Charting the Next Steps for the EU Financial Supervisory Architecture

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Executive Summary

- The combination of banking union and Brexit justifies a reform of EBA[2] and ESMA in the near term, in line with the subsidiarity principle. The other EU-level financial authorities (EIOPA, ESRB, SRB and SSM) do not immediately require a legislative overhaul.
- For operational reasons, the October deadline currently set for the decision on EBA relocation must be respected. In a later phase, EBA's governance may also be reviewed to take into account the framework of banking union as is currently in place, including the SRB and SSM.
- ESMA should be quickly upgraded to a strong and authoritative hub for EU capital markets supervision and more generally financial conduct supervision. This entails an expansion of its supervisory mandate, but also a significant overhaul of its governance and funding framework.
- The accountability of EBA and ESMA and their scrutiny by the European Parliament should be enhanced as a key element of their governance reform.
- Further initiatives, including possibly the merger of the SSM, EBA and EIOPA, separation of the SSM from the ECB, and folding of the ESRB into the ECB may be considered in a more distant future, but not in the near term as they would unnecessarily distract from more urgent tasks.

Is now the right time for a debate about reforming the EU financial supervisory architecture?

Yes for EBA and ESMA, no for the others. The EBA Regulation requires urgent revision because it specifically refers to London as EBA's location and this has to change because of Brexit. Less immediately, an adjustment of EBA's governance is needed following the entry into force of the SSM Regulation in 2014 and the emergence of the SSM as Europe's most important bank supervisor. ESMA needs reform as a consequence of Brexit. Brexit will inevitably trigger a shift of the EU capital markets landscape, from a highly centralized EU28 hub-and-spokes structure with London at its core, to an EU27 distributed-network arrangement in which several financial centers will play significant roles in different member states. As a consequence, and in line with the subsidiarity principle, the need for a strong EU-level capital markets authority is greatly enhanced to ensure consistency and

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[2] A list of acronyms is provided at the end of this statement.

avoid a regulatory or supervisory race to the bottom inside the EU27, and also to deliver an undistorted approach vis-à-vis third countries (including the UK after 2019). ESMA should thus partly substitute for the role played until now by the UK authorities in monitoring and supervising EU wholesale markets, as no single national jurisdiction will be in a position to do so on its own. Such an expanded role in turn calls for a comprehensive overhaul of ESMA's governance and funding.[3]

The other EU-level financial authorities do not require major institutional reform in the short term. EIOPA is in a different situation from EBA, since it does not have to move and there is no equivalent to banking union for insurance supervision. The ESRB does not have enforceable authority, and Brexit may reduce its usefulness as a separate institution, but there is nothing imperative about this and thus any reform can await a future review, while other more urgent EU legislative projects should be given priority. The SSM and SRB have started their operations recently, and it is not yet time for a comprehensive re-examination of the corresponding EU legislation. Furthermore, it may be noted that the SSM Regulation can only be modified by unanimity and the ECB's governance by treaty change. The ESM is left outside of the scope of this statement.[4]

What principles should guide a reform?

Simplicity / clarity. The European Union has created six new financial regulatory and supervisory institutions since 2010, namely the EBA, EIOPA, ESMA, ESRB, SRB and SSM as referred to above. Some of the resulting institutional complexity was unavoidable given EU realities, especially the fact that banking union was introduced as a euro-area policy (albeit with an option to expand[5]) while the geographical scope of the ESFS (including the EBA, EIOPA, ESMA, collectively referred to as the three ESAs, and the ESRB) covers the entire European Economic Area. Even so, institutional complexity generates frictions and inefficiencies and should be limited or reduced to the extent possible. As a consequence, and unless there is an imperative necessity, the European Union should avoid further creating new institutions in this area of policy. Merging or discontinuing any of the six above-listed new institutions, however, does not appear advisable at the current juncture. Nor should legislators feel constrained to adopt parallel arrangements for the three ESAs, including with respect to their governance and funding: as is developed below, the three agencies serve different purposes and it is inevitable that their respective arrangements should diverge further.[6] Meanwhile, further pooling of authority from the national to the European level, in line with the subsidiarity principle (see below), could reduce the current complexity and simultaneously eliminate existing national distortions.

An additional layer of complexity results from the fact that the rules (known as technical standards) elaborated by the three ESAs only acquire binding status after their endorsement by the European Commission as Commission Regulations (delegated or implementing acts). The Commission has the right to amend or refuse proposals from the three authorities, but would be wise to exercise this

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[3] The argument for the build-up and reform of ESMA as a consequence of Brexit is developed in Sapir, Schoenmaker and Véron (2017).

