ΠΜΣ : ΕΥΡΩΠΑΙΚΗΟΙΚΟΝΟΜΙΚΗΠΟΛΙΤΙΚΗ

MASTER THESIS: TOWARDS A EUROPEAN BANKING UNION

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Introduction

The EU and particularly the euro area, is a strong bank – dominated economy area. Banks provide liquidity to the businesses and thus inject money into the real economy. Bank-credit is the main source of internal (domestic) and external (international) financing for trans-frontier businesses. Banking sector is the most essential tool in the European financial system, providing almost two thirds of total credit. It plays a fundamental role in the development of the single market, due to its financial intermediation. Thus, banks acting as financial intermediaries were exposed to various risks, thus, being vulnerable to "liquidity disruptions" due to the interconnectedness of cross-border bank's operations. This led to "spillover effects", which affects not only the countries' economy, but also the global financial system.

On the other hand, although, the introduction of the euro as the single currency acted as a catalyst, moving forward the market integration and increasing the liquidity of the bond market, however, the integration of bank credit-markets lagged behind. "National retrenchment of assets and liabilities", domestic bias and narrow cross – border bank's operations led to a large fragmentation along national borders (Alina, LigiaDimitresku, 2014). This ongoing fractionalisation in the EU single market has been reported by EBA in its Risk assessment of the European Banking system. In EBA's report was stressed that this situation was fuelled because of "banks revised business strategies, changes in risk appetite, higher funding costs and the challenging macro-environment"; it has also been deteriorated due to "uncoordinated national policy measures cum ring-fencing of local and cross-border bank's capital and liquidity" (Alina, LigiaDimitresku, 2014). Income and profitability of EU banks worsened during the financial crisis, while the deterioration of asset's quality further exacerbated bank's earnings and capital adequacy, corroding (future) economic performance. Additionally, the decline of bank's loan portfolios quality during the crisis escalated the risk premia, slowing down the banking activity the global financial outcome.

The financial crisis of 2008 revealed the inconsistencies and weaknesses of the global financial system. The credit contagion effects and the ensuing (negative) externalities of the American toxic assets affected the single market stability. In response to the financial crisis of 2007 - 2008, out broken after the collapse of Lehman Brother's bank, the European Commission launched a number of proposals and legislative initiatives, pursuing to establish a safer, sounder and more stable and integrated financial sector. To achieve the integration in the single market, the Commission should re-design the architecture of the Banking system. A better bank- regulated sector would be achieved by the transfer of powers to a European level. This transfer is necessary to address financial ring - fencing and segmentation of the bank credit markets, aiming to disentangle the country risk from counterparty risk. The establishment of a European mechanism shall have two main functions: a signalling function for the banks in risk, and a crisis management strategy, with a resolution mechanism and a deposit guarantee system, to ensure the viability of the entire banking system and boost the depositor's confidence.

Catalyst to these efforts was the De Larosière report (De Larosière et al, 2009), which set the basic elements to re-design the banking-regulation project. The "De Larosière" report made two basic suggestions: the strengthening of the Lamfalussy regulatory approach, authorising the ESAs (European Supervising Authorities) to effectively set regulatory rules and empowering their implementation, through the creation of a macro-prudential regulator, housed at the ECB. Furthermore, the "De Larosière" report proposesthe creation of only two supranational authorities: one in charge of banking, insurance and systematically relevant financial institutions and the other responsible for business and market issues' management (De Larosière, et al., 2009, p. 58).

These initiatives put forward specific rules to enhance the financial sector, thus, strengthening the prudential requirements, safeguarding the deposit protection and provisioning adequate rules and procedures for crisis management. These measures were necessary to prevent the contagion of crisis in financial institutions and the whole market. Because the tools used by the states to address the crisis proved to be inefficient and unsuitable to solve the problem, the European commission developed,on the 29th of June 2012, a single roadmap towards a banking union reality (single rule book). Later, on the 12th of September of 2012, it published its proposals to establish a European Banking Union. The "edifice" of a banking Union is embedded on three building blocks ("pillars"): a single supervisory mechanism, a common resolution funding-model and a harmonised deposit insurance system, guaranteed by national Authorities. These three pillars form a homogenous system. As Commissioner Barnier highlighted, these three pillars cannot be separated from each other. This is what one calls non-separability principle (Cristian de Boissieu, 2013). As we will see in this paper, the splitting of tasks between centralised (European) and decentralised (national) authorities, does not affect the non-separability principle. The three mechanisms work successively, in overlapping geographic areas. These three building blocks overlap each other both geographically and institutionally (Bardu, Boitan, 2013). The EBU project is a “package” of reforms. Thus, one member state that joins one or two pillars, it has to accept the other(s) too (Cristian de Boissieu, 2013). Besides, these mechanisms are to implement successively, as the EBU pursues not a rapid shock therapy, but rather a gradual remedy. First, the SSM and then simultaneously the SRM and the national DGSs. However, the successive implementation poses a dilemma to the EU: how to accomplish the Banking Union project, when the implementation of the second and third stage is sluggish and cumbersome (Antonin et al, 2014). Cristian de Boissieu (2013), suggests a solution, based on monetary policy instruments. He proposes the “extending of monetary policy debate to financial regulation”. According to him, in order to achieve time-consistency in the EBU undertaking, each stage must be set up, so as it is perfectly “consistent” with and “conducive” to later stages.

These three pillars constitute a regulatory “set” of reforms, aiming to correct the insufficiencies of the banking sector, in particular the lack of an effective supervision model and the absence of an efficient management crisis mechanism (AsmusenJörg, 2013). This package of supervisory and management crisis measures will prevent the re-emergence of financial and bank crises. It will also improve the integrity and stability of the banking system, strengthening the regulatory infrastructure of the EU-banking systems. On the road to reform the financial architecture of the EU edifice, various issues havebeen taken into account: the sensitivities of member states towards the idea of all-over banking centralised authorities, the different supervisory models, adopted in the various countries, the respective role of national supervisors, finally the national interests of financial industry lobbying (Montanaro, 2016).

Objective of this paper it to highlight specific economic aspects concerning the macroeconomic implications of the banking union design, analysingthe mechanism of the three building blocks of the banking union.

Part A studies the economicbackground of the EBU project, its objectives, the political stance of the opting - in and - out countries, and the elements of the EBU project,while part B analyses the legislative framework of the banking union designi.e.the supervisory mechanism and the crisis management architecture.

Part A consist of five sections. More precisely, the first section represents the evolution of the European financial regulation and supervision before the crisis, analysing the economic Background of the European Banking Union project. Section 2 discusses the ancillary role of the EBU towards the EMU completion. Section 3 illustrates the objectives of the banking union plan, while the fourth section outlines political stance of the opting – in and – out countries. Finally, the fifth section represents the necessity for the establishment of a financial safety net and the development of the three buildings blocks of the banking union: the SSM, the SRM and the DGSs.

On the other hand, part B consists of three sections.

The first section analysesthe negotiation phase on the SSM adoption, the regulatory framework of the SSM function, theorganisational principles of the ECB's supervisory function and the insufficiencies of the SSM.

The second section outlines the negotiations stage on the SRM, the institutional framework of the SRM and the BRRD, and the insufficiencies of SRM.

The third section details the subject matter of the DGSs, stating the materialised-institutional framework of the DGSs' function and the risks of the DGSs.

PART A

I. Evolution of the European financial regulation and supervision before the crisis

The single market was built on the basis of the European passport, to strengthen the financial stability and increase the economic growth in the euro area. To achieve these objectives EU-leaders prompted a number of harmonised initiatives to reconstruct the architecture of the common market. The legislative acts adopted (Regulations and Directives), constituted the cornerstones to achieve more convergence in national legislations (Montanaro, 2016). Over the past ten years, after the launch of the single currency with the Maastricht Treaty, several initiatives have been taken towards the harmonisation of the prudential standards inthe banking sector. However, even the adoption of harmonised measures, did not remove the potential of contingent market vulnerabilities to financial crisis. The aftermath of the financial crises, occurred in the past decades, showed that spill-over effects threaten to disrupt the global financial system. Thus, a number of urgent reforms to re-build a more robust regulatory framework with a centralised supervisory authority and an efficient management crisis mechanism, should be undertaken.

On the other hand, as the Treaties did not provide ancillary centralised mechanisms for other areas of the financial system, such as the banking and insurance area, the European institutional architecture was flawed by design, suffering from an "original stigma" (Béranger A., Soubeyran, J., Laurence S., 2014). Without a single supervisory mechanism, a fiscal federalism and a robust political union, Europe is doomed to fail (Béranger A., Soubeyran, J., Laurence S., 2014). Thus, the perspective of a banking union is a "sine qua non" condition not only to complete the EMU but also to achieve further the political union. In this sense, Howarth and Quaglia (2013) perceive the banking union project as a "holy grail" of a single market "rebuilding ritual".

The creation of a centralised supervisory mechanism would safeguard a consistent implementation of supervisory rules across all Eurozone member states (and those joining the SSM. Its mission in not to put at stake the prerogatives of the national regulators (Lastra, 2006), but to ensure that supervision will be more objective and less biased than national banking supervision (regulation) (Bardy, Boitan, 2013).

Thus, in the early 2010, the EU-commission moved forward with the establishment of the European System of financial supervisors (ESFS), whose founding was accompanied by the establishment of three new supervisory authorities in the EU: the European Banking Authority (EBA), (responsible for banking regulation), the European Insurance and occupational Pensions authority (being in charge of regulation in insurance - sector) and the European Securities and Markets authority (EISMA), (entrusted with capital and market's Regulation). In parallel with the creation of the EFSF (the European Financial Stability Facility), in 2010 it was established the ESRB, entrusted with the mission to monitor the financial system of the European Union (EU) and supervise the macro-prudential supervision of the EU, in order to prevent and mitigate systemic risks, the major cause of the financial crisis (AsmusenJörg). Its taskswere to identify systemic risks and to issue warnings and recommendations for corrective actions. Finally, the initiators of a new regulatory architecture in the EU, decided the establishment of the ESM, which replaced the EFSF, responsible for recapitalising directly banks in difficulties in the EU. The mission of all these institutions was to ensure the soundness of individual banks and especially of bank groups, given that mostly cross – border activities fuel contagion effects, thus triggering financial imbalances and macroeconomic shocks.

To safeguard financial viability and sustainability, the EU-Leaders, based on the principles of subsidiarity and proportionality, initiated further legislative acts to harmonise the banking regulatory standards, eliminate divergences in EU area and strengthennot only the regulatory and supervisory framework but also the cooperation agreements between national financial supervisors (Montanaro, 2016). A more integrated financial system would smooth the path to create the preconditions for a fully integrated banking sector in the euro area with the end to reduce market risk and enhance risk-sharing conditions, thus, facilitating the functioning of the global financial system. To accomplish a deep integrated banking sector, able to share risks, it was necessary to establish common mechanisms for deposit insurance and bank resolution.

Thus, the EU Commission agreed a financial safety net, with the adoption of a regulatory framework, comprising a game of rules, controls and procedures, ensuring the prudential supervision, the crisis management and the protection of deposits via deposits insurance schemes (Kalfaoglou, 2014).

This new-fangled regulatory framework consists of the CRD IV (Capital Requirements Directive), covering prudential rules for banks, the SSM Regulation, responsible to ensure consistent supervision across the EU-banking area, the BDDD and the SRM Regulation, determining the recovery rules and resolution procedures for ailing banks, finally the DGSs Directive, providing for the coverage level of the EU-depositor's accounts, the repayment period and the financingmeans of the DGSs.

II. Causes of financial instability causing disruptions in the banking sector.

There is a chain of causes that affected the EU-financial system, triggering the banking crisis. There is no one single event or reason, to be traced as the root cause. Rather, it was the result of a sequence of reasons, each of which, contributed with its own triggering mechanism, to the collapse of the banking system.

The reasons that fuelled the banking crisis are the "competitiveness imbalances between member states", the increase of non – performing loans, the (in-)proportionality of some member states' banking sector, with regard to their GDP ratio, finally the bank's profile and configuration, i.e. the size of banks and the linkages between (individual and cross-border) banks within the private and the public sector.

More precisely:

The competitiveness' imbalances between the countries in the periphery and those in the core, intensified the divergences in the economic growth of the EU-member states, thus, triggering the market-financial instability (COCRIŞ Vasile, ŢYRCANU Igor, PERCIC Stanislav, 2014). The dissimilar financial structure between northern and southern countries and the ensuing asymmetric access to financing means, amplified the divergences in the economic growth, thus, affecting the capacity of banks to provide liquidity to the real economy. This forced banks to retrench liquidity behind national borders, limiting in parallel the cross-border operations, thus, increasing the bank's competitiveness imbalances. Additionalaly, the dissimilar "idiosyncratic credit risk" of northern and southern bank's systems led to bank's balance sheets disruptions, deteriorating the bank's sustainability viability and sustainability.

Moreover, the competitiveness imbalances between the northern and southern member states triggered by the "diabolic feedback loop" between banks and sovereigns. The higher the competitiveness imbalances between member states, the stronger the linkages between banks and sovereigns. The stronger the links between banks and sovereigns, the higher the risk of triggering the vicious circle between bank's distress and sovereign defaults.

Furthermore, the increase of non – performing loans in some Southern countries worsened the balance sheets of banks. The share of bad-loans to total assets, particularly in countries of periphery (Greece, Italy, Portugal and Spain) increased rapidly after the outbreak of the financial crisis, forcing the bail-out scenario and the necessity of the recapitalisation via public funds (COCRIŞ Vasile, ŢYRCANU Igor, PERCIC Stanislav, 2014, Breuus, Fritz, 2013).

Interest rates on loans to the real economy and other investment activities, vary significantly across the euro area. Therefore, business across the euro area were confronted with different borrowing conditions, a situation, that had a different impact on the real economy, increasing operational ring- fencing and thus market fragmentation (Kalfaoglou, 2014).

Another cause, triggering the banking crisis phenomenon, is the "overbanking" in small euro-area countries (Breuss, 2013) and the (in-)proportionality of their bank assets to their GDP ratio. Some euro-zone countries (for instance, Cyprus) have a too much large banking sector, while some others (Malta and Luxembourg) had a bank-business model limited only to banking sector. As a result the euro-zone crisis made them vulnerable (COCRIŞ Vasile, ŢYRCANU Igor, PERCIC Stanislav, 2014, Breuss, Fritz, 2013).

Furthermore, linkages between multinational bank groups, operating cross- border activities create an additional bank-risk. An individual bank's failure may trigger negative spill – over effects, thus, affecting the viability of the whole bank group. These negative externalities might fuel contagion chains, threatening the global banking system (Apostoaie and Percic, 2013, Fritz, Breuss, 2013).

Additionally, the "capture of national regulators" in domestic financial systems threaten the bank's viability. Usually, the primary responsibility of national regulators, is to advance the political concerns of specific home-interest groups or to favour domestic taxpayers, ignoring negative cross-border externalities that are likely to emerge from imminent national bank's failures. Such externalities may affect the sustainability of the EU-banking system. A failure of a multinational bank, would eliminate any incentive to invest capital in it, thus making difficult the maximisation of the bank's value as a going concern and triggering more systemic instability. On the other hand, the negative externalities may reduce the liquidity ratios of the banking group. This will dry up the bank-market liquidity, thus, threatening the viability of the banking system as a whole.

The last cause, triggering the financial crisis, is the downward "debt spiral" between bank and sovereign solvency crisis (Breuss, 2013,Geeroms, H. and Karbownik, P. 2014).

The "deadly embrace" between banks and sovereigns finds its root cause in the "home bias" practice of banks, (the fact that banks hold a great amount of sovereign debt in their balance sheets). In fact, the share of sovereign bond that banks hold on their books is disproportionate to their total assets. Several reasons, forced banks to this practice. First, the moral suasion by national regulators; they act in the vested interest of banks, making governments more reliant on domestic bank lending, so as to exert pressure on them, to rescue (them), in case of a bank failure. Another reason, amplifying the home bias practises, were recommendations from core country supervisors to domestic banks, pushing them to offload the sovereign toxic assets, thus reducing the risk of their sovereign portfolios (Geeroms, H. and Karbownik, P. 2014).

III. The banking union as a complementary building block of the EMU completion

The first step to the economic union was the establishment of the monetary union. However, the lunch of the euro was not a one-off step for the accomplishment of the economic and monetary union. The EU Commission should set out a series of steps to strengthen the financial stability and market integrity. As Thorsten Beck (2012) supports, the banking union plan is much more attainable within a currency Union, invoking the closer interplay between the monetary financial playfield. Besides, two of the three cornerstones of the edifice of the monetary union, i.e. the need to ensure a similar level of economic integration of the participating member states and assure a uniform response of economies to external shocks, constitute the keystones of the EBU project too (Kalfaoglou, 2014). On the other hand, as the fiscal union has currently not yet been created, the European banking union plan seems to be the only way, to further step up to the integration of Economic and Monetary Union (EMU) - (Geeroms, H. and Karbownik, P. 2014).

The establishment of a European Banking Union is the second "crucial" step for the "longevity of the Eurozone" (Béranger A., Soubeyran, J., Laurence S., 2014). Its creation within a monetary union, would accelerate the total benefits for the single market, thus completing the EMU. On the other hand, the EU banking union would guarantee the implementation of the fiscal pact, thus, reinforcing the mechanisms, responsible for identifying and absorbing macroeconomic imbalances, restoring the macroeconomic equilibrium and resuming economic re-growth (Libocor, Florian, 2015).

Thus, The Banking Union will be the vehicle towards the completion of the Economic and Monetary Union. A banking union will create a new economic governance in the European Union (Libocor, Florian, 2015), thus laying the basis for a political Union.

