

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APPENDIX

This paper expands on and continues the analyses performed by the author during research on safety and stable development of the financial sector in European and local approach. As a supplement to this paper, particularly noteworthy are the following other publications and public speeches by the author:

S. KLUZA, *Luźne euro-kryteria i bilans korzyści*, [in:] *Przyszłość strefy euro: perspektywa Brukseli, perspektywa Warszawy*, Warsaw: Wydawnictwo Naukowe, Ibidem, 2013, pp. 37–52.

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S. KLUZA, *Reflections on „Too big to fail"*, „Bezpieczny Bank – Safe Bank" 2012, 47(2), Warsaw: BFG, pp. 81–86.

S. KLUZA, *New Regulatory Architecture towards Safety and Stable Growth*, [in:] *European Integration Process in the New Regional and Global Settings*, monografia SGH-UW, Warsaw: Wydawnictwo Naukowe Wydziału Zarządzania Uniwersytetu Warszawskiego, 2012, pp. 205–222.

S. KLUZA, M. WĘDRYCHOWSKI, *Financial Supervision Independence*, [in:] *Kryzys finansowy – przebieg i skutki społeczno-gospodarcze w Europie Środkowej i Wschodniej*, monografia KUL, Lublin: Wydawnictwo KUL, 2012, pp. 13–26.

S. KLUZA, *Unia bankowa w aspekcie stabilności finansowej krajów goszczących*; honour lecture and presentation at Kraków University of Economics, GAP seminars, Kraków, 28.11.2012.

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S. KLUZA, A. PŁOCIŃSKI, A. SŁAWIŃSKI, *Pozorny paradoks unii bankowej*, „Rzeczpospolita", 7.11.2012.

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S. KLUZA, *Nowa rada nie ograniczy ryzyka*, „Dziennik Gazeta Prawna", 15.04.2014, p. A13.