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Better In or Better Out: Weighing Sweden's Options vis-à-vis the Banking Union

Thorsten Beck

THE EU'S POLITICAL AND CONSTITUTIONAL SYSTEM

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Preface

One of the more far-reaching and early responses to the global financial and later European sovereign debt crisis was the establishment of common supervision and resolution of banks in the eurozone, referred to as the banking union. While membership is obligatory for the eurozone countries, it is an option that is also available for the remaining member states.

According to the author of this report, Professor Thorsten Beck, banking union membership for the latter category must be evaluated case by case. There are clear advantages and disadvantages for Sweden joining the banking union and, while the report does not make the case that the arguments either for or against joining are more persuasive on balance, it nevertheless concludes that certain criteria should guide the decision process. For example, it is of special importance for Sweden that its financial market is closely connected with those of the Nordic-Baltic countries. Consequently, a close cooperation has been established over the last two decades with respect to the supervision and resolution of financial institutions in the region, which has benefitted the financial stability of the Swedish banking system. At the same time, it is important to take into account which route will be chosen by Denmark and the other remaining non-euro countries in the end.

Regardless of whether Sweden chooses to join the banking union or to continue to stay outside it, both paths represent a choice and thus deserve a thorough and informed discussion. This report was originally a contribution to the public inquiry on the pros and cons of Sweden joining the European banking union, the "Committee on Potential Participation in the Banking Union", which reports its findings in November 2019.

Göran von Sydow
Director, SIEPS

About the author

Thorsten Beck is Professor of Banking and Finance at Cass Business School in London. He is also a research fellow of the Centre for Economic Policy Research (CEPR) and the CESifo. He was Professor of Economics at Tilburg University from 2008 to 2014 and the founding chair of the European Banking Center from 2008 to 2013. Previously he worked in the research department of the World Bank and has acted as a consultant for – among others – the European Central Bank, the Bank of England, the BIS, the IMF, the European Commission and the German Development Corporation.

Thorsten Beck's research, academic publications and operational work have focused on two major questions: What is the relationship between finance and economic development? What policies are needed to build a sound and effective financial system? Recently, he has concentrated on access to financial services, including SME finance, as well as on the design of regulatory and bank resolution frameworks. In addition to numerous academic publications in leading economics and finance journals, he has co-authored several policy reports on access to finance, financial systems in Africa and cross-border banking. His country experience, in both operational and research work, includes Bangladesh, Bolivia, Brazil, China, Colombia, Egypt, Mexico, Russia and several countries in Sub-Saharan Africa. In addition to presenting at numerous academic conferences, including several keynote addresses, he is invited regularly to participate in policy panels across Europe. He holds a PhD from the University of Virginia and an MA from the University of Tübingen in Germany.

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List of Abbreviations

BRRD	Bank Recovery and Resolution Directive
CRD IV	Capital Requirements Directive IV
CRR	Capital Requirements Regulation
EBA	European Banking Authority
ECB	European Central Bank
EDIS	European deposit insurance scheme
EEA	European Economic Area
ELA	Emergency liquidity assistance
ESM	European Stability Mechanism
ESRB	European Systemic Risk Board
FSB	Financial Stability Board
FSC	Fiscal Stability Council (Finansiella stabilitetsrådet)
G-SIBs	Globally significant banks
IMF	International Monetary Fund
IRTs	Internal resolution teams
JSTs	Joint supervisory teams
MoU	Memorandum of understanding (MoU)
MPOE	Multiple points of entry
MREL	Minimum requirement for own funds and eligible liabilities
NBMF	Nordic-Baltic Macroprudential Forum
NBSG	Nordic-Baltic Stability Group
NPL	Non-performing loan (a loan in, or close to being in, default)
O-SIIs	Other significant institutions (in the EU)
SIFIs	Systemically important financial institutions
SNDO	Swedish National Debt Office (Riksgälden)
SPOE	Single point of entry
SREP	Supervisory review and evaluation process
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TLAC	Total loss absorbing capacity

Executive summary

Sweden and Denmark are both currently holding public inquiries to analyse the arguments for and against joining the European banking union. This report contributes to that process by pointing out the advantages and disadvantages in the case of Sweden. Furthermore, it attempts to identify the criteria that should guide the decision-making process.

The reason why the banking union was needed in the first place dates back to the global financial crisis in the late 2000s. The failure of internationally active financial institutions, such as Lehman Brothers, and cross-border banks, such as Fortis, Dexia and the Icelandic banks, and – even more – their chaotic resolution has stimulated closer cooperation between supervisors across countries. Most prominently, within the eurozone, supervision of banks was centralized with the Single Supervisory Mechanism of the ECB (direct for the largest and indirect for other banks), complemented with the Single Resolution Mechanism, two components of what is commonly referred to as the banking union. While so far only eurozone member states have participated in the banking union, this paper discusses whether Sweden should join this supranational institutional arrangement.

Global banks vs. national supervisors

There are substantial externalities from the failure of cross-border banks in a world with purely domestic supervisors. First, the failure of a bank with foreign assets and funding will impose costs that fall outside the national regulatory perimeter. As these are not taken into account by national supervisors, their intervention decision will be biased. Second, a similar bias can arise if banks have cross-border linkages through interbank exposures, common asset exposures and informational contagion. Third, banks have incentives to move to jurisdictions with lighter regulation, which can result in negative externalities for other countries if and when lighter regulation leads to bank fragility or failure. Finally, within monetary unions, additional externalities arise as a country cannot simply devalue its currency to regain competitiveness following a shock and hence may need to tap the resources of other countries; more specifically, relying on a common lender of last resort might result in a tragedy of the commons problem, as it is in the interest of every member government with fragile banks to "share the burden" with the other members by, for example, drawing on liquidity support from the joint lender of last resort.

Traditional tools of cross-border cooperation are not sufficient

The traditional tool to regulate and supervise cross-border banks has been consolidated supervision, that is, the regulation and supervision of the overall group with all its branches and subsidiaries. This relies on cooperation between home and host country supervisors; memorandums of understanding (MoUs) have typically been used to facilitate the flow of information, while supervisory colleges have served as mechanisms for cooperation and coordination between home and host supervisors. However, the protection of financial and national interests as well as asymmetric information availability across home and host country supervisors can skew decision-making processes in favour of home country and at the expense of host country supervisors and their respective economies. The experience of the global financial crisis has shown that these traditional tools are not sufficient.