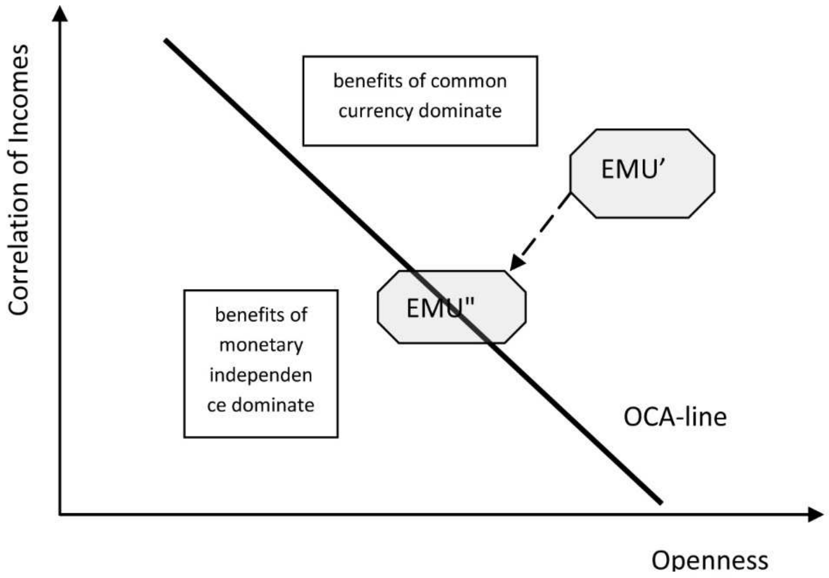
Should the OCA theory be well-established and proven, the EMU completion is more attainable. Based on the theoretical foundations of the OCA (Optimal Currency areas) theory, we will prove the importance of the banking union design.

The theory of Optimal Currency areas states that a region is ready to become a currency union, achieving more economic integration, if it could maximise the economic integration in a way that the benefits would exceed the disadvantages caused by the loss of the exchange rate instrument. If this condition is not met, and a country's economy is hit by an asymmetric shock, sufficient flexibility in labour and capital markets could solve the problem (Geeroms, H. and Karbownik, P. 2014). Cross-border capital mobility was high, before the crisis, as a result of the euro launch and the economic expansion in the whole Eurozone, (even in the periphery countries, the VEAPs - Vulnerable Euro-area peripheral Countries, including the so called GIPSI-Countries - Greece, Ireland, Portugal, Spain, Italy -cum- Cyprus and Slovenia). However after the crisis outburst, banks retrenched behind national borders, being forced to cut "financialisation "(the volume of cross-border free flows of capital). These capital flow reversals caused asymmetric shocks in the whole Eurozone (Geeroms, H. and Karbownik, P. 2014), intensifying the market fragmentation. As a result, the Eurozone became more vulnerable to macroeconomic shocks According to Paul's De Grauwe (2011) view, member states became more vulnerable to capital flow reversals and speculation against their sovereign debt, due to the fact that they joined the Eurozone. This situation triggered the launch of the single currency. Thus, even the launch of the single currency cannot be an effective shock absorber, thus guaranteeing the market integrity and financial stability.

The main objective of the European Banking Union design is create a single regulatory framework for the entire EU-banking system, thus, improving its integrity and stability. The banking union plan will enhance the flexibility of cross-border capital flows, thus reducing market fragmentation and strengthening the integrity of financial markets. Thus, the mechanisms of the banking union could function as a complementary “shock stabiliser”. The role of a banking union in the context of the OCA theory is explained in two ways: the lack of a banking union triggers contingent asymmetric shocks due to the sudden capital flow reversals or alternatively the presence of a well-functioning banking union can be a sufficient shock absorber (Geeroms, H. and Karbownik, P. 2014).

Taking into account the ramifications of the Euro crisis in the EMU, we can figure the OCA equilibrium pre- (and shortly after) the euro crisis and post crisis, given the creation of the banking union.

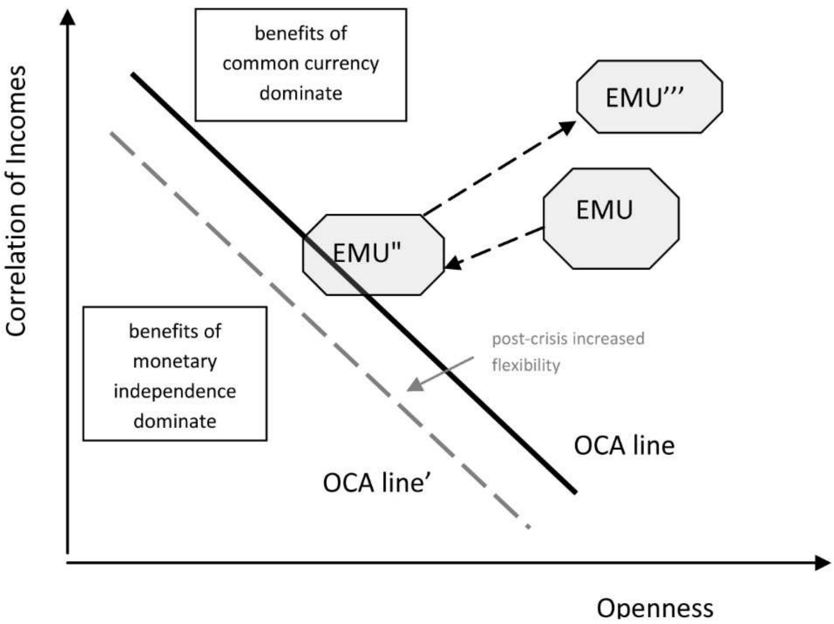
Figure 1 – The OCA equilibrium: impact of the euro crisis



Source: Geeroms, Ide and Naert (2014)

Figure 1 shows that the Eurozone crisis intensified the heterogeneity problem within the euro zone, illustrated into diverging business cycles and unilateral adjustment in the indebted member states, inducing a downtrend in the correlation of incomes. Thus, the degree of "openness" with regard to achieving financial integration, has decreased. The euro area shifted from EMU' (pre-crisis) to EMU" (post-crisis). It is viewed that Member states below the OCA-line, for instance Greece, should have leave the Eurozone (Geeroms, H. and Karbownik, P. 2014).

Figure 2 – The post-crisis OCA equilibrium



Source: Geeroms, Ide and Naert (2014)

On the other hand, as the figure 2 shows, the creation of the banking union, would have a positive impact in the functioning of the EMU. A full banking union will strengthen financial integration, by harmonising banking regulation rules (single rulebook, single supervisory and crisis management mechanisms) (Geeroms, H. and Karbownik, P. 2014).

The first pillar of banking union (the SSM) would monitor more effectively bank's balance sheets, thus avoiding the re-emergence of financial crises while ensuring smooth cross-border capital flows. The SRM on the other hand would ensure private and public risk-sharing, via the accumulation of the SRF, while the GGSs would avert "bank runs" and "flight to safety practises" (Pisani et al., 2012). A banking union design would stimulate private financial flows, thus, ensuring the private risk-mutualisation. It would improve the correlation of incomes increasing in parallel the degree of openness of market-financial integration. This causes a shift of EMU" to EMU'''. At the same time, a banking union would provide for a public risk-sharing mechanism, via the Single Resolution Fund and the direct ESM recapitalisation instrument. This shifts the OCA-line downwards to OCA-line'(Geeroms, H. and Karbownik, P. 2014).

Thus, the OCA theory could be complemented by the OBA (Optimal Banking Area) theory.

The OBA theory would describe the optimal characteristics for the unification of the (decentralised) national banking systems into a single EU-banking regulatory system.

Similarly, as in OCA, an Optimal Banking Area, would survive if the benefits of the single banking regulatory system, in terms of banking-financial integration and stability, exceeds the disadvantages associated with the conduct of domestic banking policies. If the European Banking Union could be proven to be an Optimal Banking Area, depends on the participation of EU member states in it.

IV. The benefits and the costs of the Banking Union

The project of the Banking Union is highlighted as an expedient solution to address the systemic financial crisis spread around the euro area. The importance of the of Banking Union platform, consists in the effectiveness of its mechanisms not only to manage bank crisis and absorb economic shocks, but also to strengthen the debt blockage mechanism, threatening almost all EU countries (Neguriţă, O., 2014). All the countries in difficulties could face more successfully the "bust downturn", under the platform of a banking Union. Had the Banking Union been created, the ECB had via the SSM signalled banks in difficulties to the SRM, which in turn would decide whether banks were to save, (in case these were considered to be systemic) or to put in resolution (Constâncio 2013). Thus, all these countries could (have the possibility to) resort to the SRM. Pooling risk by increasing the number of insured banks, would reduce banking risk and thus sovereign default risks. On the other hand, applying bail-in rules, it would reduce the global fiscal costs (Pisani F., Wolff B., 2012). Hence, the diabolic feedback loop between weak banks and sovereigns should come to an end (Belke, Gross, 2015). For example, a future real estate boom would not involve severe distress (extreme financial stress) to the sovereigns. And this because a supranational authority could recognise at an earlier stage, the imminent danger of the upcoming boom and thus had warned banks to take the measures needed (Belke, Gross, 2015).

As said above, the creation of the Banking Union constitutes a "quantum leap" to complete the financial integration. If the adoption of the banking union design is to create the expected desirability in the financial system, depends on its embrace by the EU member states. To have a preview of positive or potential negative impact of banking union undertaking, it is necessary to proceed to a deeper understanding of what moving banking regulation at EU-level "buys" and what it "costs" (Ioannidou, V., 2012).

First, the adoption of a banking union design, will be a significant step toward the harmonisation of rules, governing the banking regulation across all EU countries. Thus, it will ensure a level playing field in banking and financial markets. Uniform supervisory and crisis management rules will reduce financial fragmentation and “risk-shifting “opportunities abroad (Ioannidou, 2012).

In the second place is to mention that the banking Union initiative rounds off the deepening procedure of the single internal market. This “propulsion” of the deepening procedure, brought closer the creation of a more integrated financial system.

The deepening procedure, proceeded by the CRD IV (Bale III), pursued the tightening of the capital and liquidity requirements in the banking sector. However, the fact that national authorities had a great discretion power, incorporating idiosyncratic specificities, especially regarding the counter cyclical buffer, generated divergences and imbalances in the field of coordination for the capital requirements among the member states. Banking Union will seeks to restore balance between coordination and decentralisation concerning the tight implementation of the Basel III (Cristian de Boissieu, 2013). The initiators of the banking Union pursued to create a severe or moderate centralisation concerning the formation of the three pillars of the Banking union. The Single Supervisory Mechanism guarantees a pure centralisation in the field of bank’s supervision, ensuring a more effective coordination and clarification in supervisory mechanism, thus “compensating” the ambiguities and/or insufficiencies of the Basel III accords (Pollin, J., P., 2013). On the other hand, although recovery and resolution models are planned in a more moderate (de-)centralised level, their end implementation is materialised in the framework of a centralised level (the decision to restructure or to resolve a bank is taken by the Single Resolution Board, while banks' contributions raised at national level will be transferred to the Single Resolution Fund).

Another benefit of the banking Union undertaking, is that Banking Union is be the vehicle to reduce the risk fragmentation in financial markets (Constâncio, 2013). Although the monetary policy is carried out by a centralised Body (the ECB), divergences in the economic and fiscal policies of the EU member states still remain. The envisaged project of the Banking Union seeks to eliminate regional disparities that generate risk - fragmentation, thus, reinstating Europe to local financial system enhancing in parallel competitiveness and economic growth re-launch. (Cristian de Boissieu, 2013, Libocor, Florian, 2015). In parallel, it will ensure the equivalent conditions of access to funding for both banks and their customers (Libocor, Florian, 2015).

Diverse group of countries (the countries in the core and those in periphery) present different macroeconomic dynamics and different degrees of specialisation in different economic sectors and/or segments of the value chain. Macroeconomic imbalances within the euro-zone, in both public and private sectors (TurliucDragos D., and Popovici, Andreea N., 2013), may have different "conflicting implications" for individual and multinational euro area economies. In the time, these disparities have been conflated by diverging economic policies. This intensifies the asymmetries, inducing macroeconomic imbalances and distortions in the competitiveness. On the other hand high level of fractionalisation in the European financial sector delimits the lending processes, as the diverging interest rates, increase lending spreads over the yield curve (Cristian de Boissieu, 2013), limiting the access to finance for those economies having extreme need for financial means (Libocor, Florian, 2015). For example, banks in troubles (mainly in the countries of the periphery, for example, Greece, Span, Ireland) are required to pay higher premium on their debt, compared to those paid by countries in the core (for instance, Germany). This led to "home bias" practices, due to the extra difficulties associated with investing http://www.investopedia.com/terms/i/investing.aspin foreign equities (Praet, Peter, 2016, Geeroms, H. and Karbownik, P. 2014). As a consequence investors were forced to repatriate financial assets that held in foreign countries, while banks were forced to proceed to re-nationalisation of banks (Praet, Peter, 2016). As banking Union advances a deeper financial integration, it guarantees a further macroeconomic stabilisation in Monetary Union. After the launch of the euro, financial markets push the integration of the money market and that of bond markets. Cross-border integration of credit and capital markets assured a smooth operation of transmission mechanism of the single monetary policy across the EU, enabling the central bank to stabilise contingent euro-area shocks (Praet, Peter, 2016).

The interdependence between these two institutions (Bank and monetary authorities) is apparent, as the banking sector and, in particular, the bank lending channel constitutes one of the transmission mechanisms of the monetary policy. Money markets and bank-based monetary policy are a fruitful "avenue" to strengthen the financial integration (TurliucDragos D., and Popovici, Andreea N., 2013).

Banks, operating as financial intermediaries, play an important role for the transmission of the monetary policy in the real economy.

Bank lending channel represents the credit view of this mechanism. Monetary policy is transmitted via the bank lending channel as follows: monetary policy affects bank assets (loans) as well as banks' liabilities (deposits). It shifts the supply of deposits and of bank loans as well. Thus, an expansionary monetary policy increases bank reserves and bank deposits, which in turn increase the quantity of loans granted by bank. This will cause an upswing in investment and consumer spending, resulting in a rise in the aggregate output, boosting the real economy.

However, these powerful tailwinds (the expected economic growth) are blocked by big headwinds, when the banking sector is ailing, due to non-performing loans and exposures to toxic assets. The CRD IV (Basel III), introduced capital standards, aiming to improve resilience of euro area banking system. On the other hand, the establishment of banking union, founded on its three pillars, the SSM, the SRM and the DGSs, will turn market headwinds into tailwinds, supporting the ECB in its task, to transmit more effectively the monetary policy to the real sector. To achieve this, banks need to be "well capitalised through the cycle" and carry out "maturity transformation" in a prudent environment (PraetPeter, 2016).

The three pillars of the Banking Union benefit the interplay between financial integration and monetary policy. A single supervisory mechanism, exercising a forensic audit of the balance sheets of (ailing) banks, signals the banks in troubles, warning for their failure. In this way macroeconomic imbalances and asymmetric shocks will be absorbed, eliminating the negative side effects in the real economy. Further, a single resolution mechanism, will facilitate either recovery plans, serving the restructuration of bank's balance sheets, or advance resolution plans, diminishing cross-border interbank contagion risks. Finally, advancing the creation of DGSs will boost depositor's confidence in the national banking systems, which in turn would enable greater lending to enterprises and ultimately to the real economy, generating economic growth.

On the other hand banks, acting as across borders intermediaries, will be profited from the risk diversification offered by the economic activities and market operations. Wider risk-portfolios diversification absorb macroeconomic shocks, making easier and more effective the transmission of the monetary policy impulses to the real economy (PraetPeter, 2016). Thus, the ECB will be able to conduct a more fruitful monetary policy.

Additionally, it is to state that both financial playgrounds (monetary and banking policy) are conducted more effectively at supranational level, as national governments (which have already transferred its monetary power to the ECB) lack the efficient monetary tools, that a supranational independent monetary and banking authorities dispose (Thorsten Beck, 2012).

Thus, the creation of the banking Union within a monetary union, would be a powerful tool to backstop the financial instability and generate economic re-growth.

Another positive aspect is that the establishment of the banking union addresses better potential macroeconomic imbalances. A single supervisory mechanism, in charge of signalling banks in risk and a well-functioning resolution system, could deal better with credit bubbles and bank capital crunches owing to credit expansion. National supervisory authorities and resolution mechanisms could n't react rapidly and effectively addressing the negative side effects that might induce a cross-border credit contagion (Elliot, 2012).

A further benefit of the establishment of the Banking Union is that it overcomes the "impossible trinity", the financial trillema, as argued by Schoenmaker (2011), (referred to also as triangle incompatibility or trilemma of financial supervisions (Neyer, U., Vieten, T., 2013, COCRIŞ Vasile, ŢYRCANU Igor, PERCIC Stanislav, 2014).

According to Scoenmaker theory, the three targets of (a) financial stability, (b) financial integration and (c) national financial policies, are incompatible, as they cannot all be achieved at the same time in interconnected markets. Member states are unwilling to abandon the benefits of the single integrated market or to surrender control of monitoring their national financial market. However, economic stability and financial integration, pursued at supranational level, cannot be achieved by national (decentralised) policies (COCRIŞ Vasile, ŢYRCANU Igor, PERCIC Stanislav, 2014). The combination between supranational authorities agencies, authorised to exercise a common market policy and national authorities, being in charge of supervising their financial system would lead to instability, as national authorities would advance policies to increase national welfare, overlooking the negative externalities, presumably occurred by them. Thus, one of these three goals have to be abandoned. If the objective of financial stability is abandoned, then the risk for financial instability will grow, having negative "spillovers" for the economic growth. If, on the other hand, the goal of financial integration is abandoned, then market integration and all the accompanying benefits will be severed. Hence, the only option to follow, is to abandon the goal of national financial policies, transferring them to supranational level.

The "handover" of national policies to supranational level, is the only avenue to achieve the reconciliation of financial stability, financial integration and expedient bank supervision. Only in this way, it will be possible to maintain financial integration and financial stability (Cristian de Boissieu, 2013, COCRIŞ Vasile, ŢYRCANU Igor, PERCIC Stanislav, 2014).