[4] The ESM has a Banking Department to support its role as possible operator of direct bank recapitalizations, and is thus in principle involved in the new European financial supervisory architecture, even though its main purpose is to provide financial assistance to euro area countries. Its direct bank recapitalization instrument, however, has not yet been activated.

[5] The close cooperation procedure, set out in the SSM Regulation, allows any EU member state that has not adopted the euro as its currency to join the banking union on a voluntary basis. No EU member state has done so yet.

[6] The divergence effectively started with the 2014 legislative reform of EBA governance that was discussed and adopted simultaneously as the SSM Regulation, with no equivalent for EIOPA and ESMA.

right parsimoniously in order to buttress the authoritativeness of the ESAs and the independence of the regulatory process from political interference. As a matter of better regulation, the Commission should systematically and publicly explain its motivations whenever it decides not to accept a regulatory proposal from EBA, EIOPA or ESMA.

Subsidiarity and proportionality. The subsidiarity principle stipulates that "the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level" (Article 5(3) TEU). The experience of the financial crisis in the last decade has profoundly reframed the debate about subsidiarity in EU financial services policy, since it has brought to the fore the existence of a bank-sovereign vicious circle that had not been anticipated before 2009.[7] Since June 2012, statements of euro area heads of state and government and of the European Council have repeatedly affirmed that "it is imperative to break the vicious circle between banks and sovereigns." This political commitment at the highest level justifies the dramatic expansion of EU-level authority over the banking sector, since the aim to break the vicious circle can evidently not be achieved by actions at the national level only, even assuming these actions are coordinated. In turn, the broadly successful early implementation of the SSM Regulation[8] has provided a "proof of concept" for supranational financial supervision in the European Union, a proposition that until then was deemed either Utopian, or at best, suitable only for non-systemic market segments.[9] As a consequence, it is appropriate under the subsidiarity principle to envisage greater authority for ESMA over financial firms and market segments which have a clear pan-European dimension, and whose supervision exclusively at the national level is likely to result in market distortion, unnecessary fragmentation of the single market, and/or a supervisory "race to the bottom" triggered by supervisory competition in an integrated cross-border EU market. More broadly, and as developed in the next subsection, the respective integration of the banking and capital-markets components of the European financial system are complementary, mutually supporting policy endeavors to achieve both higher growth and greater stability. The application of the subsidiarity principle to these objectives suggests a more comprehensive supervisory framework at the Union level than is currently the case.[10]

This does not imply, of course, that all financial services policies could or should be concentrated at the EU level. In 2009, member states have committed themselves to the vision of a "single rulebook" for prudential and market regulation, following their discussion of the Larosière Report (European Commission, 2009) and simultaneously as they decided to establish the three ESAs. But this vision remains far from fulfilled, partly (but not only) as a result of differences in national legal frameworks. There is a widespread consensus that the day-to-day supervision of smaller financial firms that serve a local market should be carried out by national authorities, even if the corresponding supervisory policies are set at the European level: for banking supervision, such an arrangement has been embedded in the SSM Regulation. Moreover, policies that have a structural impact on the financial system, including the taxation of financial firms and activities, insolvency law, and the frameworks

[7] Section II.A in Véron (2016) details the gradual emergence of the euro-area bank-sovereign vicious circle in the awareness of the analytical and policy communities from 2009 to 2012.
[8] An early assessment of the SSM is provided in Schoenmaker and Véron (2016).
[9] ESMA took over supervisory authority for credit rating agencies in mid-2011, and for trade repositories in late 2013, under single market regulations approved before the start of banking union (respectively CRA II and EMIR).
[10] The further legislative strengthening of the banking union, which is similarly critical to achieving the stated objectives, is not discussed in this statement. Specific policy suggestions in this respect are outlined e.g. in Schoenmaker and Véron (2016) and in Sapir, Schoenmaker and Véron (2017).

for pension financing and for housing finance, are generally not understood as pertaining in the "single rulebook" and can be expected to remain overwhelmingly at the national (or subnational) level for the foreseeable future.