Nordic-Baltic – financial integration and supervisory cooperation

Sweden's banking system is closely interlinked with other banking systems in the Nordic-Baltic region. Four (three since October 2018) of the six largest Nordic banks are headquartered in Sweden. Most of the cross-border banking activity in the Nordic region is performed by Nordic banks, and banks from outside the region generally have small market shares. The four largest Swedish banks have a presence – in the form of either branches or subsidiaries – in neighbouring and other European countries.

The strong cross-border links across the region have resulted in supervisors across the Nordic-Baltic region cooperating and coordinating closely with each other. In 2001, the Nordea supervisory college was established, which was later expanded to include resolution authorities and followed by other colleges. There is also cooperation on macroprudential policies and liquidity support agreements between central banks.

The banking union as a crisis response

The banking union was originally conceived and implemented as a reaction to the eurozone crisis, and initially only eurozone countries joined. However, the second important objective is to create a single market in banking, as it can bring efficiency and competition gains and better risk diversification options.

The banking union in its current form consists of the Single Supervisory Mechanism and the Single Resolution Mechanism. The Single Supervisory Mechanism (SSM) was established when the European Central Bank (ECB) took over the responsibility for bank supervision (directly for the largest and indirectly for all banks) in the eurozone in late 2014, following a year-long *Comprehensive Assessment* effort to assess the capital positions across the largest banks in the eurozone and to apply stress tests to these capital positions to establish their resilience. The second pillar of the banking union is the single resolution mechanism (SRM); unlike the SSM, however, this is more a coordination mechanism on top of the national resolution mechanisms that also involves the European Commission, the European Council, the ECB and the national resolution authorities. In addition, the national resolution funds (established across the EU) are to be linked to form the Single Resolution Fund, with steps towards full mutualization by 2024. There is a recent agreement in principle that the ESM should be the backstop to the Single Resolution Fund in the form of a credit line, which is not bigger than the target level of the SRF of €55 billion (or 1 per cent of the deposits covered in the participating member states). There has been less progress on the establishment of a European deposit insurance scheme (EDIS), mainly for political reasons and in spite of a large amount of technical preparatory work.

The banking union – a mixed experience and work in progress

The experience with the SSM and SRM has been positive in a technical sense, even though political constraints still restrict the banking union from being more effective. In terms of specific actions, the resolution of the Spanish bank Banco Popular in 2017, taken over by Santander while its equity and junior bondholders' claims were wiped out, was smooth, with no taxpayer money used. On the other hand, the resolution of several Italian banks required taxpayer support and the bail-in rules were not fully applied. This experience points to one critical issue with the banking union, the fact that a forward-looking supranational financial safety net arrangement has been implemented before legacy problems have been properly addressed.

Beyond the establishment of the SSM and SRM, there have been several EU-wide initiatives, which are relevant for non-eurozone EU member states as well. Specifically, cross-border banking groups in the EU – including parent banks located outside the eurozone – are subject to a regulatory framework that mainly includes: (i) a single rulebook of regulations and directives, (ii) a harmonized supervisory framework and (iii) requirements for cross-border cooperation and coordination, including the establishment of supervisory and resolution colleges and joint decisions in some relevant areas, subject to binding European Banking Authority (EBA) mediation if they do not involve fiscal expenditures. In addition, while traditionally branches were almost exclusively under the supervision of the home supervisor, from the viewpoint of host supervisors (and thus the Swedish FI for Nordea), there has been an improvement of the supervisory host regime for EU branches.

In or out: the case for/against Sweden joining the banking union

There are arguments in favour of and in opposition to Sweden joining the banking union as a non-euro country. The arguments in favour of joining the banking union include the following:

- The Swedish authorities would coordinate more closely with the SSM and SRB and could thus help to influence policymaking and the overall development of the banking union.

- Swedish domestically owned significant institutions may benefit from being subject to supervision by the eurozone authorities, as the SSM collects significant experience across the member countries and different types of institutions.
- A negative argument (against staying outside the banking union) is that there might be supervisory and resolution divergence between banking union and other EU countries over time.
- Joining the banking union would allow Sweden to be more closely integrated into the single market in banking, with possible positive repercussions for competition and efficiency.

The arguments against joining include the following:
- There would be a loss of regulatory and supervisory independence, even though Swedish authorities would participate in joint supervisory teams and internal resolution teams.
- There might be a further move towards branchification, with other Swedish banks with a significant presence in other Nordic countries shifting their headquarters to other Nordic countries.
- Being a small member, the SSM, despite the provisions of non-discrimination laid down in the SSM Regulation, might not pay as much attention to Swedish banks as the national supervisor.
- Sweden would not be a fully-fledged member, given the governance structure within the ECB – in the case of disagreement between the Supervisory Council (which Sweden would be part of) and the Governing Council (which Sweden, as a non-eurozone country, is not part of), the Governing Council would have the final word.

Critically, as the banking union is a project that is still "under construction", many open questions remain:
- One important concern for many "creditor countries" is the legacy losses in several southern countries of the eurozone, most prominently (especially in absolute terms) Italy.
- Given the character of the ESM (the backstop for the Single Resolution Fund) as a eurozone rather than an EU institution, what would be the relationship between Sweden and the ESM?
- What would be the relationship between the Riksbank as the national lender of last resort and the ECB as the eurozone (and thus banking union) lender of last resort?
- What would be the implication of Sweden (and possibly Denmark) joining the banking union for the Nordic-Baltic supervisory cooperation?

Is a decision necessary now or is the option continuous?

There are arguments for and against joining the banking union. It is important to understand how the supervision of significant institutions, including SEB, Swedbank and Handelsbanken, will be dealt with now as compared to within the SSM/SRM but also how banks in Sweden would react to the structural change in supervision and resolution. Most importantly, the banking union still seems to be under construction; if there is a future expansion towards a joint deposit insurance scheme and backstop, what repercussions would that have for the fiscal policy autonomy of Sweden?

In summary and to conclude, having the option to join the banking union is valuable; it is less clear whether now is the optimal time to exercise this option, especially given the incomplete structure of the banking union.