Another upside aspect of the banking Union creation, is the internalisation/elimination of the externalities (Neyer, U., Vieten, T., 2013, Cristian de Boissieu, 2013).
Externalities are positive or negative impacts of a domestic event on other parts of the world. From an economic point of view, an externality can be a cost or a benefit.
Banking activities may have positive or negative externalities. Externalities, resulting from operations of one banking system, can affect positively or negatively other uninvolved banking systems, regardless of the fact that they did not choose to be involved in the operations nor did they choose to incur that cost or benefit. When a bank takes a decision to run businesses and does not take into account the potential negative spill-over effects, then a negative externality occurs. These externalities lead to under or over utilisation of financial instruments, thus distorting the financial stability. On the other hand banking decision taken under national-political capture, lead usually to under capitalisation, intensifying the banking failure risk and "financial misdeeds" («méfaits de la finance"), (Cristian de Boissieu, 2013, Klein, O., 2015). Despite the market segmentation and ring-fencing of banking operations, negative externalities may affect cross- border banking activities too. Counterproductive banking decision may occur (negative) spill-over effects, triggering side effects and cross-border cascading effects in the EU- area as a whole, thus causing a systemic banking risk (Cristian de Boissieu, 2013).
To conclude, the banking Union project aims at internalising externalities. Centralisation of banking system and coordination between centralised mechanisms serve the elimination of externalities. The establishment of a single supervisory mechanism ensures a better evaluation of banks risks and a stronger coordination between the competent authorities. The necessity to internalise the externalities is laid out by the creation of three more European regulatory and supervisory bodies, the ESMA, the EBA and the EIOPA (Cristian de Boissieu, 2013). On the other hand, the establishment of the single resolution mechanism and the Deposit guarantee scheme constitute steps towards the internalisation of the externalities. The transition from bail-out practice to bail-in rule, laid down in the SRM Directive, internalises the potential externalities occurred by a bank's insolvency, as it transfers the burden sharing from taxpayers to shareholders and other bondholder. Additionally, the decision to exonerate deposits up to an amount of 100 000 limits the externalities in the EU- banking system. (Cristian de Boissieu, 2013).
Another benefit is that the EBU project lessens the regulatory capture risk in the financial-banking industry. Bank markets, like money markets should disengage themselves from

national (political) spheres and be entrusted to experts (Avaro M., Sterdyniac, H., 2014). It reduces the pursuit of national vested interests and the coordination problems owning to home-host biases (Beldowsky J., Slomka-Golebiowska, A., 2016).

The problematic of “regulatory capture” (“regulatory forbearance”) in financial industry, is interrelated to the concerns of negative spill-overs, (due to negative externalities). Regulatory capture in banking sector occurs, when governments favour its home banking system, ignoring potential externalities in the global financial system (Neyer, U., Vieten, T., 2013). As a result, national (economic) interests are privileged over the interests to achieve cross-border financial stability, compromising thus financial losses. Thus, decentralised banking supervision and resolution may involve a risk of “regulatory forbearance” (Cristian de Boissieu, 2013, Ioannidou, V., 2012, Franklin et al., 2012). The pursue of economic interests combined with “policy clientelism” and short-circuiting forbearance, may exacerbate the regulatory capture risk (Underhill, G., 2012). On the other hand, “regulatory forbearance risk” is intensified, as national supervisors have a “propensity” to hide information from public, the ECB or other national supervisors, thus delaying the recognition of problems, suspending the take of corrective actions and eventually worsening the situation (Jean Tirole, 2014, Underhill, G., 2012, Ioannidou, 2012, Franklin, et al., 2012). Thus, the tendency of the national principals prevailed the objective of cross-border stability and integration (Padoa-Schioppa 1999a). This “preference” of the national principals is the “germ” creating the vicious circle between banks and sovereigns, as stated above (Ioannidou, V., 2012).

To avoid regulatory capture, the Leaders of the European Union, launched the EBU project, which guarantees more integration and centralisation not only in supervisory level but also regarding recovery/resolution plans and Deposit insurance models. Thus, a single supervisor will eliminate national bias and supervisory forbearance, imposing on national banks the liability to disclose dangerous toxic assets, while a single resolution mechanism will allocate losses and costs to bank’s shareholders and creditors, thus avoiding to burden national Governments (taxpayers) (TurliucDragos D., and Popovici, Andreea N., 2013).

On the other hand, centralised regulatory mechanisms would be less exposed to national lobbies and national agencies, as they would operate from a “distance of vested interests” and local pressures (Cristian de Boissieu, 2013, TurliucDragos D., and Popovici, Andreea N., 2013). The notion of “distance” is here to be perceived not only from a geographic point of view, but also a functional, political, economic-business and institutional dimension (Ioannidou, 2012, Franklin at al., 2012, Cristian de Boissieu, 2013).

Last but not least, the completion of the establishing process of each of these three pillars of the banking union, mainly of the SRF and DGSs building blocks, will eliminate opportunities for regulatory arbitrage inside the single market, (Underhill, G., 2012, Dietz, M., 2014). The arbitrage practice results form market inefficiencies. The establishment of a single supervisory mechanism -cum- an integrated management crisis tool (a single resolution mechanism, encompassing a single resolution fund and a deposit insurance system), combined with further harmonised EU legislation, (the BRRD) will ensure unified rules and standards across the EU, thus eliminating banking market insufficiencies, while safeguarding in parallel the level playing field in single market.

After having assessed the benefits of the banking union creation, we have to measure the "cost", adopting a banking union. Moving supervisory and resolution cum backstop instruments at European level, requires the creation of new centralised agencies, accompanied by skilful employees, and a new administrative structure to carry out the tasks, entrusted to the ECB. Although, the ECB could use the already created national infrastructure bank, to avoid unnecessary centralisation of powers, duplication of structures or lack of knowledge on the local economies and bank profile, this, however, would not diminish the high costs required to re-establish a new pan European banking regulatory mechanism with several different agencies and Bodies (Ioannidou, V., 2012).

V. The "ins" and the "outs"

Membership in banking union is mandatory for euro zone members, while it is optional for EU- member states. As JörgAsmusen stated in his speech at the Danske bank Financial Forum, (2013), banking union is "critical" for the "ins", (the euro area countrie)s and desirable for the outs (countries outside the euro-area). According to his view, banking union is essential for the Eurozone member states, because its establishment will break the vicious circle between bank distress and sovereign defaults, thus, stabilising the single currency area. Therefore, he argued, building the Eurozone in a solid basis, will also benefit the countries outside the euro area. The crisis experience showed, that "a receding tide lowers all the boats, not just the ones, which are in troubles". Banking union is desirable for the outs, because some countries, outside the Eurozone have a closely integrated banking system with the rest of the Europe. Thus, large,non-Eurozone banks, operating cross-border banking activities may cause systemic risks, when. Given that banking union provides the appropriate mechanisms to forestall huge systemic risks, a supervisory mechanism –cum- a crisis management tool and a backup financial system, it would be desirable for outside the Eurozone countries to opt in (JörgAsmusen, 2013). On the other hand, if non-euro countriesdecide to opt – out, they will not only lose the support of the ECB liquidity provided during a crisis, but also the ESM support, which is offered only to euro-zone countries, according to the ESM Treaty (Montanaro, 2016).

Many other reasons make desirable for Euro-zone outsiders the membership in the banking union. First, the banking union plan will foster the completion of the entire single market, unifying regulatory practices within and outside the Euro-zone, which in turn would enable a wide access in the market for all banks in the EU. Second, it will reduce coordination failures between national supervisors, thus enhancing financial integration and stability in the whole EU (VitorConstâncio, 2013). Third, coexistence in the single market of participants and non-participants in the EBU may jeopardise the objective to solve the traditional problem of home-host division in EU- cross-border banking regulation (D'Hulster, 2011).

Furthermore, member states outside the euro-zone, opting in the banking Union, will have the same rewards with the euro-zone member states. Thus, if Poland, Czech Republic, Hungary, Romania, and others EU-countries, like Denmark, Sweden, join the EBU, they will have the right to participate in the governance of the EBU (Cristian de Boissieu, 2013). If they decide to opt out, there would be no guarantee, to benefit from the advantages of the banking union safety net (Lehman, Nyberg, 2014).

On the other hand, the participation of a majority or a minority of the EU- states in the Banking Union would put at stake the integrity of the common market. Not joining the banking union, would increase the risk of financial fragmentationdue to the traditional ring-fencing measures, taken by host EU-countries (Montanaro, 2016). The «balkanisation» of the single market and the absence of ex-ante binding rules on "risk-sharing, intensified the conflicts of interest between home and host supervisors. An opt-out decision would deepen the existent conflicts inside the internal market (Montanaro, 2016), jeopardisingthe integrity of the single market. These conflicts, stemmed from different mandates and multi-vested interests, pursued by EU-Eurozone Bankers, would be eliminated if the banking union institutions could ensure the protection of the interests of the EU banking system and not only those of the Eurozone banking system. So, what we need is a European and not just a Eurozone banking Union. Enria (2013) states that if EU-countries decide to opt-out, the "repair" of the common market "will proceed with different speed" and be driven by different political stances inside and outside the SSM jurisdiction. According to him,"it seems not impossible, that a "rift opens up" in the single market, due to the division between countries, joining the SSM and SRM and those opting out, continuing to implement national tools for supervision and resolution". Similarly, North (1990) argues that limiting the SSM only to euro-area countries, would risk the construction of a "two speed Europe", threatening to increase financial fragmentation.

By dividing the EU countries into 19 euro-area members and 8 non-euro-area members, we make two observations: first, the banking Union covers over 70 % of total EU banking assets, second, the concentration of cross-border banking operations is higher in non-Eurozone members, than in Eurozone area (Schoenmaker, 2015). The highest concentration of cross-border banking operations isnoticeable in the UK, a non-Eurozone (and recently non-EU-country), having already declared not to opt in the banking union. The UK's opt-out decision is "subtly" explained by the fact that UK, especially the City, is a global financial player, seeking to ensure that City's pre-eminent position in the financial market won't not be jeopardised (Montanaro, 2016). Except the UK, Sweden declared its stance not to join the banking union, while Denmark, Bulgaria and Romania stated their preference to opt- in. The other non-euro countries stand for the moment a wait and see position, however their stance seems to be rather negative (Montanaro, 2016).

In this regard, it is noteworthy to state the opinions that the officials of these countries hold, regarding their preferences to join the banking union.

Regarding the Euro-zone member states we refer only to the Estonia, as it is itself a special case. Although, Estonia, is a Euro-zone member state, its entire banking system is controlled by "Swedish hands". So, while its participation in the banking union scheme is mandatory, its banking sector will be subjected to national supervisory control, exerted by Swedish government (Alina, LigiaDimitresku, 2014).

Concerning the non- Euro-zone member states, the Governor of the Romanian National Bank, MugurIsărescu, supports the opinion, that although banking union plan lays down the "same deal" and the same rules for all the EU-banking players,ensuring a level playing field in the single market, a "voluntary" participation of the non-euro states in the banking Union, would lead to a quasi-single market "balkanisation". However, Isărescu believes that banking union fosters the financial stability, increases confidence in banking sector and ensures sustainable lending and economic re-growth states (Alina, LigiaDimitresku, 2014).

Bulgarian officials, on the other hand, saw sceptically the participation in the banking union plan, as it would involve a significant transfer of their national (-banking) sovereignty to Brussels, without much benefit. However, as “poor banking supervision” triggered the collapse of the Bulgaria’s fourth-biggest lender bank Corporate Commercial Bank, Bulgarian officials decided to participate in the Single Supervisory Mechanism as a first step to opt-in the European banking union design (Alina, LigiaDimitresku, 2014).

Swedish Minister of Finance, Anders Borg, objects the idea that a Eurozone institution (SSM) will have the right to supervise countries outside the Eurozone, without giving them any rightto vote. Furthermore, he challenges the independence of the ECB. According to him, the ECB should not be subject to the EBA’s decisions(Alina, LigiaDimitresku, 2014).

With the view (concerning the vote rights), supported by Anders Borg, agree Poland’s central Bank Governor, MarekBelka, who sees critically the entry of non-Eurozone countries in the SSM, as they will have little influence over key-decisions. Hungary holds the same attitude concerning the decision-making framework. Both seek voting rights in the ECB and equal rights and obligations for all participating member states (Alina, LigiaDimitresku, 2014).

Czech authorities have their doubts, contrary to the view that other states hold, revelling in the creation of the banking union as the solution to “repair” the financialstability. For them, a banking Union plan, could affect negatively the country’s financial stability, given the robustness of the Czech banking system (Alina, LigiaDimitresku, 2014).

On the other hand, emerging Euro-zonecountries, which look for economic growth, are worried about the general impact of the single supervisory mechanismon the stability of their national banking systems. This, as the ECB may pay little attention to the supervision of a small country’s financial-banking system. Emerging European countries, being outside the Eurozone, worry that a common fiscal backstop for the Eurozone banking system (the access to the ESM resources) might disturb the competitive balance against local banks, headquartered outside the single currency area. Ruling out(emerging) European member states from the SSM jurisdiction, would increase opportunities for regulatory and supervisory arbitrage (Howarth, D., Quaglia L., 2013).

As said above, the strongest oppositions to opt-in the SSM, were expressed by UK and Sweden, expressed their political stance to stay outside the euro-zone and the EBU.

These countries have global systematically banks which have subsidiaries and branches inside the euro-area. As a consequence, all these subsidiaries will be supervised by the ECB. On the other hand, many parents banks, headquartered in Euro area countries, have a significant network of subsidiaries and branches in non-Eurozone countries, which are supervised by non-euro Authorities. Thus, for non-Eurozone countries, (especially for the UK), the option to opt-in the banking union, might limit the advantages (for example the "light – touch" supervision), linked with regulatory powers that host countries (particularly the case of the UK) have over the subsidiaries of foreign banks (Montanaro, 2016). Besides, a two speed supervision regime would disrupt the competitive neutrality.

Bankers and the UK officials were concerned that the proposed supervisory power assigned to the ECB, would affect the UK banking system, as many banks that have been headquartered in UK, have subsidiaries that will be directly supervised by the ECB. Analysts on the other hand, worry that international banks would prefer to establish headquarters in Eurozone, something that would harm the interests of the UK. Thus British Bankers Association, expresses worries about the future of the single market, while UK officials and the banking industry fear that the Eurozone will seize upon the crisis to dominate in global banking system, moving the European financial centre from London to the Eurozone. Although, George Osborn, the British Chancellor of the Exchequer and Second Lord of the treasury, states that access to the single market of financial services and the free movement of capital, may favour the UK financial-banking industry and the consumers as well, he argued that there is a need to modify the EU- Treaties to protect the rights of non-euro members in the single (Alina, LigiaDimitresku, 2014).

Further questions are raised concerning the UK "banking status quo" after UK people having decided the "Brexit". How the banking regulatory framework of either subsidiaries or branches of UK parent banks, located inside the Eurozone, or subsidiaries or branches of parent banks, headquartered in Eurozone countries, situated in UK, will be configured, after UK having abolished the EU membership. A further question concerns the role of the EBA and the potential relocation of the EU- financial centre from London to Frankfurt.

Summarising, although many reasons enhance the attractiveness of the banking union design for non-euro member states, two major problems limit its desirability for them (the non-euro-zone countries), to opt-in.

First, to the reasons, enhancing the banking union's attractiveness, count the fact that a single supervisor would imply lower costs for cross-border banking operations. Second, joining the banking union, would ensure a fiscal backstop function as last "resort", able to address a systemic banking crisis. However, as the process to create a common fiscal backstop is still in its infancy, the incentives to join the banking union are slight (Montanaro, 2016). To the factors, influencing the decision of non-euro zone countries to join the EBU, count also the dominant presence of foreign banks in candidate (opt-in) member states and the supervisory "quality" of a single European supervisor. The fact that some euro banks have a dominant presence in potential opt-in countries (could) push them to join the EBU (as shows the situation of Romania and Bulgaria). On the other hand, the presence of a single European supervisor, responsible for carrying out tough (and timeline) asset quality reviews, running stress tests on banks, and developing common definitions on "no performing exposures" and "debt forbearance, would help in verifying the quality of internal valuations of risk assets and the bank's robustness, thus reducing the domino effects of the crisis and the ensuing deposit "flight to safety" (Antonin et al, 2014, Noonan, 2015, Alina, LigiaDimitresku, 2014).

Finally, political factors may have an impact to the opt-in (or-out) decision of non-euro zone countries. Only, the discretionary power, usually allowed to national regulators and a certain degree of forbearance shown by national Governments may influence country's decisions to opt-out (Montanaro, 2016).

On the other hand, to the factors, limiting the EBU's desirability count the uncertainty about a political promise for a "credible European supervisory system", the unequal treatment of euro and non-euro countries in the SSM decision making process and the access to the ESM funds (Montanaro, 2016, J. Zettelmeyer, E. Berglöf, R. Haas, 2012).

VI. The financial safety net - The elements of the banking Union

As stated above, the roots of the ongoing financial crash was not only the interconnectedness of the risky transactions of the financial institutions and their funding interrelation with and via the banking sector, but also the concentration of real estate cycles within the monetary union, resulting in «housing boom" in Europe, especially in Spain. On the other hand, the ongoing fiscal deficits and the weaknesses of the EU governments to face the situation, led to excessive borrowing, which exacerbate the economic destability.

Thus, the only feasible solution would be the creation of a banking Union, with a common safety net, aiming to monitor the banking sector as a whole, particularly its risky cross – border financial transactions. As the crisis proved that the existing financial safety net was not adequate (Kalfaoglou 2014), the establishment of a banking union would constrain the negative effects of a systemic cross-border bank crisis and absorb in parallel the macroeconomic shocks (Gros, Schoenmaker, 2014).

Two major reasons prompted the establishment of a banking union with a common safety net: first, a macroeconomic and institutional in nature reason, related to systemic risk, second, the aspiration that a banking union design can break the "diabolic feedback loop" between banks and sovereigns (Gros, Schoenmaker, 2014).

Macroeconomic reasons, related to systemic risk, are macroeconomic imbalances. Macroeconomic imbalances, such as large account deficits or real estate bubbles, occurred in one country can have cascading effects on other countries. Such domino effects have also been triggered, due to the stance of national Governments which privileged national bank's interests to preserve the value of national banks, thusneglecting the impact of negative externalities of cross-border banking operations (Claessens et al., 2010, TurliucDragos D., and Popovici, Andreea N., 2013).

Another reason for which EU member states initiated the creation of the banking union with a common safety net, was to break the "diabolic feedback loop" between bank distress and sovereign defaults. The aftermath of the financial crisis, proved the dependence between the sovereign and bank credit risk. The creation of the three pillars of the banking union project aim to eliminate and/or mitigate the banks and sovereigns negative feedback loops (Constâncio, 2013).

Thus, the creation of a banking union would reconstruct a sounder and more stable financial safety net. The objective of a sounder safety net is to strengthen the economic stability and provide the proper incentives to national and EU- Regulators to take the necessary measures, to prevent banking contagion chains (Kalfaoglou, 2014). Proposals for a mixture of a sounder financial safety net made Gross (2012) He introduced the criteria for an ex- ante "loss allocation" following a bank crisis. According to him, the envisaged safety net shall satisfy seven criteria: the priority of "bail-in" rule towards the public support, the geographical extent of the safety net to the area covered by banks activities, the lowest cost of the resolution mechanism applied, the funding of the resolution and deposit guarantee schemes by ex-ante levies paid by banks, a fiscal backstop, a confidentiality clause concerning decision – making within the safety net and the accountability of the resolution and deposit guarantee systems (Gros, 2012).

