



Home-host coordination in crisis management and resolution

- a non-EZ host country perspective

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- This presentation represents exclusively the views of the author and should not be interpreted as reflecting the views of the Central Bank of Hungary or any other member of its staff.

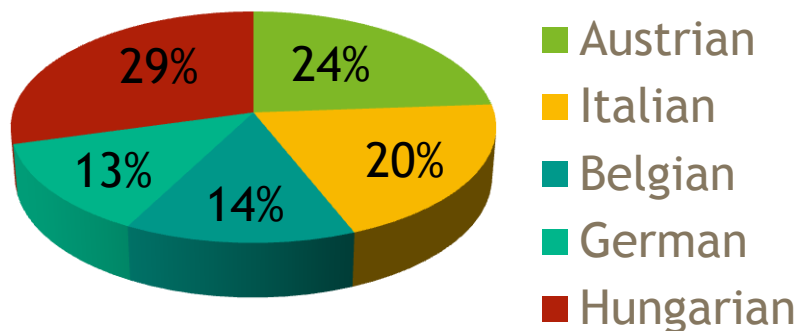


Perspective of Hungary: both host and home

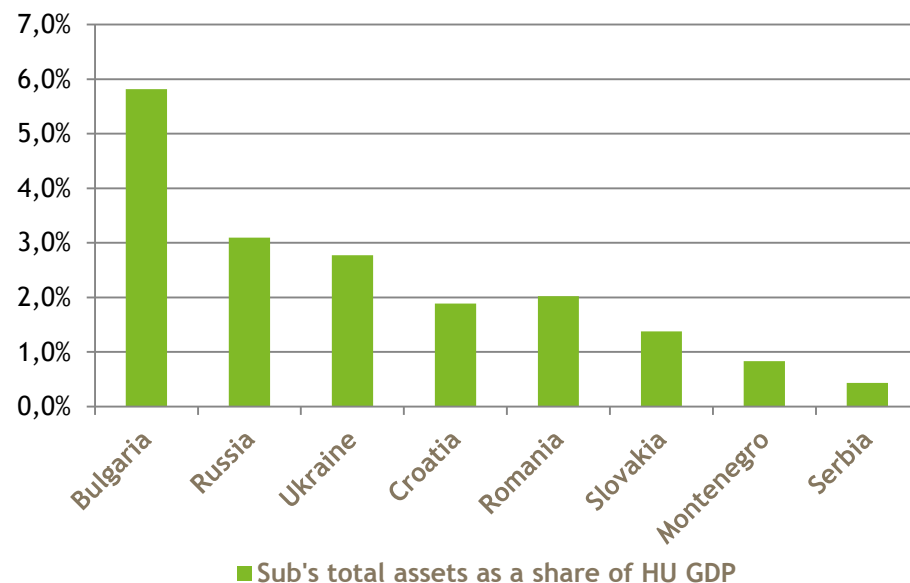
Hungary in a dual role:

- host country of several EU-based financial groups
- home of a large regional banking group

The 7 largest commercial banks' ownership structure in Hungary



The largest HU banking groups' foreign subsidiaries



The present situation from a host perspective

- Many vulnerabilities stemming from structural issues
 - Subsidiaries reliant on parents (capital, funding, operational)
 - Problem of branches (little supervisory oversight despite their potential systemic importance)
 - Intra-group transactions: largely unregulated yet key area (deleveraging, ring-fencing issues etc.)
 - Unilateral and uncoordinated resolution actions also suboptimal for hosts



- Supervisory and crisis management arrangements provide no proper answer to these challenges
 - CRD only briefly touches upon crisis management
 - 2008 MoU of little practical use
 - CBSGs develop slowly as they are surrounded by uncertainty (different concept of resolution colleges)

⇒ Preserving the *status quo* is not a viable option for host countries



Different options to avoid cross-border coordination problems witnessed in the crisis

1. „Less Europe”

- Forced subsidiarization of branches + making subsidiaries stand-alone financially
- The loss of integration benefits makes it an unviable option

2. The home authority as a lead resolution agency

- Clearly unacceptable for host countries, not on the agenda any more

3. Home authority with a strong coordination rule with some safeguard mechanisms for hosts

- The EU Commission's proposal for a directive on bank recovery and resolution

4. Supranational resolution authority with supranational resolution and DGS arrangements

- Banking Union



COM recovery and resolution proposal - strengths

- Based on the premise that the joint resolution of cross-border groups could in most cases be beneficial to all ⇒ it provides many rules to foster cooperation
- EBA could be more acceptable for hosts as a coordinator than the home authority (no national bias)
- Agreement on burden sharing may be more likely if private funds bear the costs of resolution
- Provides a workable (but by no means perfect) solution to the intra-group transaction issue



COM recovery and resolution proposal - concerns

- The envisaged EBA-mediation does not seem to be reassuring as a means to counterbalance stronger home powers; questions about the limitations of EBA's fiscal safeguard clause
- Treatment of branches still problematic (little oversight, virtually no power for hosts)
- Stand-alone resolvability of subsidiaries will be a thorny issue in the RRP process
- Resources of resolution funds unlikely to be sufficient in a severe crisis ⇒ burden sharing dilemmas mitigated but not eliminated
- As a result, host countries *legitimate* right to independently take their own steps under certain circumstances needs to be better acknowledged

The proposal brings considerable powers to home and supranational level, but this is not fully accompanied by the liability to depositors and taxpayers

⇒ a „half” Banking Union

Preliminary CB position:

Basically supportive but more adequate safeguards needed for host countries



Banking Union

A tool to tackle the EZ-crisis...

OR

to fix the supervisory and crisis management system of the EU?

- Is the process too slow?
- A strong economic rationale in the proposal

- Is the process too quick?
- Powers and liability better aligned, but would make real sense only in a full EU format...
- ...but many side effects in the interim period
- Duality created within the Single Market
- Concerns for MS staying out of the BU (competition, incentives to transform subs into branches)



Banking Union - key factors for national stance

- Numerous questions as we are awaiting the COM proposal:
 - Membership
 - EZ or broader, later possibilities to join?
 - Only supervision as a first step?
 - Giving up supervisory mandate makes little sense for hosts if liability to depositors (at least temporarily) remains on a national level
 - A package linked to other measures (euro, eurobonds, fiscal governance etc.)?
 - If so, the answer gets more complex and more political
 - Relationship with EBA and the recovery and resolution directive proposal
- Hungary is currently developing its national stance for the upcoming detailed COM proposal. Preliminary CB position:
 - Banking Union should not be a „closed club” - need for transparent access rules for non-EZ countries
 - Some kind of a stand-by ECB-arrangement should be put in place to provide euro liquidity to CBs/banks of MS outside the BU in future financial turmoils.
 - This is to ensure that BU and non-BU parts of the EU ultimately constitute one integral financial market