As for proportionality, there is a longstanding debate, which is by no ways unique to the European Union, on whether smaller financial institutions should be subject to a lighter regulatory framework than larger ones. Under principles of good regulation, it is appropriate to constantly question whether the burden of regulatory compliance may be excessive and whether it can be reduced without affecting the fulfilment of its objectives. Caution, however, is justified in this respect by two main considerations. First, the history of financial crises gives overwhelming support to the proposition that small banks can together contribute as much to systemic risk as large ones, and in some cases even more than them. Examples of systemic banking crises that illustrate this point include the savings and loan crisis of the 1980s in the United States, and the Spanish crisis of the early 2010s in which problems were concentrated in the medium-sized savings banks (*cajas de ahorros*) rather than in the largest financial institutions (such as BBVA and Santander, which comparatively benefited by their geographical and business-model diversification). Second, small banks that participate in an institutional protection scheme (IPS) are bound together by contingent commitments of mutual support, and should thus not be viewed as isolated entities for the purposes of systemic risk analysis and prudential regulation, even if their operational management is entirely decentralized. The relevant scale to consider in such cases for the application of any proportionality thresholds is the combined size of all entities included in the IPS, not that of the individual participating entities.

<u>Growth and financial stability.</u> EU financial services policy should enable the financial sector to contribute to economic growth in all EU member states while safeguarding financial stability. There are trade-offs between growth and stability in many areas of financial regulation, for example bank capital requirements. But the vision of a single, integrated European financial system underpinned by a consistent financial supervisory architecture is desirable from the perspective of both growth and stability, compared with the present reality of incomplete integration with cross-border barriers created by different regulatory requirements and divergent practices of supervision and regulatory enforcement. This insight underlies banking union, as the prior fragmentation of supervision and crisis management frameworks across national lines was at the root of the harmful bank-sovereign vicious circle.[11] The same insight underlies the EU policy of capital markets union (CMU), first spelled out by European Commission President Jean-Claude Juncker in mid-2014 and currently under review by the European Commission.

CMU is a critical initiative to address the excessive reliance of the European Union's financial system on banks, or "bank bias" (Langfield and Pagano, 2015), thus improving prospects of access to external finance for SMEs and other economic agents, and increasing the resilience of the European Union in future crises. It is a fundamentally complementary project to banking union, with the two efforts supporting each other (e.g. Constâncio, 2017). But CMU has not made much significant progress so far, and this is directly linked to the debate about financial architecture. Echoing the previous point about subsidiarity, there is an increasingly widespread recognition that the promise

[11] The stated aim of banking union, namely breaking the bank-sovereign vicious circle, implies is that any euro-area bank could fail without affecting any of the member states' sovereign creditworthiness, and that conversely, any member state's sovereign debt could be restructured if needed, without threatening the stability of the area's banking system. This objective remains unfulfilled (see previous footnote), and it has become increasingly accepted over the past decade that its fulfilment would greatly contribute to financial stability in the euro area and European Union.

of CMU can only be fulfilled with stronger EU-level authority over a number of capital market segments and financial firms with cross-border scope, much of which can be achieved through the further empowerment and reform of ESMA, particularly in the new context created by Brexit.[12] Similarly, the prudential oversight of financial firms whose orderly operation is critical to the EU financial system, such as international central counterparties (CCPs), calls for pooling at the EU level to achieve the objectives of supporting growth and stability, a challenge that has been made significantly more pressing by the prospect of Brexit.[13]

<u>Separation of conduct supervision from prudential supervision.</u> This principle, referred to in the specialist community as "twin peaks" supervisory architecture,[14] may sound less obvious than those listed above, but is worth high-level attention. Prudential supervision is the supervision of financial firms, especially banks, insurers and relevant financial market infrastructure, to ensure their resilience in crisis situations and support crisis management actions if needed. By contrast, conduct supervision (also known as conduct-of-business supervision) supports objectives other than financial stability, including consumer and investor protection, financial market integrity, the fight against terrorism and money laundering, and the enforcement of financial sanctions against certain jurisdictions. There is some overlap between the two objectives, for example in the supervisory vetting of senior executives in financial firms known as the "fit-and-proper test." But the two types of supervision generally require different mindsets and skills, and occasionally conflict with each other. Especially in times of financial crisis, or to avert a crisis, the imperative of financial stability can be so overwhelming that authorities may neglect some conduct duties in order to help firms satisfy prudential requirements – for example, authorities may close their eyes on questionable commercial practices if these help a bank to increase its profitability and capital. Conversely, in non-crisis times, conduct mandates may be so all-absorbing that prudential considerations are left in neglect, as arguably happened at the UK Financial Services Authority in its supervision of several British banks (including Northern Rock and Royal Bank of Scotland) or at the US Securities and Exchange Commission in its supervision of large broker-dealers (including Bear Stearns and Lehman Brothers) in the run-up to 2007. Various cases of securities misselling in several European countries (including most prominently Italy in recent years, but also Finland, Slovenia, Spain and others in the past), where banks sold their own risky shares, subordinated debt and/or senior debt instruments to retail clients including some with low level of financial literacy, may be considered in a similar light, suggesting that the enforcement of consumer protection regulations in the financial sector should not be entrusted to prudential supervisors. While there is no obvious need to institutionally separate the prudential supervision of insurers from that of banks, there is a strong case to have conduct supervision, including many functions of capital markets oversight, in an institution that is separate and independent from those in charge of prudential supervision.[15]