The above criteria shall be accompanied by three building blocks, which constituted the precursor of the three pillars of the banking union project: a prudential supervision, a crisis management tool and a deposit insurance system: The prudential supervision, based on prudential requirements adopted by the Basel Committee, the supervision and a risk management tool for the banking sector. These mechanisms aim to improve the banks capacity to absorb shocks, enhancing banks' transparency and bank's disclosure obligations.

A drawback of the envisaged safety net, according to Scoenmaker's and Gros'sview (2012), is the fact that its implementation is "doomed" to run under «a veil of ignorance», which means that participating member states don't know a priori, where the losses will incur. However this problem can be attenuated, given that we could identify, based on the aftermath of the financial crisis, where, presumably, the crisis will hit again (Kalfaoglou, 2014).

Objective of the banking union design is the transfer of banking sector's "sovereignty", from national to supranational level, as an effort towards the de-politicisation of Europe. To achieve this, the EU-Leaders prompted a set of reforms to establish a new regulatory framework for financial sector. First, by building the single rulebook, to provide a single set of harmonised rules. The single rule book was the "backbone" of the banking union, the second reform initiated. The three pillars of the banking union, the SSM, the SRM and the DGSs aimed at the reconstruction of the EU – banking regulatory system. Bank supervision, delegated prior to this regulation to national authorities, will be entrusted to supranational authorities, ensuring consistent supervision in EU – banking sector. On the other hand, the SRM will be an effective tool for crisis management, assisted by a common system of Deposit insurance schemes and a fiscal backstop mechanism, the ESM. The ESM was established to serve as a permanent fiscal backstop, providing direct recapitalisation up to 60 billion EUR to banks in financial difficulties.

From the above five structural levels (single rule book, single supervisory mechanism, single resolution mechanism, deposit guarantee schemes, common fiscal backstopmechanism, the ESM), the first and the fifth actions are "supportive", while the second, third and fourth mechanisms, are the three building blocks, of which the former is preventive and the two latter are "remedial" (Kalfaoglou, 2014, Gros D., Scoenmaker D., 2014, COCRIŞ Vasile, ŢYRCANU Igor, PERCIC Stanislav, 2014).

According to this analysis, the supportive actions plan to build trust and commitment to the realisation of the envisaged project, while the objective of the preventive pillar is to diminish the risk and the intensity of bank crisis and that of the remedial pillars is to build a permanent "firewall" to ensure the viability of the banking system (SRM) and to protect the national public budget from bank's failure and depositors, purposes, which strengths the European solidarity (kalfaoglou, 2014, COCRIŞ Vasile, ŢYRCANU Igor, PERCIC Stanislav, 2014).

The banking union project includes three constituent elements:

a) A single supervisory mechanism, aiming the strict monitoring of the implication of the strict application of the prudential requirements enacted by the Directive (Bale III)

b) A cohesive plan for crisis management in the euro area, comprising recovery and resolution strategies and tools, in order to avert crises and to manage them in an early stage.

c) ADeposit guarantee scheme harmonising the national legislations concerning the depositor s protection, anticipating faster reimbursement of the depositors, better funding of deposit guarantee and mutual borrowing procedures (Bardu, Boitan 2013).

PART B

I. SINGLE SUPERVISORY MECHANISM

Ii. Negotiation phase on the SSM adoption - Preoccupations during the bargaining stage

The macroeconomic impact of the financial crisis differentiated the national strategies on the envisaged project of the European banking union. Various preoccupations with moral hazard, legal issues, even those regarding the degree of banking internationalisation, were expressed by member states in the core, especially Germany. Germany is the Eurozone member state with the largest economy, the largest banking system in total assets and the most stable economy in the whole EU, having the strongest financial and fiscal position. Thus, German policy –makers were reluctant to accept that Germany would be a net contributor country. They linked the EBU design, especially the SRM pattern with moral hazard preoccupations (Howarth D., Quaglia L. (2014, 2015).

The establishment of the ESM to save ailing banks is linked with moral hazard concerns, as banks will be more likely to be involved in risk-taking activities, in the knowledge that they will be salvaged in the event of a crisis. On the other hand, the creation of the SRM providing for a single resolution Fund, would create further moral hazard issues for both sovereigns and banks. German policy makers were concerned that the creation of a single EU- resolution Fund (and the rescue of struggling banks from it), would create «perverse» incentives for member states to be more lenient in regulation and supervision of banks. This might loosen the financial policy, especially the national fiscal politics. Fiscal implications and risk-

sharing of financial crises, being interrelated to moral hazard issues, explain the resistance of some core countries to accept the handover of national powers to pan European supervision authority (Montanaro, 2016). To limit moral hazard concerns, German Government insisted on the direct ECB supervision for the systemically significant banks and the bail-in rules, with EU- Fund as the last backplatform at EU level (Howarth D., Quaglia L. (2014, 2015).
Moreover, the reluctance of German policy makers to endorse the EBU design, can be explained by the configuration of the German banking system, i.e. the degree of its nationalisation (Geeroms H. and Karbownik, P., 2014), and of foreign bank penetration in its jurisdiction) and the percentage of total bank assets that are covered by the direct ECB supervision. Germany headquarters only one very big highly internationalised bank -the private Deutsche Bank – and a second big commercial bank with significant European presence, (being the only Banks, subjected to direct supervision by the ECB), all the other banks are nationally held, the Sparkassen. Thus, we would expect less incentives for German policy makers in establishing the banking Union, particularly and less support, regarding the creation of the SRM pattern. Therefore, only the two large commercial banks (the Deutsche Bank and Commerzbank) advocated the creation of the SSM, while Sparkaseen and other Landes- and regional banks objected the SSM project.
Besides, Germany being a solvent and financially robust state, would not be in need to bail-out its banks. On the other hand, Sparkassen directors asserted that home regulators had the expertise and better knowledge of the specific features and the configuration of German banking system and banking operations. Thus, the handover of supervision and regulation to the EU institutions was unacceptable (Howarth D., Quaglia L. (2014, 2015).
The national preferences of the French Government were directed towards the support of the SSM, due to the configuration of the French banking system, the preoccupation that a higher rate of French banks will be subjected to the ECB supervision, lastly because of their exposure, especially concerning the mass retail banking, (the greatest than any other EE member states) to the euro periphery banking systems and foreign bank penetration via subsidiaries in other member states.
Thus, the extent of internationalisation of French banking system, can explain the French Government's interest to support the SSM, pushing for a forceful involvement of the ECB in the supervisory commission of the EBU, to ensure financial stability in the whole EU. In parallel the French Government expressed preoccupations, concerning the unequal

supervisory treatment of different bank ranks in total assets (Howarth D., Quaglia L. (2014, 2015).
Concerning the political stance of the UK, it is to mention that euro outsiders do not face the financial trillema, as they retain their currency and their financial policies. Second, the criterion of foreign bank penetration, shaped the national preferences of these countries (Howarth D., Quaglia L. (2014, 2015).
The strategy of the UK Government to object the participation in the SSM is justified by the rank of foreign bank's penetration in its banking system. Although UK banks are highly internationalised and well – capitalised, the fact that the foreign banks penetration, in retail banking was limited, pushed UK to refuse the participation in the SSM, to avoid the ECB direct supervision of its retail bank assets, amounting to over 90 percent. Another reason, explaining the UK refusal to join the SSM, was the limited bank exposure to the euro periphery. However, the UK Government advocated the BU project and the SSM pattern (for the euro area banks), as most UK banks were exposed to the potential financial instability due to internationalised banking operations. Hence, participating in the SSM, would be a mean to address the ongoing sovereign debt crisis and thus to ensure financial stability (Howarth D., Quaglia L. (2014, 2015).
As stated above the EBA is entrusted to coordinate all the national supervisors, aiming to avoid differences in the application of the common regulation rules. However, although, the EBA's tasks are distinct to those of the SSM (ECB), the fact that both have wide regulatory powers does not rule out possible regulatory ambiguities. After the adoption of the SSM, the EBA's role to develop regulatory standards, issuing guidelines and recommendations has been strengthened. According to the SSM regulation, the ECB shall adopt the standards developed by the EBA, however, it is bound by the binding EBA's rules and decisions (Montanaro, 2016).
Even if the creation of the SSM, will not change the assignments of tasks to the EBA nor its mission and structure, it will upset the balance of power between the EBA and the ECB (the SSM function), as the SSM will replace all the national supervisors, taking over the responsibility to monitor directly or indirectly all the Eurozone banks, participating in the SSM. This implies that the ECB (the SSM) would exert strong (supra) political pressure to the EBA's decisions, thus «diluting» the influence of non-Eurozone countries, notably of the United Kingdom (Gros, Schoenmaker, 2014). This balance disruption between the regulatory tasks entrusted to the ECB (SSM) and those given to the EBA may set aside the EBA's role.

As stated above, EBA is entrusted with the implementation of the rules contained in the single rulebook, being responsible for the banking regulation of the entire EU, while the ECB is responsible for monitoring the Eurozone banks and those presumably joining the EBU. However, the fact that the ECB as supervisor will have a crucial role in the regulation of the single market, the EBA's responsibility to reduce fragmentation in the single market, will be side-lined (Sarcinelli, 2013).

This balance disruption between the ECB and the EBA becomes particularly serious due to the different "representation and voice rights" that non-euro countries have in the governing committees and the decision-making procedures of the two Bodies (Howart, D., QuagIia, L., 2013, Montanaro, 2016). That is why, the political stance of the UK Government and the fully aligning position of British banks aimed to stave off a potential euro area block within the single market. It worried not only that the adoption of further legislative acts would put at stake the British financial system, but also it similarly feared that a euro area majority in the EBA meetings could impose its rules on the euro outsiders, reason for which they demanded a voting reform: the approval of any decision by a number of member states outside the banking union and a double majority of member states both inside and outside the Banking Union (Montanaro, 2016, Howarth D., Quaglia L. (2013, 2014, 2015), Gros, Schoenmaker, 2014).

Similarly the decision of the Swedish government to refuse opting in the EBU, builds on the idea that the greatest range of banks assets would be covered by the ECB supervision commission, due to the high degree of concentration of its banking sector. On the other hand, the fact that the foreign bank penetration and the exposure to euro periphery transactions, was limited, led Sweden to object participation in the SSM (Howarth D., Quaglia L. (2013, 2014, 2015).

Denmark's political stance towards the EBU participations, is explained due to the limited foreign bank penetration and the lower degree of internationalisation of its banking system. Although Denmark is an opt-out player, it maintains a "wait and see" attitude (Howarth D., Quaglia L. (2013, 2014, 2015).

Central and Eastern European Member states, presenting a high degree of foreign banks penetration, supported the view, that opting out the SSM would have detrimental effects on their home banks, as depositors withdrew their accounts to banks headquartered in BU countries. Romania, Bulgaria, accepted the SSM participation, due to the high degree of foreign bank penetration (Howarth D., Quaglia L. (2014, 2015). Latvia and Lithuania would have less interest to participate in the SSM, as their banking industry is dominated by subsidiaries of Swedish banks. However, their declaration to enter the euro area in 2014, forced the Latvia Government to accept the SSM pattern and the Lithuania Government to adhere to the SSM and the EBU design (Howarth D., Quaglia L. (2013, 2014, 2015).

Three other CEEC (Hungary, Poland and Czech Republic) clarified their intention not to opt-in the SSM/EBU. For the two first, the reason was the low foreign bank penetration in their banking industry, while for the third, the preferences to opt –out the SSM, were formed due to their scepticism to enter the euro area. Besides for both countries, the participation in the euro area was a long-way stage. During the negotiations to formulate the EBU operations, there were put on the table two more problematics, pushing or restraining euro area outsiders from participating in the SSM: the participation in the SSM, would ensure a sound prudential basis in the global banking industry, strengthening stability and credibility in the single market. On the other hand, concerned voices criticised the "second class-status" of non –euro member states, disposing limited voting powers, compared to those of euro member states (Howarth D., Quaglia L. (2013,2014, 2015).

Iii.The framework of the Single Supervisory Mechanism

In the past decade and even earlier, supervisory powers had been entrusted to national authorities (Montanaro, 2016), which had the fully discretion to implement better the banking regulatory framework, according the EU law, based on their "idionsyncratic" banking profile iind their specificities/priorities of their economic orientation.

This situation creates divergent regulatory policies in the EU, increasing the uncertainty in financial system and feeding the regulatory arbitrage to the detriment of competitiveness in EU area (Kalfaoglou, 2014). The establishment of numerous financial institutions in the wide Euro-area, operating various complex transactions especially via cross – border bank groups, i.e. branches or subsidiaries, located in other member states from that of parent companies pushed the creation of a single supervisory mechanism. In such cases, the parent company is subject to the supervisory framework of the home country, while their branches or subsidiaries are subject to the supervisory power of the host country. As a consequence, the supervisory mechanisms differ each other significantly, influencing negatively the competitiveness and causing imbalances in financial sector. The divergent supervisory mechanisms generate negative externalities, linked with cross-border banking activities, thus, jeopardising the equilibrium in financial system and the EU- economy. The rising threats to the European economy, demanded effective measures.

On the other hand cooperation between national authorities lacked, in crisis periods, as matters of governments accountability and the associated issue of tax burden sharing.

The negatives impacts on the financial integration, forced the leaders of the EU to propose a new regulatory framework, to address ring - fencing and fragmentation. The adoption of the legislative measures will mark a more resilient, transparent and efficient banking system, reducing in parallel, the cost of regulatory compliance, due to the uniform rules (kalfaoglou, 2014). A new uniform regulatory framework will ensure a supervisory culture and thus a transparent and level “playing field” with positive effects on competition and averting action against county bias and national regulatory capture (Kalfaoglou, 2014, Goodhart, 2012).

A single supervisory mechanism at EU – level, will reinforce the cooperation and coordination between home and host countries (Kalfaoglou, 2014). The “light – touch” supervision applied by some EU countries, for instance the UK, was seen by other more “conservative” countries, such as Italy and Spain, rather as an effort to maintain competitive advantages, than a real threat to the EU-financial stability.). On the other hand, the aim of an efficient supervision is not to prevent any risk-taking bank activities, but rather to balance the correlation of risk and reward for the private sector.

The most important headway of the regulatory reconstruction of the banking union is the establishment of the SSM.

The Supervisory mechanism would minimise the disruptions for cross – border credit, benefiting the level playing – field for cross – border transactions (Neyer, U. und Vieten, T., 2013, Kalfaoglou, 2014). According to Colliard, the necessity to establish an optimal supervisory model, is dependent on three factors: “the severity of the conflict of objectives between the supranational and national authorities, the opacity of the supervised bank and the specificity of its asset. The greater the severity of the objectives’ conflict and/or the lower the specificity of assets, the more a supranational authority is needed”. Adversely, a national authority shall be entrusted in tasks, in case a bank is opaque, because of its complex structure (complex balance sheet accounts, specificity of assets) and/or multifaceted financial services. The reason, why in such a case national authorities are the most appropriate is the fact that they the expertise and the knowledge of their idiosyncratic banking system.

Concerning the supervisory body, there were three options on the table: to assign the supervisory powers to the European central Bank (ECB), to confer these to the already existed European Banking Authority (EBA) or to give them to a new established entity. The third opinion was rejected due to practical reasons, namely due to the fact that the establishment of a new entity required time and eventually a further political decision and a required recording costs in the budget, while the second one was abandoned due to political reasons, as the EBA, is located in London. On the other hand, the choice to delegate the ECB with supervisory powers, was palatable as the ECB is the Lender of Last Resort, delegated to provide liquidity to banks. Additionally, ECB has better expertise (Pisani et al., 2012, Jean Tirole, 2014) and accurate information not only about market conditions but also liquidity ratios of banks, thus being able to assess the liquidity needs of banks (Pisani et al., 2012). These advantages of the ECB, persuaded the EU-leaders to assign the supervisory powers to the ECB.

Thus, the ECB, was endowed with supervisory powers, to monitor he implementation of the uniform rules of the rule book, the prudential requirements defined in the Regulation 575/2013, (developed by the Basel Committee on Banking Supervision) and the micro-prudential and macro-prudential supervision at the EU- level.

Iiii. A two-tier supervisory system

The regulation introduces a two-tier supervisory system, between a centralised and decentralised forces (Cristian de Boissieu, 2013). According to this twofold system, the ECB, assigned by centralisation forces (EU-institutions) to supervise the large banks in the EU-area, while smaller ones will be monitored by the national competent authorities, delegated by decentralised forces (national governments).

The “financial industry lobbying” adopted the idea to move from decentralised supervisory models to an EU-centralised supervisory authority has been adopted,as it would not only foster the market integration, but it wouldalso eliminate burdensome costs, (especially concerning the cross-border banking groups)reducing in parallel risks of an “unlevelled playing field”. On the other hand, focusing on large systemic banks, would reduce the ECB’s operational costs, as it would avoid to be involved in the time-consuming supervision of smaller national banks, which required financial and human resources (Bardu, Boitan, 2013). The establishment of an EU- centralised supervisory authority would eliminate the inconsistency between the EU-wide market size and the limited national supervisory power (Montanaro, 2016).

Concerning the scope of the SSM-regulation, it will apply to member states, whose currency is the euro and to non-Euro-zone member states, whose national competent authorities have established a close cooperation with the ECB. Additionally, the ECB will have the right to intervene, when necessary to ensure consistent application of high supervisory standards, (after consulting with national competent authorities or upon request by a national authority), to exercise directly all the relevant (supervisory) powers. National authorities will offer on the other hand, assistance to the ECB, when needed, maintaining responsibility in the area of consumer protection and the fight against the money laundering.
The length of the ECB's supervisory powers, is defined in the art. 4 of the SSM-Regulation. . Under the supervisory umbrella of the ECB fallen the systematically important banks, established in participating member states and the banks of those member states that are willing to opt in the bank union. The significance shall be assessed based on threecriteria: the size of the bank, with the total value of its assets to exceed 30 billion or 20 % of the national GDB, unless it (the total value of its assets) is below 5 billion,its importance for the economy of the Union or any participating member states and the significance for cross – border activities. The ECB may also, on its own initiative, consider a credit institution as significant in case it has established subsidiaries in more than one member states and its cross-border assets or liabilities represent a significant part of its total assets and liabilities, while not less significant shall be considered those institutions that have requested or received directly public financial support from the EFSF or the ESM.
The ECB is entrusted with certain tasks, regarding the prudential supervision of credit institutions, established in member states of the euro area. It is responsible to grant and withdraw authorisation, give permission to mergers and acquisitions and ensure compliance with the Basel capital requirements.
On the other hand, national competent authorities continue to exist, exercising supervisory powers to smaller banks, offering their expertise and knowledge based on the idiosyncratic structure and/or organisation of smaller national banks. This clear – cut split of labour between ECB and national authorities guarantees a fruitful supervision (Cristian de Boissieu, 2013).
Further criteria to be taken into account for determining the scope of the banking union, should be the need to limit the information asymmetries between the European and national supervisory authorities, to ensure an adequate level of risk-coverage, and to diminish competitive distortions and deregulation (Pisani et al., 2012, Dermine, J., 2016).