1 Introduction

The experience of the global financial crisis across the European Union and the globe has led to significant reforms in cross-border supervisory cooperation. Specifically, the failure of internationally active financial institutions, such as Lehman Brothers, and cross-border banks, such as Fortis, Dexia and the Icelandic banks, and – even more – their chaotic resolution played a prominent role in the global financial crisis. As active as these banks were globally, their resolution had to be undertaken on the national level given the lack of tools to coordinate the resolution on the cross-border level.

As a consequence, there is growing recognition that Memorandums of Understanding (MoUs) and supervisory colleges,[1] as designed before the global financial crisis, are not sufficient to deal with large and systemically important cross-border financial institutions in times of distress. There have been multiple initiatives at the global level (with the Financial Stability Board (FSB) issuing best-practice papers as well as standards like the Key Attributes for Effective Resolution Regimes) promoting colleges and cross-border supervisory cooperation on the level of the European Union through the Bank Recovery and Resolution Directive (BRRD)[2] and on the eurozone level with the (incomplete) construction of the European Banking Union. Critically, there has been an increasing focus on the resolution stage in the cross-border coordination process. Supervisory colleges have been complemented with resolution colleges and, within the EU, guidelines for cooperation in the preparation for and execution of resolution have been designed. Within the eurozone, the Single Supervisory Mechanism has been complemented with the Single Resolution Mechanism.

The banking union was originally conceived and implemented as a reaction to the eurozone crisis, and initially only eurozone countries joined. Specifically, a currency union with cross-border banking activity and close bank–sovereign linkages is not sustainable with purely national banking regulation (while at the same time relying on one de facto lender of last resort).[3] In theory, however, participation in the banking union is open to any EU member state, once the ECB has vetted the regulatory and supervisory quality of the applicant. In practice, several countries have explored the possibility of joining the banking

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[1] While there were some resolution colleges before the global financial crisis, there were few and far in between.

[2] Including binding rules on supervisory cooperation within the EU and a binding mediation role for the European Banking Authority, EBA, on cooperation where it does not relate to fiscal expenditures.

[3] It is important to note that I do *not* claim that a supranational financial safety net makes the eurozone a sustainable currency union. There are other important elements such as capital market, fiscal and, possibly, a political union, which are not the focus of this paper.

union, given the strong cross-border banking links with eurozone countries, including several Central European countries as well as Denmark and Sweden. In the case of Sweden, a previous discussion led to a declaration to stay outside the union.

This paper assesses the economic rationale for cross-border cooperation among supervisors, resolution authorities, deposit insurers and supra-national institutional structures to support this cooperation. It offers a short assessment of the banking union adopted in the eurozone a few years ago and reviews the arguments for non-eurozone countries in the European Union to join the banking union. Based on theoretical arguments and empirical observations, the paper argues for the need for a supra-national and fully-fledged financial safety net for the eurozone. In line with historical experience, however, one can also expect adjustments in the design of this financial safety net, based not only on experience but also on the development of the banking system.[4] Most importantly, the paper argues that joining this financial safety net provides not only benefits for non-eurozone countries but also shortcomings. While the paper does not make a clear case either way, it argues that the economic case for Sweden joining the banking union is not an obvious one and that there are many open questions. While the option to join the banking union is thus a valuable one, it is not clear that now is the right moment to exercise this option.

The remainder of this paper is structured as follows. The next section provides a conceptual framework for cross-border supervisory cooperation with a focus on the resolution stage. Section 3 discusses the cross-border linkages of the Swedish banking system and the supervisory cooperation within the Nordic-Baltic region. Section 4 presents details of the banking union structure, while section 5 discusses the experience so far and the implication that the banking union has for EU members states that are not part of the eurozone and thus the banking union. Section 6, finally, presents arguments in favour of and in opposition to Sweden joining the banking union. Section 7 concludes, pointing to open questions for non-eurozone countries considering joining the banking union, both generally and specifically for the case of Sweden, and discusses some criteria for the decision process.

[4] If one considers the development of the US banking system and its regulatory framework over the past 200 years, it is quite clear that such a financial safety net responds to changes in the banking system, learning effects, and, importantly, political changes.

2 From national to supra-national supervision and resolution: conceptual framework

Potentially sizeable externalities from bank failure, that is, losses incurred by stakeholders that are not involved in direct or indirect decision making, are the main reason for the banking industry's presence among the most regulated sectors in most economies. Such externalities arise from the network effects across the banking system (interbank exposures, common asset exposures and informational contagion), the risk imposed on savers to suffer losses on their "safe" deposits and the loss of soft information arising from relationships between borrowers and financial institutions, especially in the case of smaller firms. Given the constraints on market discipline in banking, the domino effects and the central role of banks in modern market economies, bank failures not only impose widespread economic losses but also affect other financial institutions and the economy at large; multiple bank failures or the failure of systemically important institutions often result in systemic banking crises, with large costs for the economy (Laeven and Valencia 2018). These costs are the main rationale for financial safety nets, consisting of the regulation and supervision of banks, lender of last resort liquidity facilities and deposit insurance and bank resolution frameworks. Box 1 discusses the structure of the financial safety net in Sweden. Such financial safety nets are traditionally purely national, and, in a world with mostly domestic banking systems and limited cross-border bank flows, there is little, if any, need for cross-border regulatory or supervisory cooperation, at least from an externality viewpoint. As long as the externalities of bank failure are limited to domestic agents and the domestic supervision is effective, there is no economic justification for cross-border regulation.[5]

[5] Domestic regulation, however, might create incentives for cross-border expansion. One notable example is Nigeria where forced consolidation of the domestic banking sector in the early 2000s resulted in excess capital, which fuelled an expansion trend by these banks across the continent. Alternatively, a "bank-friendly" regulatory approach might aim at attracting foreign banks into the country.

Box 1 Sweden's financial safety net

Sweden's financial safety is spread across a number of institutions, following reforms in the 1990s. Finansinspektionen (FI) is the bank regulator and supervisor (as well as being responsible for regulation and supervision in other segments of the financial system and consumer protection), while Riksgälden (Swedish National Debt Office, SNDO) is the deposit insurer and bank resolution authority. The Riksbank is the lender of last resort and responsible for monetary policy (but has no formal financial stability mandate besides promoting a safe and efficient payment system).