It may be noted that the adoption of a twin peaks approach for the European Union does not imply that EBA and EIOPA should merge in the foreseeable future. This is because neither EBA nor EIOPA are supervisors of banks or insurers, a reality that their merger would not change. Furthermore, there are treaty constraints that currently prevent the ECB's supervisory scope from being enlarged

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[12] See Véron and Wolff (2015) for an early exposition of this argument, and also Nicolas Véron, "A Post-Brexit Opportunity Europe Shouldn't Miss: The EU should finally implement its long-delayed capital markets union," *Bloomberg View*, July 14, 2016.
[13] This point is also developed in Sapir, Schoenmaker and Véron (2017).
[14] The reference is to an essay by Michael Taylor, a British financial regulatory expert, in which the principle was first spelled out (Taylor, 1995). Examples of countries which have adopted the twin-peaks concept include Australia, the Netherlands, and the United Kingdom.
[15] This argument is developed in Schoenmaker and Véron (2017).

to insurance companies.[16] As a consequence, the respective institutional membership structures of EBA and EIOPA are unlikely to converge any time soon, and this justifies their continued existence as separate institutions for the moment.

Cost effectiveness. On the basis of readily available evidence, there has been so far no indication of waste or any other significant operational dysfunction in the authorities reviewed here. If anything, there are strong indications of insufficient resources for at least some of the authorities. An early review of EBA by the European Court of Auditors (2014) concluded that "Overall, EBA's resources during its start-up phase were insufficient to allow it to fulfil its mandate." In November 2014, ESMA, EBA and EIOPA sent a joint letter to the ECOFIN President, subsequently made public, suggesting that the budgetary trajectory then envisaged for them "would severely undermine our capacity to continue to deliver on the objectives set out in the ESAs' regulations and the tasks we were given by the legislators."[17] More recently, the European Court of Auditors (2016) found "indications that current staffing levels are insufficient" at the SSM. The EU financial authorities' costs and operations should be further scrutinized on an ongoing basis to ensure there is no drift in this area, not least by the European Court of Auditors.

What are the implications for the reform of EBA and ESMA?

EBA: As mentioned above, the immediate case for amending the EBA Regulation (last modified in 2014) is its forced relocation as a consequence of Brexit. Recent media reports suggest a target date in October 2017 for the final decision.[18] It is highly desirable that the corresponding decision be made by that date and not further delayed, because of the obvious damage caused by the current uncertainty for the EBA's operations, motivation of its staff, and capacity to attract new talent. The corresponding EU legislative process should be expedited swiftly after that decision.[19] Beyond the relocation decision, it is also desirable to review the EBA's governance to adapt it to the new context created by banking union, even though the same operational concern suggests a separate and later legislative process for that. Currently, the only voting members in the EBA's Board of Supervisors are representatives of national supervisory authorities from all EU member states (including those in and out of the euro area), but the SRB is an "observer" and the SSM an "other member" with no voting rights. This setup is evidently not in line with the new reality of banking supervision in the euro area, in which the ECB (through the SSM) is the sole licensing authority and the direct supervisor of banks representing four-fifths of total assets, and the SRB is likewise the resolution authority for most of the system. While national supervisors still directly oversee most small banks, they no longer have autonomous roles for the elaboration of prudential supervisory policies. As a consequence, the European Union should consider a significant overhaul of the governance of EBA so that its institutional membership would be reduced to the ECB, SRB, and national authorities from

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[16] Article 127(6) TFEU, the legal basis for the SSM Regulation, specifically excludes insurance undertakings from the possible scope of prudential supervision by the ECB.

[17] The letter was accessed at https://www.esma.europa.eu/sites/default/files/library/2015/11/esas_2014-41_joint_esas_letter_to_eu_council_presidency_-_esas_budget.pdf. See also Huw Jones, "EU cash squeeze threatens post-crisis financial reforms: watchdogs," *Reuters*, 14 September 2015.