In the EU-area there are approximately 8200 banks, while in euro area 6000 banks. About 130 of them are characterised as "significant" ("systemic"), which are subject to the ECB's supervision. These banks represent a market share at approximately 80 to 85 % of bank assets in the euro-area. As said above, the criteria for a bank to be characterised as significant or systemic are the size, the interconnexions with other (multinational-) banks, and the extent of potential externalities. Although the size criterion may lead to some "competence overlapping" and competition between the "centre" and "periphery", however does not construe the meaning that national authorities will not continue to watch over their banks, or that ECB will neglect the supervision of smaller banks (Cristian de Boissieu, 2013). There must be a conducive division of tasks and an expedient cooperation and tasks' coordination between all the involved authorities.

Concerning the coordination problems, two issues have to be discussed: the cooperation between the ECB and NCAs, regarding the functioning of SSM, and the conflict of competences between ECB and other existing bodies to which have been assigned specific tasks relating to prudential policies.

The first issue raised, questions the balance between the centralisation forces assigning the ECB tasks to supervise the larger EU-banks and decentralisation forces, delegating to national competent authorities to police smaller and medium-sized banks, due to their privileged access to local information (proximity aspect from a geographic, cultural and political point of view) (Cristian de Boissieu, 2013, Antonin et al, 2014.5).

According to Basel II and III, both decision-making centres, (centralised and decentralised), having a "referee function" to assess internal model's quality used by banks, shall cooperate in a way, to safeguard an optimum degree of supervision within the SSM. Thus, they will eliminate any competitive distortion, ensuring a level playing field (Cristian de Boissieu, 2013).

The second issue relates to potential conflict between ECB, (being in charge of macro-prudential policy and micro-prudential instruments utilised for macro-prudential purposes) and other existing bodies, also in charge of exercising prudential regulatory tasks.

In this regard, it is questioned the role of the ESRB (European Systemic Risk Board) and the role of the EBA in EBU plan. As far as the responsibilities of the ESRB are concerned, ESRB is an institution, in charge of macro-prudential supervision. The creation of the EBA aimed the coordination of all national supervisor's operations, to ensure that the internal market in banking sector won't be distorted by divergences in the application of the common regulation rules (Gros, D., Schoenmaer D., 2014). The EBA is also entrusted to identify, monitor and issue recommendations or warnings about systemic risks to the stability and integrity of the EU financial system. In this sense it has a similar role as the ECBs signalling function for banks failures. However, it does not have any executive power, or impact on the decision-making process. On the other hand, is debatable, what will be the role of EBA, after the complete implementation of the EBU. EBA is entrusted to preserve financial stability in the EU-area and guarantee the integrity, market- efficiency and orderly functioning of the banking system. Its overall tasks are to ensure an expedient, efficient and unified European supervision and regulation.

In the pallet of these tasks, its main duty is to contribute, through the adoption of Binding Technical Standards and Guidelines, to the creation of the European Single Rulebook in banking. EBA will continue to conduct stress tests in cooperation with the ECB ant the NCAs. After the transition period, EBA will have to adjust its prudential policies to the new institutional-regulatory framework.

Furthermore, it is questionable -in my view- what the institutional role of the EBA will be after Brexit, as not only its “head office” shall be transferred in another member state of the EU or the euro-zone, but also its structure and its body shall be respectively changed.

Thus, a stronger cooperation in supervisory aspects between the EBA and the ECB is needed. The new EBA regulation (2012/512 final) regulates the supervisory cooperation between these two institutions. As specific tasks concerning policies relating to prudential supervision of credit institutions, are assigned to these two European institutions, (EBA and the ECB), the new regulation shall ensure a balance between member states, of the euro and those outside the euro, in the decision making proceedings before EBA (Breuss, Fritz, 2013).

Furthermore, questionable is the relationship between EBA as ESRB. As both bodies have a role to issue guidelines for national macro-prudential authorities, while they have a legal responsibility for macro-prudential oversight, ensuring the integrity of financial system (Breuss, Fritz, 2013).

These “multi-layered responsibilities” of all the above EU-institutions, pose the question of an efficient and consistent cooperation and coordination between them, towards the common target: the creation and maintenance of the financial stability of internal market. The response to this question presupposes a further approach about the “best incentive structure” to achieve the goals, put by European and national policy-makes (Cristian de Boissieu, 2013).

A heated discussion on this topic is awaited at national and European level.

Before the fully assignment of the supervisory powers to the ECB, it conducted a comprehensive assessment, comprised in the "founding act" of the SSM" with the objective, to reinforce transparency concerning the quality of the information about banks profile, to restructure bank's balance sheets requiring remedial action, where needed and to build confidence (Kalfaoglou, 2014).

Iiv. Organisational principles of the ECB's supervisory function – Synergies and conflicts

The ECB shall carry out the entrusted to it supervisory tasks within the SSM, composed of the ECB and national competent authorities. The SSM is the supranational Authority, through which the ECB will exercise its supervisory function. The advantage from this institutional interface, is that the SSM will benefit from the independence and the world-wide reputation and credibility of the ECB.

According to the art. 19 of the SSM-Regulation, the ECB and the national competent authorities shall act (within the SSM) independently and objectively in the interest of the Union as a whole, when conducting the tasks assigned to them. They shall neither seek nor take instructions from the institutions or bodies of the Union, from any government of a Member State or from any other public or private body.

A strong commitment of EU-Institutions and national Governments or lobbies to the ECB's independence, (exercising its supervisory mission), would be a vital condition to achieve its supervisory function (Neyer, U. und Vieten, T., 2013). Thus, the independence and the "distance" from national supervisory authorities make ECB's mission more credible (Speyer, B., 2012). Third, the ECB has a comparative advantage in collecting micro-economic information about banks profile and risks, owning to the implementation of unconventional monetary policy instruments (Pollin, J., P., 2013, Cristian de Boissieu, 2013, Pisani et al., 2012).

The new tasks entrusted to the ECB pose mayor challenges for its new dual role as the guardian of price stability and single bank's supervisor. These two functions are closely interconnected, as Central Banks provide liquidity to banks in times of crises and at the same time is called to execute supervisory tasks (Avaro, M., Sterdyniac, H., 2014).

The interconnectedness of these two policies may give rise to both synergies (interactions) and conflicts of interests between these two roles, a certain degree of trade-offs between monetary and prudential policies, particularly, in order to maximise effectiveness of both policies, is required.

As stated the ECB President Draghi (2012) ... *"stronger supervision facilitates the conduct of monetary policy"*. Bank credit channel plays a crucial role in transmitting impulses to the real economy. A robust and resilient banking system will make more homogeneous the transmission mechanism of the monetary policy. This will ensure a smooth transmission of monetary policy, thus favouring the pursuit of its main goal, the price stability (Constâncio, 2013) through efficient banking supervision.

Another positive synergy between themonetary policy and supervisory function, is the collection, exchange and evaluation of financial information (Neyer, U. und Vieten, T., 2013).

Information sharing between them, ensures a better performance of both monetary and supervision policy (Darvas and Merler, 2013). Thus, by using financial information, ECB could decide which banks are solvent but illiquid and which are insolvent, which is crucial for it function a Lender of Last Resort (Darvas and Merler, 2013). Additionally, the exercise of monetary and supervision policy by a single EU- Institution (the ECB), will help to be taken into account potential dependencies in monetary and supervision decision-making process and relevant measures to be better coordinated (Couré, B., 2013).

On the other hand, the interaction of these two functions might confuse their responsibilities, thus affecting their effectiveness. The supervisory board is responsible to carry out preparatory work, regarding the supervisory tasks, entrusted to the ECB. It cannot, however, take supervisory decisions. Such decisions can take only the ECB Governing Council. In case there are disagreements between these two boards, a dispute resolution board (mediation body) should be called upon to settle the dispute. Thus, in the establishment of a supervisory decision might three organs be involved: the supervisory body, the ECB governing council and the dispute resolution board. This, would confuse the responsibility framework of the engaged organs and complicate the supervisory decisions process, which is problematic, as in times of crises must be taken swiftly (Lautenschläger, 2013).

From the above analysis, comes out that both the monetary and supervisory policy are exercised by the same management board, the ECB governing Council (Neyer, U., and Vieten T., 2013, Dietz, M., 2014).

Given thatthe interconnection of the monetary and supervisory authorities and the potential confusion of their responsibilities, which might render inefficient the conduct of both monetary and supervisory powers, the SSM- Regulation establishes in its art. 25 “Chinese walls” between monetary policy and supervision tasks.

According to the art. 25 of the SSM-regulation, the ECB, when conducting its supervisory tasks shall pursue only the objectives set by the SSM-Regulation. Moreover, the staff, involved, to carry out supervisory tasks, conferred to the ECB, shall be organisationally separated from the staff engaged to conduct other tasks conferred to it. Additionally the function of the Governing Council shall be differentiated, in a way that meetings and agendas related to these two distinct functions, shall be strictly separated (Neyer U., and Vieten T., 2013, Dietz, M., 2014).

The main argument,justifying this organisational separation, is that it would smooth out the conflicts of interestsbetween the two pursued objectives, pursued by the same institution (the ECB), the price stability, on the one hand, and the banking supervisory function, on the other hand. Banking supervision must not endanger the trust in the single currency (Meister, M., 2015). As stated above, giving supervisory powers to the ECB, may have a positive impact in the conduct of monetary policy. Banking supervision might improve the ECB’s “capacity” to earlier detect variable indicators, predicting the deterioration of macroeconomic conditions, thus severing potential financial crisis. Thus a strong supervision will help the ECB to conduct more effectively the monetary policy (Peek et al, 1999). However, the pursuit of the one policy, may render ineffective the conduct of the other (and vice versa). For example,the effectively conduct of monetary policy, for instance, an increase in interest rates, considered as necessary to ensure price stability, would have at the same time, a critical impact on the balance sheets of (failing) banks and other financial agents (Goodhart, 2000, Speyer, B., 2012, Darvas and Merler, 2013, Neyer U., and Vieten T., 2013, Breuss, F., 2013, Polli, J., P., 2013, Kalfaoglou, 2014). A deterioration in the bank’s balance sheets correlates, would increase bank’s fragility in the market, thus endangering banking system’s stability (Cristian de Boissieu, 2013, 2014). In such a case, the ECB should abstain from increasing the interest rates, to achieve its supervisory goals (Neyer U., and Vieten T., 2013).

A further conflict of interest (between monetary and supervisory policy) might arise when the pursuit of the supervisory objective required an increase in capital requirements, which in turn could hinder the effectiveness of monetary transmission channels. In this case, a necessary increase in capital buffer should be omitted, as it could affect the transmission mechanism of the monetary policy (Neyer U., and Vieten T., 2013).

Another potential conflict may arise from the interaction of the bodies of these two institutions (Cristian de Boissieu, 2013). Given that some overlapping in the membership of the two bodies, will be unavoidable, a full separation between them, so as the Governing council would be an observer at the supervisory Board, without voting rights (and vice versa) would be necessary.

If the ECB is responsible to monitor banks and banks fail, this might affect negatively the public's "perception" of its credibility (Ioannidou, 2012).On the other hand a bad synchronisation in terms of measures taken, between these two policies, may put in doubt the reputation of the ECB, creating a negative impact on the credibility of the ECB's monetary policy conduct (Ioannidou, 2012). This, as the implementation of the monetary policy is much stricter, than respective measures in the framework of the supervisory policy, where forbearance is sometimes necessary (Kalfaoglou, 2014). Finally, potential supervisory failures may have negative impact on the reputation of the ECB (Speyer, B., 2012, Neyer U., and Vieten T., 2013, Darvas and Merler, 2013).

Further conflicts of interests with national authorities may arise from the ECB's conduct of supervisory policy. The ECB exercises a more severe supervisory policy, than the one applied by national authorities. National authorities usually show a greater leniency and regulatory forbearance, supervising their banks. On the other hand, the minimum harmonisation aimed by the EU legislation, allowed a wide array of discretion and broad flexibility to national regulators, thus creating incentives for loose supervision and forbearance (Montanaro, 2016). However, national preferences cannot be easily overlooked. Thus, interest conflicts, may lead to political and financial disruptions about the ECB's role in co-exercising the common monetary and the single supervisory policy, something that can harm its reputation (Speyer, B., 2012).

Finally, potential conflictswith national authorities, interrelated with the supervisory function of the ECB, may arise if the ECB underestimates the indicators and variables indexing the resilience of a bank, thus deciding to solve it instead to save it. Another conflict might arise in case the ECB (responsible to signal struggling banks) underrates or overrates the risk profile of a bank, enabling a bank to take too much risk. In such a case, national authorities would have the right to complain about the payment costs of the misjudges of the ECB. The only way to avoid the potential conflicts, is to transfer the resolution and deposit insurance to the Eurozone level, ensuring the needed alignment of responsibilities (Gros, D., Schoenmaker, D., 2014).

Concluding, should synergies lead to positive outcomes, both missions could be entrusted to the same body. Should this not happen, the different tasks two distinct bodies should be performed by different bodies (Kalfaoglou, 2014).

Ioannidou (2012), concludes, that the accommodation of these two functions under the same institution (the ECB), will have cross-effects form one function to the other. These conflicts, being unavoidable, seem not to be eliminated by institutional rearrangements.

Iv. Insufficiencies of the SSM

As stated above, the ECB (SSM) is entrusted to monitor the significant ("systemic") banks, while smaller banks will be policed by national supervisors. A major problem would be the differences between the SSM standards and the practices of the national banking supervisors, especially with regard to sanctions imposed in case of noncompliance with regulatory standards. This might lead to uneven treatment of individual banks (Beldowsky J., Slomka-Golebiowska, A., 2016).

A further shortcoming of the SSM, might arise from the scope of the SSM, limited to significant bank (-groups). The assignment of specific (supervisory) tasks (regarding smaller banks) to national supervisory authorities, will result in different levels of control and responsibility. In this context Neyer and Vieten (2013) speak of an "erosion risk" of the ECB's independence ("die GefahreinerAushölungihrerUnabhängigkeit"). For instance, if the ECB demands the resolution of a bank, it is possible, that national Governments will increase the pressure on the ECB (Speyer, B., 2012) to use monetary policy instruments for fiscal tasks, in case, a bank resolution will place a burden on the state budget (Neyer und Vieten 2013). In this sense, Remsperger (2013) speaks of the danger, to be caught the monetary policy in the "vortex" of fiscal policy (…"in das Schlepptau der Fiskalpolitik"…).

On the other hand, there are concerns that the ECB may pay little attention to the supervision of smaller banks, if its mission is limited to supervise only the systemic large banks. The assignment of smaller banks' supervision to national authorities might not reduce the danger of a further financial crises, as potential negative externalities of those banks might fuel the financial instability.According to the Supervision Regulation, ECB will monitor the large systemic banks and potentially intervene if necessary exercising (corrective) supervisory powers to smaller banks. However the fact that in principle national supervisors are in charge of monitoring smaller local banks and the ECB may intervene in a second phase does not fully resolve the problem (Zettelmeyer et al., 2012).

Another imperfection of the SSM mechanism, is the lack of its democratic legitimacy. The SSM's powers result in an "abdication" of parliamentary control, which poses the normative question of its democratic legitimacy. For instance, a decision to shut down a struggling bank, would interfere with (private) property rights. This is why, an expansion of the ECB's powers should involve a stricter democratic control (Pollin, J., P., 2013). It is therefore necessary to be given to participating member states the possibility to legally defend against such interferences (Speyer, B., 2012, Neyer, U., Vieten, T., 2013). This problem point out Eriksson (2013) and Speyer (2012), who implyparticipating member states should be given a right to initiate legal actions before the Court of Justice, according to the art. 263 of TFUE. According to Gross' opinion (2012), he reason why, the SSM-Regulation does not provide any legal proceedings, to control the ECB's (supervisory) decisions, is to preserve its independence.

The lack of a direct parliamentary control mitigates the SSM-Regulation, by providing a multi-layer accountability framework, regarding the ECB's supervisory tasks. It foresees (in art. 20) that the ECB (its supervisory Board) shall be accountable to the European Parliament and to the Council for the implementation of the SSM-Regulation. Additionally, the ECB shall submit annual reports, to the European Parliament, to the Council, to the Commission and to the euro Group, on the execution of the tasks, assigned to it by this Regulation, including information on the structure and amount of the supervisory fees.

Montanaro (2016) on the other hand, sees a mismatch between supervisory powers transferred to the ECB and the fiscal implications of the supervisory decisions. Although, national authorities of host countries won't be responsible to monitor domestic banks, however they will bear the fiscal and stability costs resulting from potential supervisory failures.

Fianally, to the insufficiencies of SSM counts also its institutional-organisational complexity. The coexistence of ECB with other institutions, national and European, may be problematic (Sarcinelli, 2013).

The ECB performs its tasks assisted by a multi-layer regime of agencies: the ESA (European Supervisory Authorities), the ESRB (European Systemic Risk Board) and Eurozone's and non-Eurozone national supervisors, who sit on the European System of Financial Supervision

(ESFS). Finally the ECB cooperates with EFSF and ESM, two organisations, entrusted to provide financial support.
On the other hand, the cooperation between the ECB and Eurozone national supervisors would be problematic, as national supervisors would continue to show forbearance, while monitoring smaller banks. Extremely problematic, on the other hand, would be the cooperation between the ECB and non-Euro-zone states. As non-Eurozone states are not obliged to cooperate with the ECB, it would be a long shot for the ECB to develop a single supervisory plan, in which to adhere non-Eurozone member states (Sarcinelli, 2013).
These multi -faceted regime may weaken the transparency and effectiveness of the banking supervision. Besides the responsibilities of some organs overlap, which further complicates the situation (Beldowsky J., Slomka-Golebiowska, A., 2016).