FI has both micro- and macro-prudential responsibilities. While not part of the SSM, it is part of the ESRB (as is the Riksbank), established in 2010 and housed at the ECB, which is responsible for macroprudential oversight of the EU financial system and the prevention and mitigation of systemic risk. Early in 2016, the SNDO was designated as the bank resolution authority and the BRRD was implemented through the enactment of a new Resolution Act and a new Precautionary Government Support to Credit Institutions Act as well as amendments to banking and securities market legislation. In addition to extending emergency liquidity assistance (ELA), the Riksbank, jointly with FI, oversees the financial market infrastructure. The Financial Stability Council (FSC), which was created in 2013, is chaired by the Minister of Financial Markets and includes representatives of all three institutions. It is a forum for exchanging information on financial stability and discussing measures to prevent financial imbalances and crisis management measures, including crisis preparedness and exercises. However, it has no decision powers.

The Swedish model of a supervisory entity that is separate from the central bank was introduced after the crisis in the 1990s, and other countries in Europe (most prominently the UK in the late 1990s) and around the world have adopted it. More recently, however, many countries, including countries in the EU (again most prominently the UK), have moved back to a model in which bank supervision is part of the central bank and/or there are close interconnections between these two responsibilities. This is in light of the post-global financial crisis insights that monetary and financial stability are not independent policy goals, that monetary policy has implications for financial stability (by, e.g., affecting the risk-taking incentives of banks) and that macro-prudential policies targeting systemic (as opposed to bank-level) stability are important.

2.1 Cross-border externalities of bank failure

However, in a world where banks deal with banks and markets in other countries and where banks expand their activities across borders, distortions arise from a national supervisory process, as I will explain in the following. One can distinguish between different externalities from cross-border banking:

- *Ownership linkages*: First, cross-border externalities arise from the cross-border activities of specific financial institutions and are not taken into account by domestic supervisors, who – by law – are focused on domestic stakeholders and domestic financial stability and are accountable to domestic governments and taxpayers. The failure of a bank that has foreign assets will impose costs on borrowers abroad by leading to lower credit availability to foreign firms. Similarly, the cost of foreign depositors losing access to savings is not internalised by home country supervisors, leading to inefficient decisions. Cross-border activities thus result in a mismatch between the supervisory perimeter and the perimeter of banks' activities.[6] Specifically, some of the losses from bank failure (such as foreign borrowers losing their lending relationships and foreign depositors losing savings) fall outside the supervisory perimeter, lowering national supervisors' willingness to intervene promptly to limit these losses; on the other hand, the benefits of allowing banks to continue – potentially betting for resurrection with risky investment strategies – fall partly outside the supervisory perimeter, as it will be foreign equity holders who benefit, increasing national supervisors' willingness to act promptly. As we will discuss below, this linkage is highly relevant for Sweden, given the close integration of the banking systems across the Nordic-Baltic region.

- *Market linkages*: Second, cross-border externalities can arise, even if there is no direct cross-border bank presence in a country, through financial market integration. Specifically, direct interbank exposures can result in negative cross-border externalities from a bank failure (see, for example, Niepmann and Schmidt-Eisenlohr 2013). Such cross-border spillovers can also be due to firesales of fragile banks and common asset exposures as well as informational contagion among investors (such as that seen in September 2008, as described by Brunnermeier in 2009). Banks' exposure to the same asset markets as the failing bank in another country is sufficient for this type of externality to occur.[7] The more financially integrated financial systems are, the greater this exposure is. Given the close integration of the Swedish financial market with European and global markets, this is certainly a concern.
- *Regulatory arbitrage*: Third, cross-border externalities can arise from regulatory arbitrage. Banks have incentives to move to jurisdictions with lighter regulation, and such jurisdictions benefit from an inflow of banking business (in the form of jobs and tax revenues). However, this can result in negative externalities for other countries, if and when lighter regulation leads to bank fragility or failure. Altogether, circumvention of supervisory oversight due to regulatory arbitrage, for example regarding licensing requirements, reporting standards and observance of prudential regulations, can have a

6 Beck, Todorov and Wagner (2013) show that banks' cross-border activities distort supervisory incentives as evidenced by actual intervention decisions during the recent global financial crisis. Specifically, cross-border banks with a high share of foreign deposits and assets were intervened at a later, more fragile state by their home country supervisors, while cross-border banks with a high share of foreign equity were intervened earlier at a less fragile state. These findings are consistent with the costs of bank failure being borne by foreign depositors and borrowers thereby providing the incentive for home country supervisors to delay intervention by exercising forbearance.

7 Sales of assets of a weak bank to gain liquidity or deleverage might depress asset prices, which has negative repercussions for banks that hold the same asset and have to mark it to market.

pervasive impact on the solidity of the banking sector and is a major concern, particularly in less developed and smaller economies where the supervisory capacity is limited.

- *Currency unions*: Finally, within monetary unions, specific externalities arise due to the fact that a country cannot simply devalue its currency to regain its competitiveness following a shock and hence may need to tap the resources of other countries in some form or other.[8] The costs from asymmetric shocks that affect members of a currency union to different extents are thus much higher in monetary unions.[9] Further, relying on a common lender of last resort might result in a tragedy of the commons problem, as it is in the interest of every member government with fragile banks to "share the burden" with the other members by, for example, drawing on liquidity support by the joint lender of last resort (Tornell and Westermann 2012). It is important to note that this externality applies on the systemic level rather than just to individual institutions. The costs arising from this potential burden-sharing, or, rather, burden-shifting, across countries in monetary unions increase in line with the overall size of the banking systems and the interlinkages across borders within the union.

