THE ROLE OF UNION BANK IN SUPERVISION OF THE EURO AREA BANKS

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ABSTRACT: The recent financial crisis European Union has undergone a process of reconfiguration. This process has focused particularly on the banking union project that seeks to solve the problems in the European financial system. This project involves the adoption of a single system of banking supervision will allow the need case, recapitalize European banks in difficulty. This project involves the adoption of a single system of banking supervision that will allow of in need case, recapitalize European banks in difficulty.

KEYWORDS: union bank, financial stability, unique mechanism of supervision, euro area, credit institutions.

1. INTRODUCTION

Banking union project intends primary target supervision in the euro area banking institutions, a prerequisite for direct recapitalization of distressed credit institutions and halt the trend of fragmentation of EU financial markets is incompatible with the existence of an Economic and Monetary Union and the single market, strengthening financial stability, stopping negative influence between banks and debt of states.

This institutional project aimed at resolving these problems by establishing a banking union in the euro area and other EU Member States can opt to participate in this union.

Constitutive elements of this project pursue to harmonize regulatory and supervisory framework for banking - a single set of regulations, the transfer from national to European level of the main responsibilities for supervision - a unique mechanism of supervision, the introduction of common provisions to ensure legal support in appropriate management of the troubled banks - a single mechanism for resolving the banking crisis by harmonizing and centralizing deposit guarantee.

The achievement of banking union involves simultaneous operationalization of these main components.

2. SET OF RULES UNDERLYING UNION BANK

Union Bank is based on a set of unique rules and its main components the supervisory unique mechanism (SUM), the network of deposit guarantee schemes (DGS) and the only mechanism for resolution (MUR).
The new set of rules implemented by the ECB will help reduce the possibility of regulatory arbitrage and will require credit institutions to maintain adequate levels of liquidity and equity, enabling them to strengthen the administration capacity of financial specific risks activities and the cover potential losses.

**The supervisory unique mechanism (SUM)** to the union bank focuses on the European Central Bank (ECB) and engage in prudential supervision of credit institutions in the euro area. European Central Bank will consistently enforce a set of rules unique to the group of credit institutions in the euro area banking institutions will directly supervise and monitor semnificiative surveillance practices of credit institutions less significant undertaken by competent national authorities.

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National authorities → prudential supervision → ECB
  protection of consumers;        authorization of credit institutions;
  combating money laundering;    ensuring the fulfillment of the bank's capital adequacy
  supervision of entities belonging to credit institutions
  headquartered outside the EU    consolidated supervision of financial conglomerates
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*Source: NBR*

The supervisory unique mechanism will be available on a voluntary basis and the Member States outside the euro area through a cooperative agreement between the competent national authorities and the European Cent Bank. The European Banking Authority will pursue enforcement set of unique rules in the MUS and the Member States outside.

**Unique mechanism of resolution (UMR)** is the second element of the set of rules proposed by the European Commission. The creation of this element is based on transnational consequences of banking crises justifying the need for such a mechanism at European level resolution.

The main objective of this mechanism is impartial and effective management of banking crises so as to minimize negative impacts on the economy and the call to public funds.

It is a complementary solution to the single supervisory mechanism which aims to create a suitable framework for bank resolution, which can be used if the difficulties of a credit institution would create problems in terms of public interest. Identification credit institution should enter the resolution process will be conducted by the European Central Bank and the Committee then single resolution, define the conduct of Commission resolution and recommend resolution procedure. The European Commission will decide triggering resolution and national resolution will be responsible for implementing the plan for resolution.
**Regarding Deposit Guarantee Schemes (DGS),** bank union project does not currently include a single scheme at the supranational level. As a possible intermediate step in this direction aims at adopting Directive DGS and establishing a network of national deposit guarantee schemes, deposit guarantee funds adequately funded. Adoption of Directive DGS priority at European level, because complementarity with the other two components of the project bank union.

Benefits of implementing this element are:
- Ensure equal treatment of depositors in all EMU countries - complementary single supervisory mechanism;
- Strengthening confidence in the banking system:
  • a greater volume of resources is likely to grow considerably shock resistance system
  • sovereign risk as a potential generator of banking panic, loses importance

3. CONCLUSIONS

Banking union project will impact on both the micro-prudential supervisory practices and the prudential supervision framework in the euro area Member States will decide to participate. The scope of macro-prudential supervision in the EU include transnational, European Systemic Risk Board responsibilities for monitoring, prevention and reduction of systemic risk in the European financial system, issuing warnings and recommendations, as well as its consultative powers at EU level.

Also nationally designated competent authorities or policies may apply and use macro-prudential tools, whether at its own initiative or as a result of the ESRB recommendations or warnings. These two levels are added single supervisory mechanism aimed activities of credit institutions in the Member States participating in SUM.

Under this mechanism, the ECB may adopt more stringent measures than those adopted by the competent national authorities designated in terms of capital buffers and reduce systemic risk.

EU Member States outside the euro area between where they are and Romania, may choose to participate or not in union bank. Romania's EU membership Banking appears as a natural choice given that euro area banks hold three-quarters of bank assets in Romania and two-thirds of its capital.

1. Banking system (March 2013)

![Pie charts showing percentage of assets and capital in various countries]

*Source: NBR*
Benefits of joining the project, which can be felt directly at national level include strengthening financial stability, increased confidence in the national banking system due to the harmonization of supervisory practices and deposit guarantee schemes and support lending and economic growth as result of reducing the fragmentation of European financial markets.

On the other hand, participation in union bank would represent a reduction of power tools and remaining national decision primarily prudential supervision and bank resolution, and lead to a series of charges determined by national contributions to finance mechanisms implemented, particularly for unique mechanism of resolution and deposit guarantee schemes.

In this context, it is necessary that the analysis underlying the decision to participate in union bank to pursue both sharing tasks, duties and responsibilities of participating entities and financial obligations determined and, consequently, how to complete the negotiations on issues that are still discussion at European level.

Regarding the strengthening of the Economic and Monetary Union Rumania support the creation of a genuine banking union and strengthening governance of the euro area, but considering that this process should not be to the detriment of the Member States outside the euro area and contribute thus, the fragmentation of the European Union.

REFERENCES

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