II. SINGLE RESOLUTION MECHANISM

IIi. Negotiations stage on the SRM

As stated above, the EU banking Union design was the most remarkable transfer of sovereignty to the European level, after the transfer of the monetary policy from national to supranational level. Tough negotiation took place as regards the legal foundation and institutional boundaries of the SRM.
Although the SSM was widely accepted by the EU-Member states, as a major “milestone” on the road to consistent supervisory practices, the establishment of a single resolution mechanism with a common European resolution Fund, seems to be a long - term aspirational goal. According to Breuss (2012) opinion, the “Europeanization” of the Resolution Fund, seems to be “Zukunftmusik”, as this step required a Treaty change.
During the negotiations for the establishment of the SRM, the EU-Leaders had to master several problems concerning “Europeanization” of the SRM pattern. The negotiations phase revealed domestic preferences, aspirations, desires, pursuits, expectations and tactical retreat policies, of the involved member states.
After the he blueprint of the SRM Regulations has been published, the representatives of the member states involved, began to make remarks and critics on the regulation draft. Under the SRM roof are housed two distinct institutions: the SRB and the SRF. After the ECB (the SSM) having signalled banks in troubles, the SRB in close cooperation with national

resolution authorities, will be responsible to take the decisions for a bank to be resolved. National authorities retain some kind of responsibility for exercising resolution actions under the supervision of the SRM. According to the Commission's proposal, the SRM shouldn't have the authority to take the resolution decision, as this is prohibited by the Treaty. Only EU institutions have the right to take such decision at EU level (European Commission, 2014).

However representatives of the member states challenged the multifaceted design of the SRM design. Some supported the view that it failed to create a real single resolution agency, assigned with specific commissions, which required the Treaty change. This led to splitting of responsibilities between responsible authorities. The SRB was entrusted to draw up resolution plans in a former stage, while the national authorities are delegated to implement them. The SRM works out the resolution plans, after having received signals by the ECB/SSM that a bank faces financial difficulties. The ECB's decision and its collaboration with national supervisory authorities constitute a further layer in the resolution process (Deloitte, 2013). This 'multi-layered scheme will make the SRM insufficient, as lags in the resolution procedure may trigger cross-border contagion effects. Michel Barnier shared this opinion, stressing the need to build 'a single system and not a multi storey intergovernmental network' (The Telegraph, 18 December, 2013). On the other hand, VitorConstâncio, a member of the executive Board of the ECB, expressed the ECB's concern, that the markets would find the proposed resolution mechanism incredible, as it is too complex and engaged too many policy- makers to deal swiftly with a crisis management (ECB, 2012).

For other observers, the Regulation proposal gave overpowers to the commission to decide whether to initiate a resolution or not. German government challenged the commission's proposal, that it "overstepped its authority" and a Treaty change is required to legalise such powers (Breuss, F., 2013, Howarth D., Quaglia L. (2014, 2015).

IIii. The institutional framework of the BRRD

The BRRD Directive aims the approximation of the provisions laid down by national laws, regulations or administrative actions", concerning the recovery and resolution planning of credit institutions, being on the edge of a failure. It provides the institutional framework for the adoption of both preventive (recovery) and corrective/remedial (resolution) measures. Preventive measures are to be taken, at an earlier stage, in terms of an ex- ante analysis of the economic situation of banks, i.e. before any difficulties arise, while corrective measures shall be taken after the troubles having occurred, in the context of an ex post evaluation of the situation and in relation to the imminent threats to the financial stability of banking sector.

The Directive introduces the concept of "living will", motivating the bank's "will" to remain "living" ("alive"), presumably in a smaller scheme or a different business model or structure, implying in parallel their expressed intentions to implement the required resolution procedures and tools. This will materialize two constituents: the necessary actions that ensure the sustainability of banks (going concern basis) and the needed measures to (the) bank resolution (Kalfaoglou, 2014).

The directive's provisions specify two distinct plans: recovery ("preventive contingency", Breuss, Fritz, 2013) plans and resolution ("last wills, Breuss, Fritz, 2013") plans. Recovery and resolution plans serve the funding coverage cost of recovery and/or resolution plans for a failing credit institution. The recovery plan, comes first, and aims to avert the activation of the resolution plans, while the resolution plan intervene, if the recovery plan cannot be implemented. While the recovery plan targets to forestall any (preventive) intervention by national authorities, the resolution plan aims to mitigate the cost of this intervention. The introduction of these two plans aims to motivate from an earlier time the increase of discipline in banking sector and eliminate moral hazard behaviours. As the recovery or resolution mechanisms are specified, at an earlier stage, prior any intervention, banks know from that earlier stage, their fate, in case they don't comply with the prudential requirements, stipulated in the EU - legislation (Kalfaoglou, 2014).

Recovery and resolution plans constitute risk management tools. According to the BRR Directive's provisions credit institutions, subject to direct supervision by the European Central Bank pursuant to Article 6(4) of Regulation (EU) No 1024/2013 or having a significant share in the financial system of a Member State shall draw up from an earlier stage, their own recovery plans, to handle financial distress and liquidity problems. Those plans comprise restructuring of balance sheets, recapitalisation by markets, deleveraging or liquidity injections (Kalfaoglou, 2014). Finally, recovery plans are to be implemented "segregated" in individual entities in a bank group or at group level (Breuss, Fritz, 2013). Thus, a recovery or a resolution plan implemented only at individual banks, would leave intact group banks and vice versa (Breuss, Fritz, 2013, Kalfaoglou 2014).

For preparing recovery plans, banks use specific "recovery indicators", functioning as triggers. These triggers are intrinsic in bank's risk management and/or its capital adequacy, showing the bank's profile and thus considering their solvency and liquidity analysis.

Prepared recovery plans, must pre-estimate the impact of the chosen measures on the bank's operations and their total financial intermediation as well as the potential risks in case the chosen measure fails (Kalfaoglou, 2014). Recovery plans shall also include possible early intervention measures. Early intervention measures, could be taken, in case credit institutions have infringed the provisions of the 575/2013 Regulation, concerning the prudential requirements for credit institutions, the rules of the 600/2014 Regulation and the Directive 2014/65, concerning the financial instruments and the Directive 2013/36, regarding the prudential supervision of credit institutions.Such early measures might be the implementation ofone or more of the arrangements or measures set out in the recovery plan, any measure to overcome the financial distress, changes in the management body of the credit institutions, or changes to the institution's business strategy or to its legal or operational structures.

If the recovery plans fail, the national authorities activate the prepared resolution plans. National authorities must pre-describe resolutions schemes, and the specific actions, measures and tools to be implemented, in order to minimise the contagion risks in European financial system, thus ensuring the overall financial stability in euro area rebuilding bank's robustness and creating trust in the market.

To prepare efficient resolution plans, banks gather and share information about the characteristics of bank's operations, as financial intermediaries, their strategy in case of financial distresses, the specificities of bank services in case of bank groups, and the complex intragroup relations and interdependences (Kalfaoglou, 2014).

As stated above Recovery and resolution plans serve the funding coverage cost of recovery and/or resolution plans for a failing credit institution. To this procedure, as we will see in the next chapter, is summoned to contribute the DGSs too, which covers only the eligible deposits. The DGSs serve as a treasury backup of ailing banks.

IIiii. The institutional framework of the SRM

The SRM-Regulation setsunified resolution rules and procedures for the resolution of the credit institutions of participating member states. It offers a "structure aligning resolution", aiming to reinforce the functioning of the EU-banking sector, to removebarriers affecting the exercise of the fundamental rights in EU-area and ensure the competitive neutrality,eliminatingin parallel the competitive disadvantage of banks, headquartered in non-participating member states towards banks participating in the SSM, consisted in the lack of a centralised system to address bank failures (Breuss, F., 2013).

Similarly, as in the SSM problematic, the creation of the SRM poses the question of the balancebetween centralised and decentralised authorities. Centralised and decentralised authorities have to coordinate with each other to achieve an expedient and cost-effective resolution mechanism. However, the exact division of labour between centralised and decentralised authorities, is imprecise, as the size criterion, (relevant for the powers assigned to the SSM), cannot fully apply to the SRM, given, that initially SRM was to cover all banks, regardless their size and significance. Thus, the SRM should operate as a centralised authority and not as a network of the NCAs, as proposed by the German Government and especially by W. Schäuble(Cristian de Boissieu, 2013). Additionally, according to the ECB's position, evidence proved that coordination between national resolution authorities was not sufficient enough to succeed a swift and cost-effective resolution decision-making, especially with regard to cross-border operations (Financial Times, 8 November, 2013). Consequently, a two-tier resolution system, based on size criterion, as within the SSM, would not work properly(Cristian de Boissieu, 2013).

Further questions are raised, regarding the division of tasks within the SRM and the competent organ to resolve failing banks.

First question posed to the initiators of the banking union, was the determination of the competent body entrusted with resolving failing banks. Many options were on the table: to assign resolution tasks to a European institution, the Commission, the council, the ECB, an agency as the EBA, a new fully independent agency, or the ESM, serving as fiscal backstop of rescue programs (Cristian de Boissieu, 2013).

The more prevalent option was to delegate the ECB or the EBA as competent resolution body. However this option was rejected, mainly due to the concerns about over-concentration of powers, entrusted to these two bodies

Another proposal was to assign resolution powers to the ESM, constituting an intergovernmental organisation, in charge of providing financial assistance programs to member states in difficulties, and offering to bank recapitalisation support packages, when financial stability is threatened. However, this option was rejected too, as it might disadvantage the efforts of the European authorities to break the vicious circle between the over-indebted sovereigns and the failed banks, feeding into conflicts of interest. Besides, giving the SSM resolution powers, might lead to excessive politicisation of decisions

(Pisaniet al., 2012). A third choice was to assign to a specific Deposit Guarantee Mechanism the resolution powers, as this is the case in the US, where the federal Deposit Insurance Corporation has resolution powers too, except its mission to insure the deposits. However this option has been rejected, given the fact that in EU, the powers to guarantee the deposits has been assigned to national authorities, according to the provision of the Directive 2014/59. Thus, the initiators of the resolution framework, headed towards the establishment of a fully specialised agency fully distinct from the ECB and the Commission, a single resolution body, accommodating a resolution and a resolution Fund. This option considered to be the most appropriate, as the new mechanism established would have a clear single role and mitigate all the conflicts of interest potentially raised. The sole disadvantage was that the newly established organisation lacked experience in decision- making and evidence has shown, that the experience is important for the effectiveness of a project (Kalfaoglou, 2014). Another criterion pushed the adoption of a new agency, was that more integration against the proposed network of national authorities, was required (Cristian de Boissieu, 2013), as a vehicle to ensure financial stability.

Furthermore, as far as the governance of the SRM, is concerned, there was consensus, that the single resolution Board, should be fully independent form the ECB, in order to avoid potential conflicts of interest between the supervisory and resolution functions. However, the fact that ECB pursues a sole "observer position" in plenary and executive meetings, without voting rights, but only to ensure direct and timely access to bank rating information (on capital, asset quality, management, earnings, liquidity, and sensitivity to market risk) mitigates potential conflict between these two institutions (Cristian de Boissieu, 2013).

The SRM-Regulation put the first stone in the crisis management architecture. The crisis management framework, accommodated under the SRM program, is a multi-layered procedure (Cristian de Boissieu, 2013). It comprises a prevention mechanism, early intervention measures and resolution tools. Concerning its institutional structure, the SRM comprises two institutional structures, the resolution board, the governance of the SRM, and the resolution Fund.

The prevention mechanism aims to detect (potential) risky banking operations in financial system. To achieve its goal, it utilises two supplementary methods: the bank-business model analysis and stress tests. The bank-business model analysis monitors the sustainability or the vulnerabilities of banking business model with emphasis to bank's economic and operational environment. For the analysis of the banking model, are taken into account quantitative and qualitative features. Quantitative features comprehend bank's profitability dynamics (such as key balance sheets and risk evolution), while qualitative ones include "bank's relations to internal structure, reputation, comparative advantages, corporate governance issues, internal audit and risk management capacity". Stress tests, on the other hand, demonstrate the potential impact of exceptional, but plausible risk factors to individual bank's stability (Kalfaoglou, 2014).

The prevention stage, accomplish the cooperation and coordination among the supervisory authorities, with regard to identifying possible riskier activities. Key tactic of this cooperation/coordination scheme will be the information sharing among supervisory authorities (Kalfaoglou, 2014).

The preventive stage is completed by the activation of early intervention measures. Supervisory authorities (the ECB or national competent authorities) shall inform the SRB of any measure that they require an institution or a group to take, pursuant to the art. 16 of the SSM-Regulation. The Board, being informed, may prepare for the resolution of the institution or the group concerned. Based on the information given, it may also update the resolution plan or require the national resolution authority to draft a preliminary resolution scheme.

The next stage after the initiation of early intervention measures, is the activation of the resolution procedure. The Board (the Council and the Commission), acting in respect of their respective responsibilities, shall take into account the resolution objectives and choose the resolution tools, which in their view, best achieve the resolution objectives. They shall ensure the continuity of bank's critical functions, forestall adverse effects on financial stability, in particular, preventing contagion and protect public funds by reducing the need of extraordinary public financial support and depositors, covered by the Directive 2014/49.

The SRB shall draw up and adopt resolution plans, for credit institutions (established in a participating member state), parent undertakings, investment firms and other financial institutions, that are not part of a group, or for groups, considered to be significant. On the other hand, national resolution authorities, shall draw up and adopt resolution plans for entities and groups other that the above mentioned, for which responsible is the SRB.

The Board, shall adopt a resolution scheme, only when it assesses that three criteria are fulfilled: (a) a bank is failing or it is likely to fail, (b) there is no alternative resolution plan either through private funds or through supervisory intervention and (c) resolution plan is in the public's interest.

The resolution plans are activated, when a bank is characterised as resolvable. A bank is considered to be resolvable, if it can be resolved with its core operations protected and without causing contagion effects in the overall financial system. Two evaluations may be used as evidence for a bank to be resolved: a feasibility assessment, serving to identify efficient resolution plans, the availability of the tools implemented and their implementation by the competent authorities, followed by an anticipated systemic impact assessment of the selected resolution plan, evaluating the effectiveness of the resolution towards its the impact at national and international level (Kalfaogloy, 2014).

A bank is considered to be failing or likely to fail, when negative indicators in its balance sheet (negative or deficit retained earnings, negative equity, negative net tangible assets, low current ratio) show a financial distress situation. On the other hand it shall be clear that the chosen resolution plan is the most appropriate in the specific case having minor interference in shareholder's rights. The public interest criterion is met when the envisaged resolution plan is not inproportional to the resolution targets.

Once the above criteria are met, the bank losses its autonomy and after the decision by the SRB has been take, is activated the resolution Fund.

The decision – making procedure seems to be complex and cumbersome. The Board shall immediately, after the adoption of a resolution scheme, transmit it to the Commission. The Commission shall, within 24 hours from the transmission, either endorse the plan or object to it. It also may propose to Council within 12 hours from the transmission, either to object to the resolution scheme on the ground that it does not meet the criterion of public interest, or approve or object to a material modification, regarding the use of resolution fund and in particular, the amount of Fund arranged by the Board.

The decision is to be taken swiftly, as any delay could trigger contagion effects to financial sector (Pollin, J., P., 2014). After the decision – making, national authorities are obliged to implement the resolution plan.

However, the resolution procedure has been criticized, as we will see in the next subchapter, not only as complex and time-consuming, but also as lacking confidentiality (kalfaoglou, 2014).

Concerning the funding mechanism, the SRF, shall be filled with contributions, raised from credit institutions at national level and transferred (at EU-level) to the Fund. About this financing model, there is a wide consensus among the participating member states.

More specifically:

The common resolution Fund, shall be raised from credit institutions, parent undertaking and other financial institutions of the participating member states, based on both ex-ante and ex-post contributions/levies of them. Then the accumulated contributions, shall be pooled by national resolution authorities and transferred to the SRF.

Although, it is questionable, whether this financing model, consisted of both ex-ante (and if necessary) ex-post levies, can cover potential failures of large systemic banks, it has been estimated as effective, to caver smaller banks. However, ex-ante levies are preferred, as an ex-ante financing model would eliminate the moral hazard behaviour and motivate banks to take into account the potential cost of their risk-activities (Cristian de Boissieu, 2013).

Regarding the amount of funds to be accumulated, two parameters should be taken into account: the (probable) maximum loss and the time needed, for this amount to be accumulated. As these two factors cannot be approximated, the SRM-Regulation defines a target level of at least 1% of the amount of covered deposits of all credit institutions authorised in all of the participating member states, aggregating about at 55 billion euro. The resolution Fund, pooled via home bank's levies, will build up national compartments, which will be gradually merged during a period of 8 years to reach the above mentioned target (55 billion years or about 1% of all insured deposits).

The contributions raised, are to be calculated, based on a flat contribution, i.e. the amount of the institution's liabilities excluding own funds and covered deposits and a risk-adjusted contribution. Thus, member states contributions will be correlated with the intermediation degree in the economy and not the size or the importance of their economy in the Union (Libocor, F. 2015).

During the eight years period, sharing funds between national compartments would progressively increase to be fully mutualised. As regard, the planning of the gradual mutualisation, over these eight years, it has been decided that a 40% of funds would be "front loaded", occurring in the first year, a further 20% of it, would be paid off the second year and the remaining amount will be equally allocated over the subsequent six years until full mutualisation. Should during this period, further funds be pooled, there will be used alternative sources (bridge financing).

Hence, while in the first year the resolution cost (after the bail-in rule activation) will be covered by compartments of those member states, where the banks are headquartered. This share will gradually be decreasing (until the complete mutualisation), as the share by other participating countries' compartments would increase. During the mutualisation process, countries are required to collectively provide the extra funds needed to resolve struggling banks by seeking a loan facility from the ESM, (Constantio V., 2013, Wall Street Journal, 18 December, 2013). A fully 'mutualised backstop' will be available, when national resolution funds react the envisaged target level being fully merged. From that point onwards, the SRM could no longer borrow from the ESM (Howarth D., Quaglia L. (2014, 2015).

Concerning the decisive criteria, to be met, for the formation of the premium, paid by banks, it is supported in the academic literature (Cristian de Boissieu, 2013), the risk-based premium, in order to eliminate moral hazard behaviours. Thus, the height of the premium, paid by banks, depends upon three factors: (a) a variable ratio concerning the banks liabilities, eligible for bail-in, (b) the global bank-risk, based on bank ratings, and (c) the rate of global economic growth, taken as an indicator for the cycle. The positive relationship between premium and economic growth, indexes a counter cyclical system, as banks pay more during the boom and less during the bust (Cristian de Boissieu, 2013).