[18] Alex Barker and Paul McClean, "Brussels sets rules for Brexit regulatory agencies fight: July deadline for bids for medicines and banking bodies ahead of October vote," *Financial Times*, May 23, 2017.

[19] As for the specific location to be chosen, Schoenmaker and Véron (2017) mention the case for Frankfurt as the EBA's new location on arguments of geographical proximity with the ECB/SSM and EIOPA, as well as the alternative case for relocation in a non-euro-area member state of the EU to signal a commitment for the EBA not to be dominated by banking union interests.

non-euro-area countries, while making it more effectively accountable to the European Parliament. This is no trivial task, and no specific blueprint is suggested here – further debate would be needed to reach that point. Beyond these challenges of location and governance, there is no obvious reason at this juncture to materially change the mandate of EBA and its scope of responsibilities.

ESMA: In contrast to EBA, the arguments exposed in the previous section add up to a strong case for the expansion of ESMA's mandate and scope of responsibilities, including a significant broadening of the range of EU wholesale market segments and financial firms over which it is to have direct supervisory authority, and a pooling within ESMA of many international duties (vis-à-vis authorities and firms in third countries outside of the European Union) that are currently assigned to national market authorities within the European Union. Specifically, ESMA should be the responsible authority in the European Union for the authorization of significant market intermediaries (including banks and securities firms) under the MiFID/MiFIR legislation; for the conduct supervision of CCPs that are systemically relevant for the Union, including those established in third countries (a key current debate in the run-up to Brexit); and for the supervision of audit firms and the enforcement of financial disclosure requirements by listed companies. As with banking union, and in line with the subsidiarity principle, this may entail appropriate delegation of suitable operational tasks, under a single policy framework and ultimate ESMA responsibility, to relevant authorities in the member states, such as BaFin, DPR (Financial Reporting Enforcement Panel) and the Abschlussprüferaufsichtsstelle (Audit Oversight Body) in Germany. For example, it appears natural that registrations of investment management companies and funds remain in the hands of national authorities under such a delegation concept. This would also set a sound basis for later broadening of ESMA's responsibilities for the protection of retail customers of financial services (including banking and insurance services), should the European Union decide to engage in further harmonization efforts in that area, in line with the above suggested "twin peaks" approach.

Simultaneously, ESMA's governance and funding framework requires significant overhaul to be suited to such expanded responsibilities. This is for reasons that are different from those suggested above for EBA: there has to be no specificity of euro-area countries in the ESMA framework. Rather, the governance needs to be suited to the duties of an independent supervisory agency, which is not the case with the current intergovernmental setup of ESMA's board of supervisors (and even as ESMA, as previously mentioned, already has some limited direct supervisory competencies). In line with established best practice both in the EU (with the SSM and especially the SRB) and internationally, ESMA should be governed by a collective body of limited size (say, between 5 and 7 members) and high standards of independence and accountability, under more direct scrutiny of the European Parliament than is currently the case. The individuals involved should be vetted by the European Parliament under processes similar to those already in place for the six full-time members of the SRB and for the chair and vice-chair of the SSM's Supervisory Board. The financing of ESMA should be fully covered by levies on supervised activities, again under appropriate scrutiny by the European Parliament, as is the case for the SSM and SRB (and currently to an only partial extent for ESMA with levies on CRAs and trade repositories).

Which further reforms may be envisaged in the longer term?

As mentioned above, the establishment in less than five years (2011-2015) of six new EU financial authorities (EBA, EIOPA, ESMA, ESRB, SSM and SRB), in addition to the preexisting duties of the European Commission (including in its state aid control capacity) and of dozens of national authorities across the EU's member states, has created significant new institutional complexity. This complexity entails costs and inefficiencies, and may in some situations impair the effectiveness of supervision.

As also argued above, it is not realistic or advisable to seek a radical streamlining of this EU-level architecture in the short term. While the "twin peaks" approach advocated in this statement supports a vision of integrated prudential supervision of banks and insurers in the entire European Union, this is prevented in the near term by the treaty exclusion of an ECB role for insurance supervision, and also by the fact that several member states (including Cyprus, Greece, Italy, Luxembourg, Portugal, Slovenia and Spain) currently have separate insurance supervisors. Another key driver of the current multiplicity of authorities is that the euro area is only a subset of the European Union. This obstacle may erode over time, if any of the current eight non-euro member states of the Union choose to join either the banking union through close cooperation or the monetary union itself. Yet another driver of complexity is the fact that the responsibility for macro-prudential policy is awkwardly shared between national authorities, the ECB in the euro area, and the ESRB in the European Union. A further concern, particularly often mentioned in the German debate about financial sector policy, is that the embeddedness of banking supervision inside the ECB may result in conflicts between supervisory objectives and those of monetary policy.