These four types of cross-border externalities have a number of implications for regulation and supervision. The high-level implication for international regulation from the first type of externality is straightforward: to avoid these distortions, the geographic perimeter of the responsible supervisor should match the geographic footprint of the bank. While home country supervisors supervise on a consolidated basis, their mandate is primarily focused on the interests of domestic stakeholders, not on foreign stakeholders. Obviously, an alignment of the supervisory mandates and the footprint of banks is hard if not impossible to implement in practical terms, given the size of banks' geographic footprints, their variability over time and the fact that banks that are based in the same home country can be active in different countries and regions. The second type of externality has taken on an increasingly important role over the past decades, with banks being increasingly exposed to market-traded assets and relying more on market-based funding, even though this trend might have reverted somewhat after the 2008 crisis. The third type of externality has arisen repeatedly in recent financial history, with banks locating in the jurisdiction with the lightest regulatory touch. This is hard to avoid, even in the light of regulatory standards, as such standards are voluntary and not legally binding and can be implemented

8 See Farhi and Werning (2017) for a theoretical analysis.

9 A similar need to tap common resources might arise if the banking system is too large relative to fiscal revenue, and thus becomes too-big-to-save, as again the examples of several countries within the eurozone have shown (Bertay, Demirguc-Kunt and Huizinga 2011).

with different degrees of rigour.[10] Finally, the fourth type of externality might be especially relevant for smaller countries in currency unions and for countries with oversized (relative to their overall economy) banking systems. Cyprus is such an example during the eurozone crisis. Another example is countries that have adopted and use the euro as their currency ("eurorized"), such as Montenegro and Kosovo: the money supply in circulation in these countries is not issued by their respective central banks and they therefore cannot exercise their responsibility as lender of last resort effectively. We will discuss this fourth externality in more depth in section 4.

Both domestic and cross-border externalities of bank fragility become most evident and relevant during the failure stage of banks and systemic banking crises. The experience of the global financial crisis has therefore shifted the emphasis of both national supervision and cross-border supervisory cooperation towards the resolution stage. With few if any European countries having bank resolution frameworks before the crisis (thus either applying corporate insolvency frameworks with drawn-out procedures resulting in market freezes, as in the case of Lehman Brothers, or deciding on a bail-out), resolution frameworks were put in place across the EU under the umbrella of the BRRD. At the same time, there has been the political intention to move away from bail-out expectations (thus effectively extending the safety nets to all the creditors of a financial institution) to create bail-in expectations, whereby taxpayers' money can only be used after not only shareholders claims have been written down but debt claims of a certain amount have been either written down or turned into equity claims on the resolved banks. To facilitate such a bail-in, the Total Loss Absorbing Capacity (TLAC) in the case of Globally Significant banks (G-SIBs) (following the recommendation of the FSB) and the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for other significant institutions in the European Union (O-SIIs) (following CRD IV) have been introduced. At the same time, resolution plans are to be drawn up to facilitate the swift resolution of a financial institution to avoid contagion effects and disruption in financial markets.

2.2 Consolidated supervision and conflicts of interests between home and host supervisors

The traditional tool to regulate and supervise cross-border banks has been consolidated supervision, that is, the regulation and supervision of the overall group with all its branches and subsidiaries. Consolidated supervision puts the

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[10] One can interpret the move of Nordea from Swedish to SSM supervision as such a move. In 2016, according to the press and public statements by Nordea's chairman, the bank made an offer to take over Dutch state-owned bank ABN Amro. The potential transaction was justified by the possibility of some regulatory relief, since the combined bank would be headquartered in the Netherlands and, consequently, the consolidating supervisor would be the SSM. However, the transaction was not successful. Similarly, in 2007, when British Barclays bid to take-over Dutch ABN Amro, it announced it would shift headquarters to the Netherlands, which was seen as a move to change the regulator.

home country supervisors in a privileged position, as they have more knowledge and thus also more power than host country supervisors. Consolidated information, however, relies on cooperation between home and host country supervisors, especially for the exchange of soft information. Memorandums of Understanding (MoUs) have typically been used to facilitate the flow of information on a continuous rather than an ad hoc basis and to authorise supervisors to exchange confidential information, even though they are not legally binding. Supervisory colleges serve as mechanisms for cooperation and coordination between home and host country supervisors to enhance the effectiveness of consolidated supervision of cross-border banks. However, the protection of financial and national interests as well as asymmetric information availability across home and host country supervisors can skew decision-making processes in favour of home and at the expense of host country supervisors and their respective economies.

Beyond the information asymmetries, there are other asymmetries in the interests and relative powers of home and host country supervisors. The diverging interests become even clearer during times of distress (D'Hulster 2011). If a problem arises in the parent bank, the home country supervisor has strong incentives to delay and minimise the information sharing (especially if the host country subsidiary is of material importance to the parent bank), while the host country supervisor has strong incentives to ringfence and thus prevent local assets from being up-streamed to offset the losses in the parent bank's financial position or in other parts of the group. If a problem arises in a subsidiary, on the other hand, the home country supervisor has incentives to share information with the host country supervisor (if the subsidiary is of material importance to the parent bank), while the host country supervisor has incentives to overstate the problem vis-à-vis the home country supervisor (possibly triggering capital and liquidity support from the parent) but also to ringfence. Ultimately, in times of distress, the interests of home and host country supervisors are not aligned.

In addition, while the host country supervisor can try to ringfence the subsidiary in times of distress, this is often difficult given the organisational interdependence (such as common IT platforms and centralised back offices) across the bank. Ringfencing is effectively impossible in the case of branches that are fully integrated (both financially and operationally) into the parent bank or one of the subsidiaries. In addition, the relative power of the home supervisor vis-à-vis the host supervisor is even stronger in the case of branches.

One critical issue in resolution planning, especially in the context of cross-border banks, is the discussion between Single Point of Entry (SPOE) and multiple points of Entry (MPOE) resolution strategies. The choice between SPOE and MPOE influences how a cross-border banking group would be resolved. Under the SPOE, losses are expected to be allocated to bondholders and creditors of the parent bank irrespectively of where the losses originated. To ensure that losses in the subsidiaries can be up-streamed to the parent entity, an amount of loss absorbing capacity is prepositioned on the subsidiaries' balance sheet (internal TLAC/MREL). Under MPOE, losses would be borne by the bondholders and other creditors of both the parent entity and one or several subsidiaries ("points of entry"). Each point of entry should be separable from the rest of the group and, for this reason, should be resolvable independently. Consequently, the TLAC/ MREL should be provided mainly by third-party investors in each point of entry, that is, the parent company and the subsidiaries identified as points of entry. MPOE is generally suitable for groups made up of self-sufficient, autonomous financial subgroups and subsidiaries operating in different countries. So far, MPOE has been selected as a resolution strategy in only a relatively limited number of Global Systemically Important Banks (G-SIBs) (e.g., Santander and HSBC).