Moreover, levies paid, shall depend on bank's business profile. Bank's profile delimits the premium that each bank has to pay out and the total amount of funding accumulated.

The resolution mechanism comprises several tools, such as the sale of business tool, the asset separation tool(and their sale to a special intermediate vehicle), the bridge institution tool, or the bail-in tool.

The bank resolution model is based on national recovery and resolution plans. Instrumental for implementing bank resolution under the SRM will be the tool-kit (the resolution measures), set out by the BRRD. The "workbox" as projected in the BRRD, is more national, due to the impact of the euro zone crisis on individual banks (Cristian de Boissieu, 2013). Even multinational banks will have to prepare (recovery and resolution) plans for each entity of the bank group, thus being responsible the involved national authorities, which will have to cooperate and coordinate their actions.

IIiv. Insufficiencies of the SRM

Criticisms have been raised in the academic literature, regarding the effectiveness of the SRM and particularly the size of the resolution Fund.

Zettelmeyer, Berglöf and Haas, (2012), fear that the banking union design may fuel moral hazard problems, as it would combine a common fiscal backstop (a direct recapitalisation instrument provided by the ESM, as the last backup stage) with national resolution procedures. Given that the resolution fund is pooled at supranational level, (regardless of the fact that it is accumulated via member states' levies), might generate the "fear", that some member states, feeling reassured that they will be backed by the ESM in the event of a bank failure, presumably neglect to pay the needed attention, regarding the bank's management, thus, undertaking more risk-taking banking operations, resulting in financial distress (This is why the prerequisites to the ESM support are stricter than the conditions prescribed in the BRRD for public bail-out of ailing banks, as a last resort option. This stance is explained by the political will to move "the bulk of potential financing from the ESM to the financial institutions themselves, thus removing the possibility to call for the use of the common fiscal backstop.

Furthermore, the accumulated fund has been criticised to be insufficient. Concernshave been expressed about the size of the Fund on the one hand, and the adequacy of the mechanism to prevent a real emergency situation on the other hand (Maryskova, 2013 - 2014).

As stated above, the resolution fund amounted to 55 billion Euros by 2014. This sum is very small, compared with the ESM fund, aggregating to 500 billion Euros. On the other hand the resolution fund is not available to be used immediately, but it will be pooled over a period of eight years, during which banks shall contribute levies. Therefore, it is questionable, whether the SRM would be in position to dispose sufficient and available funds, to address a future financial crisis. If the amount of funds, pooled, proves to be insufficient, failing banks will be forced to resort again to their country's banking system or to taxpayers' money. On the other hand, if banks are required to levy extraordinary ex-post contributions, they cannot end the real economy (Maryskova, 2013-2014).

On the other hand, it is argued that the resolution procedure is very complex and long-lasting. After the ECB having signalled the banks in troubles, a committee, composed of national supervisors, undertakes to decide the resolution. The commission will have the right to veto the decisions of the committee and in case of disconnect, the national finance ministers are summoned to decide. Generally, the procedure anticipated the involvement of nine committees and complex voting procedures.Hence, the decision – making process for the resolution is very complex and cumbersome. While Schäuble supported the view that the decision should be taken within a weekend, others, for example VitorConstancio, a member of the ECB's executive Board, hold the opinion that resolution decisions could be taken within 24 hours (Maryskova, 2013-2014). The Directive adopted the resolution time within 24 hours.

Alexander (ECRF, 2/2015), touches on the macro-prudential shortfalls of the SRM function, due to the fact that the ECB is not engaged in resolution procedure. He stressed that bank supervisors should co-operate with resolution authorities to coordinate more adequately macro-prudential regulation and resolution policies. He underpins that the ECB should have more (legal) powers over the resolution procedures, in order to be a more efficient bank supervisor, being able to deal better with a crisis management. Therefore, he suggests, as stated above, a fuller coordination between the ECB (the SSM agency) the SRM and the EBA.

Concerning the effectiveness of the BRRD, he advocates that the discretion powers given to member states makes it more appropriate. That is why it was chosen the adoption of a minimum harmonization.

Dermine (2016) sees further shortcomings of the SRM, regarding its inability to forestall market panic and potential disruptions of the banking system. These flaws concern the ability of the private sector to bear losses in case of the SRM activation, the minimum loss coverage by private sector and the increased likelihood of banks runs.

First losses transferred to creditors and shareholders may not have the expected results, if the class of these bond holders and their capacity to bear the losses has not been analysed beforehand. Second, the activation of the SRF, after the minimum private loss absorption of 8 % of the total liabilities, has created ambiguities not only regarding the resolution fund input but also in the specifically determined amount of loss absorption. A full exposure to losses would give the proper incentives to shareholders to supervise more effectively the banks. Third, the possibility of the SRM activation crates the risk of bank run. Prudent treasurers would be cautious when listening the SRM activation, rushing to withdraw deposits This would create ambiguity in the SRM effectiveness, thus increasing the likelihood of bank run and flight to safety (Dermine, J., 2016).

III. DEPOSIT GUARRANTEE SCHEMES

IIIi. Institutional framework of the DGSs

Deposit insurance schemes constitute an indispensable “instrumentarium” for the accomplishment of the banking Union. DGSs build the third pillar of the EBU project. Deposit Guarantee Schemes constitute a crisis management tool, being designed to create a stronger bank sector, aiming at the protection of the depositors/taxpayers in the event of a bank failure, while stabilising in parallel the internal market. Deposit Guarantee Schemes constitute a complementary stone to the SRM, aiming to create a crisis prevention tool, thus amplifying the crisis management system. The accomplishment of the DGSs will make unnecessary not only taxpayers' involvement but also the use of bank's resolution funds.

The new directive introduces two phases of mutualisation, a re-insurance scheme to be build-up until 2020 and a co-insurance scheme, to be completed till 2024 (Beldowsky J., Slomka-Golebiowska, A., 2016).

Concerning the scope of coverage, according to the provisions of the Directive, are concerned only the deposits of retail banking, resulting from normal banking transactions. These deposits are fully repayable (eligible deposits). Its principal must be repayable at par (Kalfaogloy, 2014). On the other hand, are excluded from the scope of the Directive, the electronic money transactions, funds received in exchange of it, financial instruments and financial or insurance undertakings, regardless their size. Intention of the European legislator is to avoid transferring investment risks to DGSs. DGSs should invest in low-risks assets.

In the EU, according to the provisions of the Directive, member states shall dispose at least one national Deposit guarantee scheme. For member states the participation is hence mandatory. Thus, the cost of failure is allocated among all the credit institutions of all the DGSs.

Concerning the coverage level, three options are proposed: blanket guarantee, limited coverage and co- insurance. Downside of the first choice, is that it may create a serious moral hazard problem, while the limited coverage may cause the segmentation of the deposits into smaller amounts. Co-insurance insure depositors for a pre-quantified portion, bearing a single part of losses. However, the problematic of the splitting of deposits into smaller amounts, may be treated, as the directive, concerning the DGSs foresee, that the coverage level envisaged, refer to a specific amount up to 100.000 for the aggregate deposits of each depositor, placed with the same credit institution, irrespective of the number of the deposits, the currency and the location, within the union.

On the other hand, the protection is wider, as the limit of € 100 000 applies to all aggregated deposits of one depositor placed with the same credit institution, irrespective of the number of deposits, the currency and the location within the Union. Thus, the same depositor may hold several accounts equally protected in other banks in the whole EU. Deposit Guarantee Schemes will cover all accounts held by individuals and small, medium-sized even large businesses. However, the DGSs will not protect deposits of financial institutions and public authorities. The former do not need protection since they constitute professional market actors and the latter could have easy access to other sources of financing (European Commission, Deposit Guarantee Schemes – Frequently Asked Questions, Memo/10/318, Brussels, 12 July 2010). On the other hand, accounts in non-EU currencies will also be covered, which is important for small and medium-sized cross – border businesses, operating in international level.

The new directive states that the pay-out delay should be shortened to 7 working days. However, member states may, for a transitional periods, until 31 December 2023, establish a different repayment periods of up to 20 working days until 31 December 2018, 15 working days from 1 January 2019 until 31 December 2020 and 10 days from 1 January 2021 until 31 December 2023. During the above transitional period, when the DGSs cannot accomplish the repayment within 7 working days, they shall ensure that depositors have access to an appropriate sum to cover their cost of living within five working days upon their request. (European Commission, Deposit Guarantee Schemes – Frequently Asked Questions, Memo/10/318, Brussels, 12 July 2010). To make this 7 days deadline feasible, managers of Deposit Guarantee Schemes should be informed at an early stage by supervisory authorities if a bank is likely to fail. Banks are required to denote "eligible accounts" in their books and maintain up-to-date records (European Commission, Deposit Guarantee Schemes – Frequently Asked Questions, Memo/10/318, Brussels, 12 July 2010).

The funding is to be arranged, either ex – ante, or ex post, or in terms of a combination of these two. In case of an ex-ante funding, the contributions of premia is activated upon the failure of a financial institution, while the ex –post funds are pooled, if and when a specific institution fails. The advantage of an ex-ante funding, consist in fact, that funding is created in an constant basis by all participating states, increasing the stability and acting deterrently to the potentiality of an adverse selection, leading to a new financial crisis. On the other hand, the advantage of the ex-post funding, is, that it gives incentives to supervise banks behaviour, averting moral hazard, while the disadvantage consist in the impact of the pro-cyclicality, as the funds are accumulated, in a period of troubles, when the contributions of the failing banks is not expected (Kalfaoglou, 2014).

Furthermore, the financial means of the DGSs, shall be proportionate to member states' liabilities. The proportionate to their liabilities financing of the DGS is assured via mandatory contributions made by their members, the credit institutions, made annually. A DGSs is also liable, funding the resolution platform. It ensures that its available financial means shall be used for the financing of the resolution of credit institutions. On the basis of a coverage of 100 000 €, an overwhelming part of eligible accounts in the EU (95%) will be fully covered. However, evidence shows that in most countries of EU, funds covered approximately 0,53 1% of eligible deposits, while a stress test conducted demonstrated that such schemes is adequate for small-scale bank failure scenario. Although some countries are able to face medium- scale bank crisis, none of them can deal with large-scale crisis (kalfaogloy, 2014).

Member states shall ensure that in a period of 8 years, the available financial means of a DGS shall at least reach a target level of 0,8 % of the amount of the covered deposits of their members.

Concerning the amount of the contributions raised by credit institutions, these are to be determined regarding the amount of the covered deposits and the risk profile of the various business model they run.

The contributions required by the DGSs depend on Bank's risk profile of the various business models, they run. DGSs may implement their own-risk based techniques to proportionate risk-weighted contributions, raised by its members. These techniques may take account on the asset side of the balance sheet and several risk indicators, such as capital adequacy, asset quality and liquidity. The determination of the amount of contributions made, take into account the phase of the business cycle and the impact pro-cyclical contributions may have at annual basis.

An ancillary role, concerning the proportionate of risk-weighted contributions, will have EBA. EBA shall form a calculation formula based on specific risk indicators, risk classes for participating member and thresholds for risks weights, linked to specific risk classes. On the other hand, it shall cooperate with the European Systemic Risk Board, conducting a systemic risk analysis concerning DGS's mission. This will guarantee a "fair' calculation of the contributions required, and gives incentives to bank's Manages to run less risky transactions. Thus, member states may determine lower contributions for low-risk credit institutions. They may also provide for a minimum contribution, irrespectively the amount of covered deposits.

In case, the extraordinary contributions are insufficient, there is the possibility of mutual borrowing between DGSs. This perspective is activated in a voluntary basis, when the borrowing DGS cannot meet its obligations prescribed in the Directive, it has already required extraordinary contributions, proved to be however, insufficient, and there is the legal commitment that the borrowing funds will be used to pay claims against DGSs.

Moreover, Member states shall ensure that appropriate procedures are in place, so as DGS can share information, communicate effectively with other DGS, while written cooperation agreements shall be contracted by the designated authorities of member states, to facilitate the effective cooperation of the DGSs in order to facilitate the DGSs. Additionally, to ensure the efficiency of the DGSs in different Member states, EBA should have the power to issue guidelines and recommendations concerning the functioning of the DGSs to conduct stress tests and peer reviews of schemes concerning their effectiveness and efficiency, to settle potential disagreements between member states and ensure the consistency of the contributions made according the risk profile of each bank (European Commission, Deposit Guarantee Schemes – Frequently Asked Questions, Memo/10/318, Brussels, 12 July 2010).
Competent or designated authorities should cooperate and coordinate their tasks with resolution authorities and other administrative authorities and DGSs, in order to prepare at an earlier stage the resolution measures needed and to determine the liability of the DGSs in a potential resolution plan.

IIIii. «Europeanization» of the DGSs ?

As stated above, the completion of the DGSs will make unnecessary not only taxpayers' involvement but also the use of bank's resolution funds. Deposit Guarantee Schemes constitute a complementary building block to the SRM, aiming to complete the crisis management architecture. According to the Directive's provisions, member statesareresponsible to ensure the establishment (official recognition, membership and supervision) and functioning (coverage level, repayment and financing) of DGSs.
However, the fact that the organisation of the DGSs is entrusted to member states, may raise concerns about their effectiveness. Member states may allow a regulatory forbearance, imposing light-touch rules and/ or procedures, concerning the accumulation of funds and the financial means of the DGSs. As a consequence, national treasuries (fiscal resources) might be insufficient to back up the DGSs (Pisani et al., 2012). The financial incapacity of the DGSs and the unavailability of further ex-post/extraordinary contributions might intensify consumer's concerns about the sustainability of the banking sector.
A European solution to this problem, could be either the swift completion of the DGSs design via the enactment of further Directives plans or the establishment of a pan-European Deposit

Guarantee System, mutualising the national accumulated Funds to a single DGS (Avaro, M., Sterdyniac, H., 2014).

The establishment of a pan-European Deposit Insurance System would ensure the depositor's protection, thus rendering more effective the functioning of the third building block and of the entire banking union design.

First, the creation of a centralised Deposit insurance system would be desirable, as the existing national Deposit insurance schemes might trigger the feedback loop between banks and sovereigns. Keeping insurance at national level, might disrupt the effectiveness of a deposit insurance system, increasing the probability of bank runs (Pisani et al., 2012). On the contrary, a single EU- DIS, would prevent ongoing "financial crisis episodes of bank runs" and taxpayer's money spending. Moreover, it would better deal with problems, related to cross-border banks' exposures, thus, preventing contagion effects to other banking systems. On the other hand, it would eliminate competitive distortions, ensuring a level playing field, while restoring consumer's confidence, amplifying in this way retail banking operations (AyadiRym, Lastra, Rosa M., 2010)

Second, a centralised DIS would facilitate the supervision of the national DGSs. According to the Directive's provisions, designated authorities shall supervise individual and cross-border DGSs on an ongoing Basis to assure their compliance with the provisions of the Directive. A pan-European DGS system, headed by a single competent authority could facilitate the supervision of all national and cross-border DGSs. A well - functioning supervisory regime, would signal at an earlier stage potential bank failures, thus preventing the activation of (resolution and) DGSs' funds.

Third, the establishment of a pan – European DIS, would make easier information sharing among national DGSs. Information, needed for the preparation of the repayment of the depositors could be swiftly available, improving the efficiency of the repayment process. On the other a centralised body would ensure not only sounder and more transparent governance, rules and practices of DGSs, but also confidentiality and protection of the data, relating to the depositor's accounts. A pan-European agency, anchored in impersonal rules, could guarantee better the privacy and secrecy of depositor's data.

Finally, a pan-European DIS could reduce the administrative costs needed per year, on the other hand, it could better deal with bank failures. The impact of a national bank failure on a large pan-European deposit insurance scheme will be lower than on a domestic scheme, responsible to cover the banking sector of one Member State(European Commission, Deposit Guarantee Schemes – Frequently Asked Questions, Memo/10/318, Brussels, 12 July 2010).

Several options have been discussed for the construction of a European DIS in the academic literature.

Gros (2012) proposes a two tier approach to deposit insurance: a (European)re-insurance Deposit Insurance System. National Deposit Insurance schemes would continue to exist, but they would be required to be reinsured against large shocks. This re-insurance planwould be funded from a common fund, which would come from national DGSs, through contributions levied by their members. A part of these levies would be transferred to the European Deposit Insurance system.

Pisani et al., (2012), propose similar modelled schemes for the construction of a European DIS. First, they suggest the construction of a reinsurance Fund. National DGS will continue to exist, being backed up by national (fiscal) resources, with the European re-insurance Fund to step in, in case national resources be exhausted. This will prevent free-riding behaviours, giving strong incentives to Governments and Bankers to apply prudent banking regulation, while mitigating the feedback loop between banks and sovereigns. A second option could be a “supranational re-insurance Fund” prefunded by national contributions, which would intervene, in case national funds be depleted. This would eliminate moral hazard and free-riding practices. A third alternative would be to centralise the national Deposit Insurance schemes into one Single Federal scheme, like the Federal Deposit Insurance Corporation in US.

Ayadi and Lastra (2010) propose three alternatives concerning the design of a new pan-European DGS: the creation of an optional DGS, being complementary to the 27 existing DGSs (in the EU of 28), the establishment of a Single European DGS, replacing the existing 27 DGSs and/or the construction of a European System of DGSs, in the form of college of mutual Deposit Guarantee Schemes.

In my view, a pan-European DGS shall function as a “mutual borrowing mechanism” between national Deposit Guarantee Schemes. Contributions could be placed in compartments and then transferred to the single (pan-European) Deposit Insurance scheme. Such a mutualisation system could be implemented in parallel with (the accomplishment process of) the other banking reforms (the SRM-Regulation and the BRRD Directive) - (European Commission, Deposit Guarantee Schemes – Frequently Asked Questions, Memo, 14/296, Brussels, 15 April, 2014).

The above critical reflections, shall move the EU-Leaders to adopt a pan – European Deposit Insurance System, as the US FDIC model (Pisani et al., 2012, Cristian de Boissieu, 2013). The founding reason, is the non-separability principle of the banking union design. The tree pillars of banking union are inseparable. However, the idea of a SDIM (Single Deposit Insurance Mechanism) did not find the expected "resonance" from the Eurozone-member states, in particular from those in the core; it was supported onlzbz the peripheral countries (Breuss, F., 2013).