All of these challenges deserve attention but, fortunately, none of them is critical at this juncture. In particular, the conflict between supervisory and monetary policy in the ECB appears more theoretical than real. Schoenmaker and Véron (2016) document the occasionally sub-optimal functioning of the SSM's Supervisory Board, but the observed problems did not stem from interference with the ECB's Governing Council. In fact, and contrary to many expectations, the fact that SSM decisions are subject to final approval by the Governing Council does not appear to have generated any bottleneck or significant delay in the operation of banking union so far. (There have been, by contrast, many cases of delays and bottlenecks at the level of the Supervisory Board, including some that the SSM has acknowledged publicly.) As for the SSM's supervisory independence, it may have been less than perfect on some occasions.[20] But indications so far suggest that such lapses of independence were caused by political pressures originating in individual member states and possibly channeled through discussions and votes in the Supervisory Board, as opposed to an inherent misalignment of objectives with monetary policy and/or interference from the Governing Council or Executive Board. Overall, and based on detailed observation of nine member states together representing more than 95 percent of the euro area's total banking assets, Schoenmaker and Véron (2016) find the SSM comparatively more immune from political interference than the national supervisors in the pre-SSM era. That said, the recommendations by the European Court of Auditors (2016) to "examine the risk posed by the system of shared services to the separation of functions [between the ECB and SSM], establish separate reporting lines for cases where specific supervisory resources are concerned and look into giving the Chair and the Vice-Chair of the Supervisory board stronger involvement in the [SSM] budgetary process" are apt and should be implemented.[21]

[20] The most questionable case so far in this respect is arguably the treatment of Deutsche Bank in the SSM's stress testing exercise in 2016: see Laura Noonan, Caroline Binham and James Shotter, "Deutsche Bank received special treatment in EU stress tests: German lender's result was boosted by a special concession agreed by the European Central Bank," *Financial Times*, October 10, 2016. See also Case Study 1 on Monte dei Paschi di Siena in Transparency International EU (2017).

[21] The author of this written statement is on record for skepticism about the wisdom of entrusting the ECB with banking supervision at the time when banking union was initiated in mid-2012, given the potential for

This analysis further supports the view that efforts should for the time being be concentrated on the above suggested reforms of EBA and ESMA. A case may also be made for further integration of insurance supervision within EIOPA (see Schoenmaker, 2016), but this should not be viewed as a matter of similar urgency. Beyond these, further intermediate steps, including the completion of Brexit, expansion of the banking union area (through close cooperation) and/or the euro area, and clarification of the desirable instruments of macroprudential policy in the European Union, should precede any radical realignment or streamlining of the present architecture of European financial authorities.[22]

conflicts of interest between the monetary and supervisory mandates: see Véron (2012). Developments since then, however, have vindicated the choice of embedding the SSM within the ECB.

[22] The author is grateful to Alexander Lehmann, André Sapir, Dirk Schoenmaker, and Guntram B. Wolff for their comments on an early draft of this statement.

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List of acronyms

CCP: Central CounterParty

CMU: Capital Markets Union

CRA: Credit Rating Agency

EBA: European Banking Authority (currently in London)

ECB: European Central Bank (Frankfurt)

EIOPA: European Insurance and Occupational Pensions Authority (Frankfurt)

EMIR: European Market Infrastructure Regulation (648/2012)

ESA: European Supervisory Authority

ESFS: European System of Financial Supervision

ESM: European Stability Mechanism (Luxembourg)

ESMA: European Securities and Markets Authority (Paris)

ESRB: European Systemic Risk Board (Frankfurt)

EU: European Union

IPS: Institutional Protection Scheme

MiFIR: Markets in Financial Instruments Regulation (600/2014)

MiFID: Markets in Financial Instruments Directive(s) (2012/92/EC and 2014/65/EU)

SRB: Single Resolution Board (Brussels)

SME: Small- or Medium-sized Enterprise

SSM: Single Supervisory Mechanism, also known as ECB Banking Supervision (Frankfurt)

SSM Regulation: Council Regulation (EU) 1024/2013

TEU: Treaty on the European Union

TFEU: Treaty on the Functioning of the European Union