3 Sweden's cross-border banking links

Sweden's banking system is closely interlinked with other banking systems in the Nordic-Baltic region (see Map 1, which shows the countries where Swedish banks have subsidiaries or branches). Four (three since October 2018) of the six largest Nordic banks are headquartered in Sweden. Most of the cross-border banking activity in the Nordic region is performed by Nordic banks, and banks from outside the region generally have small market shares. The four largest Swedish banks have a presence – in the form of either branches or subsidiaries – in neighbouring and other European countries. Specifically, Nordea (the result of a merger of four large national banks in 2001) has a presence in Denmark, Finland and Norway, with the headquarters until October in Sweden and is thus under the supervision of FI. While originally subsidiaries, in April 2018, they were converted into branches, while other parts of the bank across the Nordic region (insurance, mortgage bank and investment banks) continued as subsidiaries. As of 1 October 2018, Nordea redomiciled to Finland, which turned the Swedish operations of Nordea into a branch of Nordea Finland (supervised by SSM). Swedbank has wholly-owned subsidiaries in Estonia, Latvia and Lithuania, all countries that form part of the banking union. Handelsbanken is present in the UK, Denmark, Finland, Norway and the Netherlands but all in the form of branches (though the one in the UK is about to be transformed into a subsidiary). Finally, SEB has subsidiaries in Estonia, Latvia, Lithuania, Denmark, Finland, Germany and Norway. The SEB and Swedbank subsidiaries are considered to be significant institutions by the SSM and thus are directly supervised by the ECB, given their dominating position in the three Baltic countries, while Nordea is considered to be a significant institution because of its dominant role in the Finnish banking system. These strong cross-border links give rise to externalities, as discussed in section 2, concentrated in European and especially in the Nordic-Baltic countries. Box 2 discusses these externalities in a more systematic way, comparing Sweden and the Nordic-Baltic countries with other country groupings in Europe and across the globe.

The strong cross-border links across the region have resulted in supervisors across the Nordic-Baltic region cooperating and coordinating closely with each other.[11] The shared constituency in the IMF/World Bank helped to form the base for supervisory cooperation. In 2001, the merger of four large national banks into the Nordea bank (which was designated as a G-SIB by the Financial Stability Board in 2011) resulted in the establishment of the Nordea College, considered to be the first supervisory college in the EU; the college was extended to the

[11] For the following, see more detailed discussion in RGC (2016).

Figure 1 Countries with the presence of Swedish banks

Baltic countries as Nordea expanded into these markets. Cooperation in this college has been much more intense than in other colleges (meeting four times rather than the minimum of once a year), including joint supervision missions and crisis prevention planning. In addition to formal cooperation, there is also some informal cooperation among regulators and ministries of finance in the region. In 2003, the Nordic central banks adopted a Memorandum of Understanding (MoU) on the "Management of a financial crisis with cross-border establishments". In 2010, the Nordic-Baltic countries adopted an MoU that included the establishment of the Nordic-Baltic Stability Group (NBSG) to ensure that the parties are prepared to deal with financial crisis situations by agreeing on procedures for cooperation, sharing of information and assessments in advance. This broader MoU, also including the ministries of finance, was signed with an explicit focus on crisis management and resolution as well as specific burden-sharing agreements. A Crisis Management Group for Nordea was established in 2012 after its designation as a G-SIB (which also effectively replaces the resolution college, mandated under the BRRD). Finally, in 2011, the Nordic-Baltic countries established the Nordic-Baltic Macroprudential Forum (NBMF), an informal forum with no formal decision powers, to complement bank-level supervisory cooperation with systemic stability cooperation. Finally, there are arrangements between the central banks of Denmark, Norway and Sweden on the utilisation of central bank deposits at one of the central banks as collateral for intraday liquidity lending in another of the three central banks (a Scandinavian Cash Pool).

3.1 Cross-border linkages of Sweden and the case for cross-border supervisory cooperation

While the externalities discussed in section 2 clearly create biases in decisions in national supervisory decisions, which might be mitigated by supra-national structures, Beck and Wagner (2016) argue that there are both benefits (stemming from these externalities) and costs from supervisory cooperation. These costs result from heterogeneity across countries in, among others, (i) the importance of banking and the market structure in banking, (ii) political, legal and regulatory structures and (iii) societal risk preferences, which in turn lead to differences in supervisory decisions, especially in the resolution phase, and thus again suboptimal decisions if taken by a supra-national supervisor. Beck and Wagner show theoretically that (more intensive) cooperation across borders is optimal the larger the externalities of cross-border banking and the lower the heterogeneity across countries. They also show, however, that, even where (more intensive) cooperation is optimal, it might not happen if only one of the two countries benefits. Furthermore, as already discussed, asymmetry in the importance of a specific subsidiary for the host country and its overall importance on the parent's balance sheet and thus in the home country might bias supervisors against (close) cooperation.

Beck et al. (2018) use hand-collected data and show that countries are indeed more likely to cooperate and to cooperate more intensively if there are greater cross-border externalities, as measured by (i) cross-border ownership links, (ii) stock market correlation as a proxy for capital market integration, (iii) the sharing of a G-SIB and (iv) the sharing of a currency or a fixed peg. On the other hand, countries are less likely to cooperate if they are more different along the three dimensions discussed above. The Nordic-Baltic region has seen more than a doubling in cross-border externalities over the past 20 years, from an average of 0.1 to an average of 0.25.[12] At the same time, Sweden's banking system shares many characteristics with that of its neighbouring countries, especially in the Nordic region. The banking systems in the region experienced banking crises in the 1990s, following financial market liberalisation. They are all characterised by a strong concentration and focus on mortgage lending (with high levels of household indebtedness). Beyond similarities in the banking structure, the Nordic countries share strong historic, linguistic and cultural links. All of these make the heterogeneity across the Nordic-Baltic region (especially across the Nordic region) very low, in line with more intense cooperation even before the global financial crisis.

Map 2 illustrates the differences in externalities and heterogeneity across the Nordic region, the Nordic-Baltic region and the European union from the Swedish viewpoint. Specifically, the average cross-border externality of the

[12] By construction, the externality measure can vary between zero and one. Across a sample of 93 countries, Beck et al. find variation between zero and 0.85.

Swedish banking system with the other four Nordic countries is 0.38, while the average is 0.31 with the Nordic-Baltic region and 0.25 with the European Union.[13] For a sample of 92 countries across the globe, the average externality is only 0.13. This significantly larger cross-border externality within the Nordic and Nordic-Baltic regions is driven by ownership linkages rather than market linkages (which do not vary between the Nordic, the Nordic-Baltic and the European markets). It is important to stress that these linkages are even underestimated, as they do not take into account branch presence, due to data limitations. In terms of heterogeneity, the ranking is exactly the reverse, with the heterogeneity of Sweden with the average Nordic country being the smallest (0.30), followed by the Nordic-Baltic region (0.38), the European Union (0.48) and the global average (0.55).