Given that the adoption of a pan-European Deposit Guarantee Scheme remains a long-term plan, one could advocate that similar mechanisms towards this direction, have been foreseen in the Directive. The EU 2014/49 Directive does not exclude the merger of national DGSs or the establishment of cross-border DGSs. Merged or cross-border DGSs require only the approval of the member states, where the DGSs concerned are established. The idea of merged or cross-border DGS brings closer the establishment of a pan-European DGS system, administered by a centralised European authority, a SGDS (Single Deposit Guarantee Scheme) - (European Commission, Deposit Guarantee Schemes – Frequently Asked Questions, Memo/10/318, Brussels, 12 July 2010).

Another solution, given the fact that the completion of the deposit insurance schemes, as planned by the DGS Directive, will take a long-term sequence of steps, could be to develop in the near future a closer coordination between national deposit insurance schemes and European Resolution Funds, opinion that brings closer the merger of European Resolution and Deposit Insurance Funds, as proposed by Gross and Schoenmaker (2014), who suggest the creation of a European Deposit insurance and Resolution Authority (EDIRA). The EDIRAshould build on the current EU resolution and deposit insurance framework, ensuring the same geographical reach or supervisory resolution and deposit guarantee functions. The accumulation in a single institution of resolution and deposit insurance funds will ensure the least cost-principle, allowing in this way the swift crisis management decisions. The EDIRA should be held accountable to the European Parliament, thus ensuring the democratic legitimacy and accountability regime, according to the fourth pillar of Van Rompuy's roadmap for a genuine economic and monetary union.

As the (European) Resolution and deposit Insurance plans, EDIRA should try private sector solutions first, i.e. the activation of private funds, pooled from ex-ante risk-based levies on insured banks, thus eliminatingmoral hazard behaviours (Acharya et al., 2010, Rogoff,

1999).To gain credibility, the European Deposit insurance and resolution fund shall be backed up by government support (fiscal backstop) as ultimate backup (Obstfeld, 2013).
Merging European Resolution Funds and national existing DGSs will help in achieving more integration in the bank - internal market. Besides, the FDIC agency in US itself is deeply engaged in the resolution mechanism of banks too, using consolidation schemes (mergers and acquisitions) to deal with bank failures (Cristian de Boissieu, 2013), The idea of merging the existing European Resolution Funds and the recognised national DGSs willstabilise the retail deposit base (Gros, Schoenmaker, 2012), while strengthening the resilience of banking sector and ensuring swift repayments periods, regardless of the member states where the parent credit institution and other subsidiaries or branches are located. Thus a potential merger of the two Funds will enhance cross-border bank's resolvability. Finally, itwill foster the coordination between the competent authorities and benefit the economies of scale (Cristian de Boissieu, 2013).

IIIiii. Risks of the DGSs

Gros, Schoenmaker, (2012) andBeldowsky, J., et al, (2016) see some grey areas infunction and effectiveness of the DGSs.
First, they see a flaw by design in the establishment of DGSs. The Directive ensures the deposit's coverage up to 100 000 €, however, this guarantee fund is to be accumulated by national authorities, which is problematic, given the fact that many countries in periphery are in serious financial trouble.
On the other hand, its funding capacity is sufficient to cover individual bank's failures and not a systemic bank crisis, for which the activation of fiscal aid is required. But, even in this case, the credibility and efficiency of a deposit guarantee fund depends on the government's solvency. Historical evidence from US Saving and Loans crisis, at the end of 1980s and beginning of 1990s,has shown that even a deposit guarantee system can go bankrupt itself, requiring a financial bailout. Similarly, as in the case of the Single Resolution mechanism, without a financial federal backstop, the credibility of the European Banking Union design is at stake (Béranger A., Soubeyran, J., Laurence S., 2014).
Second, compared to the SSM achievement, the completion process of the DGSs is sluggish and cumbersome. Thus, it is uncertain, whether the gradually accumulated fund, in the transition period of eight years, will be sufficient to back up, even the failure of a small bank.

Schoenmaker and Gros (2012) assume that there will be a compromise, adjusting the amount of covered deposits to 1.5 % (for both the resolution and deposit insurance). However, even this amount could cover only one or two large European bank's deposits. On the contrary, in the event of a systemic (cross-border) bank's failure, with contagion effects, such a fund would be inefficient to cover the depositor's accounts.

Concluding, Gros and Schoenmaker, suggest that the only way to preserve cross-border bankingand, thus, strengthen, the stability of the financial system, is to provide "a higher and better co-ordinated level of fiscal support". Hence, the DGSs will continue to rely as a last resort on the member states, the ESM and the ECB, which will be required to step in, in the event of a systemic crisis. The crucial question, is who pays for the guarantee fund as a last resort agent, between banks and states, between the country concerned and the whole EU countries (Gros, Schoenmaker, 2012, Beldowsky, J., et al, 2016).

Taken into account the difficulties that face peripheral countries, the accumulation of funds may benefit them, triggering moral hazard behaviours; the moral hazard problem will also exacerbate the possibility of the Member states to lend each other funds. The transfer donors (countries, in the core, especially Germany) are more sceptical, while the transfer recipients advocates the DGS plan (Breuss, Fritz, 2013). Thus, Northern countries opposed to the funding process, to avoid wealth transfers from Northern to Southern countries (Beldowsky, J., et al, 2016).

Further concerns about the sustainability of the DGSs raises the fact that the Directive does not provide for the exact way of financing the DGSs. Thus, it is questioned, whether the funding comes from ex-ante bank's contributions, or from state funds and ex-post bank's contributions (Beldowsky, J., et al, 2016).

Concluding remarks

• The Banking union project is undoubtedly a quantum leap towards the political completion of the EU. However, the launch of the single currency did not achieve to reduce the ongoing fragmentation and the externalities occurred due to the cross border operations. The outbreak of the financial crisis revealed the insufficiencies of the global financial system. While the gaps in the economic architecture of the monetary union were largely filled by radical reforms, the integration of the banking sector is still in its infancy. Member states were confronted with the choice either to live with the disintegration of the Eurozone and the «stonewalling» of a further development of the single market, or to step forward to achieve more financial integration and stability. As Wim Duisenberg noted, "The gradual dismantling of regulatory obstacles to ensuring market integration in Europe will contribute to enhancing its depth and efficiency, in turn contributing to an improved allocation of funds to the most profitable investment opportunities, and thus supporting economic growth". This vision is still relevant today. But to take it forward, it is crucial to be more ambitious and thus to ensure a better balance between risk reduction through implementation of the regulatory agenda, supervisory priorities, and risk sharing mechanisms through the establishment of a common fiscal backstop in the banking union.

The banking union project with its three building blocks evangelize the return to market discipline and depositor's confidence in banking sector, thus ensuring the financial stability and integrity. The banking union design is the response to the Euro area crisis. It also responses to the question, who should bear the costs of potential bail-outs. With Banking Union established, the number and size of the booms and the exposures of national banking systems could have been limited, thus eliminate the negative externalities of excessive deficits and debts. Additionally, the EBU plan, aims to break the downward spiral between the sovereign and banking debt, so as to disentangle country risk from counterparty risk, to regularise the stability in economic policy and to eliminate the fragmentation risk in financial market, thus dispelling doubts about the singleness of the euro (Montanaro, 2016) and re-establishing the normality in the transmission mechanism of the monetary policy (Asmusen, J., 2013). As Draghi (2014) stated the banking union should be "laying the foundation for more complete financial integration in the future", repairing the flaws of the monetary policy.

• The establishment of a European banking union raises a series of questions regarding not only its technical feasibility and its economical echo but also the effectiveness of its three building blocks.

First, it is questionable, whether the banking union project will reduce the market fragmentation and the threat of future financial crises. As the global economy is unstable, given the successive periods of expansion and contraction, banking and financial regulation could only reduce the probability of a new financial crisis, even if they are perfectly effective. In this sense, it would be desirable to attenuate the financial instability, however, it is illusory to believe that the banking union project could fully eliminate it (Klein, O., 2015). On the other hand, as the reality of a fully integrated and coherent banking union is a long - term perspective, it is questioned the effectiveness of its building blocks. First, the regulatory scope of the single rulebook has not been yet rounded out. On the other hand, given that only the requisites of the first pillar, i.e. those of the SSM, has been fully accomplished, while the completion of the other two buildings blocks, of the SRM and DGSs is expected to be a long-term process•, the final goal of the banking union plan is vague. More specifically, although the legal provision of the SSM regulation is precisely defined, the fact that it covers (in principle) only the Eurozone banks, triggers new divisive tendencies in EU, thus intensifying the fragmentation loop threat inside the euro-zone (Breuss, F., 2013). Additionally, it remains questionable whether a supranational supervisor can better monitor ex ante the bank risks than a national banking Authority. A further concern, as stated above, is that even after the full establishment of the single supervisory mechanism, home-host coordination problem will remain. (J. Zettelmeyer, E. Berglöf, R. Haas, 2012).

What is more, many economists challenged the effectiveness of the SRM. Although the central issues of costs-benefits distribution have been settled, there will be still concerns until the full achievement of the SRF and DGSs mutualisation processes, so as to cover any bank failure. Moreover, regarding its full completion, still remain political and institutional hurdles that make the SRM sluggish, legally fragile and politically unstable. These vulnerabilities should be mastered through political perseverance and more confidence to the completion phases of the EBU (Zavvos, S., Kaltsouni, St., 2015). However, despite the discords during the negotiation phase, the SRM adoption remains a large step towards the completion of the EBU, paving new legal, institutional and policy ground. Its semi-centralised function (the funds are raised at national level and then transferred at EU-level, the SRF) may render its function insufficient.

A solution could be the full centralisation of the EBU resolution powers, i.e. the creation of a genuinely centralised (pan European) Resolution Authority, as a distinct EU- Resolution Institution, endowed with autonomous (financing) powers, thus sidestepping the uncertainty created by fragile legal structures (Zavvos, S., Kaltsouni, St., 2015).

On the other hand, there may be a distributional conflict, among the Eurozone/EU member states, as the contributions raised, will be allocated unequally. Thus, of the Eurozone member states, Germany will be the biggest looser, while Spain and Netherlands the biggest winner. Of the non-Eurozone member states, Sweden is the biggest winner, while Poland the biggest looser. However, even if these two building blocks are to be completed in the future, it remains uncertain, what will be the macroeconomic impact in the single market?

Regarding the DGSs' plan, it is widely accepted, that after the blueprint of the 2014/49 Directive, little it has been done, to ensure the completion of the Directive's harmonised rules. Hence, not only is it uncertain whether member states can ensure that by 3 July 2024, the available financial means of the DGSs will have reached at least the target level of 0,8 % of the covered deposits of its members, but also it is unclear, whether the DGSs will be in place to ensure the repayable amount within the established periods, either 7 working days or within longer repayment periods, as established for the transitional period until 31 December 2023. On the other hand, the DGSs' plan did not attract the attention needed in the course of the negotiations. Two reasons explain this lack of attention: first, the fact that the time - table for the completion of the third pillar is obscure and the steps to take tentative and sluggish. The accomplishment of the Directive's (harmonised) rules, is lagged, compared to those of the SSM and SRM-Regulations. Second, the deposit insurance plan touches on core aspects of national sovereignty (Cristian de Boissieu, 2013). The DGS Directive seems not to have up to now a broad "political backing" (KarlWhelan, 2016). Finally, ambiguous is whether the activation of the ESM will have the expected results, in backing up (systemic) banks.

A strong political decision would be difficult to be reached, mainly because of the objections, raised by the core countries, as the full completion of the Directive or even the establishment of a pan-European Deposit Guarantee System, would lead to a "full mutualisation of risk" (Kalfaoglou, 2014), thus intensifying the moral hazard concerns. On the other hand, the financing of national DGSs via the contributions of its members (the credit institutions), would trigger the vicious circle between sovereign and banking debt thus fuelling the flight of capital to safer financial "ports".

Although, the Directive's provisions foresee alternative mechanisms to ensure the depositor's repayment, like the merger of national DGSs or the establishment of cross-border DGSs, a mutual borrowing mechanism between DGSs (Libocor, F., 2015), and a closer cooperation, within the Union, the adoption of further (corrective) harmonised steps through the enactment of Directives does not solve the problems. Besides, further harmonisation steps constitutes a partial solution, as the national schemes established, will be backed by the national budgets (Kalfaoglou, 2014). The only solution would be the establishment of a pan-European Deposit Insurance System.

Given the similarity of resolution Fund and Deposit guarantee schemes, some experts and policy makers underpin the idea of their merger and the creation of single European fund (Gros, Schoemaker, 2012). In this regard, it is supported the view, that it would be better to start with a single Fund for each institution, in order to avoid overlapping and potential conflicts of interest between them (Cristian de Boissieu, 2013). Besides, to mention that these two institution could have a common administrative structure (EU Comission, Memo, 14 April, 2014, Cristian de Boissieu, 2013). Nonetheless, the European Commission and the EU- Council, designing the banking union, failed to achieve the full "Europeanization" of the resolution framework and of the deposit insurance system. Instead, they contented in (partial) solutions at national level, based on the home country principle (Gros, Schoenmaker, 2012). Both legislative enactments (the SRM-Regulation and the DGSs Directive) provide for the accumulation of contributions, raised at national level, but, only the SRM-Regulation foresees their transfer at EU-level and their gradual mutualisation. On the other hand, although the DGS Directive foresees the cooperation within the union, with the completion of the deposit insurance process (the recognition of DGS, the repayment and their financing) are entrusted national policies. However, (financial) national policies are incompatible, as shown above, in the analysis of the financial trilemma, with financial stability and financial integration through cross-border-banking. By applying national policies, the goals of the financial stability and integrity cannot be achieved. This is the reason, why the European Commission and the Council shall proceed to full Europeanization of the Deposit insurance system, handing over its function to a pan-European authority (Gros, Schoenmaker, 2012).

• The success or the failure of the EBU undertaking will be judged politically, by the markets, and in the courts. The evaluation of the EBU project is difficult, as the three buildings block are not fully completed. As a consequence, the fragmentation risk cannot be fully eliminated, while the contagion effects, generated by cross-border banking operations, cannot be isolated and/or minimised, continuing to pose a great threat for the stability and thus sustainability of the entire financial system. Thus in the coming years, is to be seen, how the new delegated bodies and new established mechanisms, such as the ECB, the SSM, the SRB, the Commission and the national competent authorities, will function, coordinate their tasks and cooperate with each other (Zavvos, S., Kaltsouni, St., 2015).

We have only to take into account the feedback effects of its functioning.

In this regard, the EU drafts foresee a review task, assigned to the EU- Institutions. The European Commission shall by 31 December 2015 and every three years publish a repost on the application of the SSM regulation, (its functioning within the ESFS, the effectiveness of the ECB's supervisory powers, the effectiveness of independence and accountability arrangements, the interaction between the ECB the EBA and the national authorities, the effectiveness of the separation between supervisory and monetary policy and the fiscal effects that the supervisory decisions may have on the participating member states). Similarly, the

Commission shall publish a further report on the application of the SRM Regulation, with emphasis on monitoring the potential impact on the smooth functioning of the internal market.

A review, concerning the progress towards the implementation of the DGSs directive shall also be reported by the Commission, with regard to the target level on the basis of covered deposits reached. However, should the EU-legislative acts be proven ineffective, then a Treaty change, with the creation of a single EU regulatory Authority for financial services, (generally) in the community", should be in place, as the Lamfalussy report suggested, acknowledging the contingent limits of the envisaged banking union plan (Lamfalussy et al, 2001, p.41).

A further development of the three pillars of the EBU requires strong political will and perseverance. However, political unanimity or even compromise in mutualisation processes is not to reach easily, as their final application and implementation are "riddle" with political risks of further market fragmentation competitive distortions and regulatory arbitrage on the one hand, and social risks on the other hand. The path towards the accomplishment of the envisaged Banking Union won't be smooth. It will be rather a "white-knuckle" dumpy road. But for Europe there are no other alternatives. What we need, is political will and entrepreneurship to pave the road to the EBU completion (Underhill G., 2012).

• Many issues on the path to complete the banking union, still remain blurry. First the democratic legitimacy question of the completion processes of the banking union plan. Democratic-political legitimacy and accountability build the fourth Pillar of Van Rompuy's roadmap for a genuine economic and monetary union. It is questionable whether the banking union structure, especially the supervision and resolution mechanisms, establish political and democratic legitimacy. This question is more profound as, it is not only to turn our attention to the area, that acquires the jurisdiction and power, but also to those states they lose them, becoming less and less able to respond to the citizen's expectation and to the challenges of economic stabilization (Sarcinelli, 2013). Hence, it cannot be expected a wide political support by EU-electorates, being the "guarantors" of the EU-edifice", when they get an ongoing "economic-hit", when their Governments are feckless to react, facing financial turmoil and ensuing social risks (Underhill, 2012). The edifice of banking union cannot step forward without proper support of the EU-constituencies.

Another open issue is the potential costs of EBU. There must be developed an ex-ante cost – benefit analysis of this economic-business model and a review of the interrelated political impact in the whole EU- area (Cristian de Boissieu, 2013).
To discuss is still the regulation of shadow banking the worries about the “epouvantail” of the shadow banking system (“le secteurbancaire de l’ombre - systèmebancaireparallele”). The regulation of the shadow banking system has been ignored by the banking union project, although it was one of the causes of the crisis. The shadow banking system refers to the financial intermediaries, operating outside the classical banking system (hedge funds, speculative behaviour, the securitisation process or investments funds, etc.).
Finally, it remains the question, of whether banking union, as a further step to complete the EMU, seeks to achieve more Europeanization, thus deepening the solidarity between the EU-nations, enhancing “economic and social progress” and advancing the EU-citizenship, or it pursues to create a two speed Europe. Underhill’s concerns are that the banking union design was planned to rescue banks rather than EU-citizens (Underhill, 2012).
• The banking union design has been initiated to complement the monetary union. The Euro is a “unique” currency. From its launch, the treaties did not provide federal structures and/or mechanisms to back up potential Euro-collapses and/or banking crises. The accomplishment of all three stages of the banking union in the future, will force member states to step forward some sort of federalism (Béranger A., Soubeyran, J., Laurence S., 2014). However, as Europe is not and does not want -as proved by its historical construction- to become a federal state - even in the perspective of an envisaged political union- the full completion of the European banking union is still a long way (Klein, 2015, Montanaro, 2016). Thus, a federal structure for crisis management cannot be materialized (Montanaro, 2016).
The best way for a full-fledged European Banking Union, is to seek a “more political Europe”.

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***Ελληνική*:**

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