Figure 2 Externalities and heterogeneity between Sweden and other countries

Note: Lighter colours indicate smaller externalities and greater heterogeneity.

[13] Again, both externality and heterogeneity measures are normalised between zero and one, with higher values indicating higher cross-border externalities between two countries and higher heterogeneity.

4 The European banking union – crisis response and a fundament for banking in Europe

4.1 The Crisis as a starting point

The discussion in section 2 pointed to externalities specific to currency unions. These externalities emerged clearly during the recent eurozone crisis. Specifically, in the absence of any bail-in regimes, large non-performing loan (NPL) exposures and consequent bank losses (resulting in turn from high private overindebtedness and a turning housing price cycle) were taken on by governments, which resulted in a non-sustainable sovereign debt position, as in the cases of Ireland and Spain. In Cyprus, overinvestment in high-yielding Greek government debt caused the insolvency of several large Cypriot banks after the restructuring of Greek government debt. In all the cases, the losses were too great for national governments to burden. In Greece, the sovereign overindebtedness and consequent debt restructuring had a negative impact on Greek banks' solvency position given their exposure to these bonds. In Italy, a triple recession resulted in high NPLs. Many of these distress episodes also had their roots in national regulatory and supervisory failures – lack of macro-prudential regulation and resolution regimes as well as supervisory forbearance.[14] This situation clearly points to the case for supranational supervision both to improve the quality of supervision and to reduce the risk of regulatory capture. In addition, the de facto role of the ECB as a common lender of last resort results in a tragedy of the commons problem, as it is in the interest of every member government with fragile banks to "share the burden" with the other members by, for example, drawing on liquidity support from the joint lender of last resort while avoiding timely and swift resolution of failing banks, thus increasing the losses. Further, shocks across the eurozone affect different countries differently, which makes a strong case for deposit insurance as a risk-sharing tool and to ensure that a euro has the same value across countries.[15] Similarly, monetary policy transmission can become clogged in the case of widespread bank fragility

[14] The comprehensive assessment of 2013/14 has provided evidence for this tendency towards regulatory forbearance by national supervisors. For example, more than 20 per cent of the reviewed debtors were reclassified as non-performing in Greece, Malta and Estonia. Slovenia even saw a 32 per cent reclassification, with one bank hitting 43 per cent. These high numbers in some countries suggests that this is not simply due to different national loan classification regimes but rather a high degree of regulatory forbearance if not regulatory capture.

[15] After Cyprus introduced withdrawal restrictions on its banks in 2013, Wolff (2013) was one of the first to argue that this effectively resulted in a euro having different values across countries of the eurozone.

that cannot be addressed on the national level. In summary, the euro crisis has clearly shown the case for (i) tightening market discipline, (ii) improving supervisory stringency and (iii) risk sharing across the eurozone.[16]

The crisis has also shown that asymmetric interests of national regulators during times of distress can undermine the Single Market in banking, in line with the discussion in section 2. During times of crisis, national regulators have incentives to ringfence, that is, to encourage banks to keep liquidity in the respective jurisdiction, therefore undermining the Single Market in banking and thus the efficiency in capital allocation. This externality became especially clear at the height of the eurozone crisis in 2011/12, when regulators across the region tried to ringfence local subsidiaries and parent banks in light of the denomination risk. For example, the German subsidiary of an Italian bank would not be allowed to transfer funds to its parent bank in Italy, while German supervisors were also pushing German banks with subsidiaries in Italy to source funding locally (Gros 2012).

The creation of the banking union with its different institutions is thus directly a result of the eurozone crisis, and, while in principle open to all EU members, it is not surprising that only eurozone countries have joined the banking union up to this moment. As a child of the global financial and eurozone crises, the banking union's primary focus is stability. The second important objective is to create a "truly" European banking system or a Single Market in banking. This argument is obviously based on the assumption that having a Single Market in banking brings large benefits in terms of higher competition for the EU and better risk diversification for the eurozone.[17] A Single Market in banking also implies the possibility to resolve banks on the supranational level with a focus on maintaining as much of the failing bank's franchise value as possible rather than liquidating the entire institution, while resolution faces limitations in small financial systems, in which there are often few options to merge a failing bank with a healthy bank. In addition, in smaller financial systems, banks are more likely to co-vary in their performance so that one failure rarely occurs alone; being able to resolve banks in the framework of a larger economic area can thus be helpful.

4.2 The components of the banking union: SSM and SRM

The banking union in its current form consists of the Single Supervisory Mechanism and the Single Resolution Mechanism. The single supervisory mechanism (SSM) was established when the European Central Bank (ECB) took over the responsibility for bank supervision (directly for the largest and

[16] For a more general argument on the combination of risk sharing and market discipline in the eurozone, see the recent 7+7 proposal (Benassy-Quere et al. 2018).

[17] This argument is empirically backed up by evidence from the U.S., where inter-state branch deregulation allowed for greater risk sharing and thus lower volatility across states (see Berger and Roman 2018 for a literature survey).

indirectly for all banks) in the eurozone in late 2014, following a year-long *Comprehensive Assessment* effort to assess capital positions across the largest banks in the eurozone and apply stress tests to these capital positions to establish their resilience.

The SSM is now the direct supervisor of 118 significant eurozone banks and the responsible authority for all the banks in the eurozone. It relies heavily on the resources of national supervisors through Joint Supervisory Teams (JSTs) tasked with the day-to-day supervision of banks and banking groups, comprising both SSM staff and staff from the national supervisory authorities. Hence, the national host supervisors retain access to relevant information, even though they have lost decision power in practice. The SSM is now also the responsible body for ensuring that distressed banks are addressed in a timely manner and for reviewing the annual Group Recovery Plan, demanding adequate coverage of all the material legal entities included in the group regardless of whether they are located in or outside the EU.

By late 2014, European authorities had also agreed on the second pillar of the banking union, the single resolution mechanism (SRM), to come into effect in 2016. The SRM is a coordination mechanism on top of national resolution mechanisms that also involves the European Commission, the European Council, the ECB and national resolution authorities. No centralised solution has been established so far for deposit insurance.

The BRRD has also mandated the establishment of resolution funds through the European Union, which, in the case of eurozone countries, are to reach the target level of at least 1 per cent of the amount of covered deposits of all the credit institutions within the banking union by 31 December 2023. In the case of banking union members, these resolution funds are to be linked into a Single Resolution Fund, with steps towards full mutualisation by 2024.

In resolution, however, a strong role for national authorities in the execution of resolution decisions as well as in the planning phase remains. That said, the SRB is less driven by the consensus-oriented decision making of its constituents than the ECB and the SRM model relies more heavily on work performed by national authorities than by the SSM. The national resolution authorities are deeply involved in drafting resolution plans, resolvability assessments, communicating with banks, engaging with them and addressing their doubts but in accordance with the general policies and criteria approved centrally by the SRB. All the eurozone national resolution authorities, together with the SRB, make up the Internal Resolution Teams (IRTs).

5 The European banking union – the experience so far and future development

This section discusses both the experience with the banking union so far and the impact of the banking union on non-eurozone EU member states, such as Sweden.

5.1 The experience with the banking union

The experience with the SSM and SRM has been positive in a technical sense, even though political constraints still restrict the banking union from being more effective. The SSM has to work with different national banking acts and different accounting and auditing standards, which might not only throw sand into the wheels of its own procedures but also hamper the development of a level playing field in regulation and supervision. Further, there could be arbitrage possibilities when it comes to monitoring the banks that are directly supervised by the ECB and those that are not. In addition, the question of the regulatory perimeter will arise for the SSM as much as for other bank regulators and thus the challenge of potentially expanding regulation and supervision towards non-bank segments of the financial system that are closely inter-connected with banks. It remains to be seen how easy it will be for the SSM to redefine its regulatory perimeter legally and politically.

While the SSM can use the macro-prudential tools covered by the CRR and CRD IV (including the counter-cyclical capital buffer), it cannot use other macro-prudential tools, which will remain exclusively under national authority. Given that not only micro- but also macro-prudential decisions have externalities beyond national borders, the lack of macroprudential policy coordination seems to be another gap in the banking union. The ESRB, which does not have any formal powers beyond issuing warnings and recommendations, cannot completely fill this gap.

The SRM – with all the caveats stated below – is an important first step. In its current form, however, it is still mainly a country-based framework, with supranational support only kicking in at the second stage. In addition, it is a rather complicated coordination mechanism, which involves several players. The European Commission and the ECOFIN[18] have de facto veto rights on

[18] Legally, it is the Council of the European Union, but de facto the Economic and Financial Affairs Council, which includes the economics and finance ministers of the EU.

SRB (draft) resolution schemes (though not on resolution planning actions and decisions), which raises serious concerns regarding whether decisions can be taken quickly enough and whether political and non-stability concerns will reduce the efficiency of the decision process. One area in which the SRB faces clear constraints is decisions that affect fiscal expenditures; in particular, it cannot make decisions or take actions that either require Member States to provide extraordinary public financial support or impinge on the budgetary sovereignty and fiscal responsibilities of the Member States. Overall, there has been much less progress made on the resolution than on the supervision side.

In terms of specific actions, 2017 saw several bank failures and actions by the SRM. First came the resolution of the Spanish bank Banco Popular, taken over by Santander while wiping out its equity and junior bondholders' claims. No taxpayer money was used; rather, Santander decided to finance the takeover by raising of 7 billion in the market. Second came the resolution of two smaller Italian banks, Veneto Banca and Banca Popolare di Vicenza, declared to be "failing or likely to fail" by the SSM on 23 June. As in the case of Banco Popular, equity and junior bondholders' claims were wiped out; unlike in the case of Banco Popular, the Italian government had to put in 17 billion euros; and Intesa Sanpaolo took over the good assets of the two banks for a symbolic 1 euro and with a 5.2 billion euro government subsidy. The bad assets were put into a bad bank to be liquidated, backed by 12 billion euros of state guarantee. Against the letter and spirit of the BRRD, senior bondholders were made whole.

Shortly afterwards, the European Commission approved the resolution of Banca Monte Paschi di Siena (MPS) to be undertaken outside the bail-in framework, through precautionary recapitalisation and government-funded recapitalisation, even though shareholders and junior bondholders (though not senior bondholders) suffered losses as well. While the resolution of Banco Popular progressed relatively swiftly, the final decision on the Italian banks was a protracted affair, with long negotiations between the European Commission and the Italian government. As the BRRD does not allow the use of taxpayers' money for bank resolution before senior bondholders are bailed in, an exception had to be made. In this case, the Single Resolution Board decided that the two Venetian institutions did not constitute a financial stability risk and could therefore be resolved on the national level. The Italian government, in turn, argued that bailing in junior debtholders and liquidating the banks would inflict economic damage on the region, as this would imply calling in loans, with the European Commission ultimately agreeing to state aid for the bank liquidation process. Some observers pointed out that the government would have had to pay 10 billion euros anyway if it had bailed in senior bondholders, as these bonds came with a government guarantee (granted several years earlier).[19] In the case of MPS,

[19] For a detailed discussion, see here: https://www.research.unicredit.eu/DocsKey/credit_docs_2014_141245.ashx?EXT=pdf&KEY=n03ZZLYZf5nBctlEwROf3_tpBGNqNMCElOinIFNd0Jk=&T=1

it was argued that its failure constituted too much of a financial stability risk, thus justifying government support.[20] These political manoeuvres to circumvent the spirit if not the letter of the new bank resolution framework and mindset in the eurozone drew immediate criticism, especially in Germany.

The experience with the Italian bank failures, however, points to one critical issue with the banking union, the fact that a forward-looking supranational financial safety net arrangement has been implemented before the legacy problems inherited from the global financial crisis have been properly addressed. Further, several important elements of a fully functioning banking union are still missing, including a stronger public backstop and links between the deposit insurance schemes. The ECB would have to play a significant role in such a public backstop mechanism (either directly or indirectly by serving as a backstop to, for example, the European Stability Mechanism (ESM)).

There are currently discussions underway, on the highest political level, to deepen the banking union further, including through the establishment of a European deposit insurance scheme and the use of the ESM as a backstop. The ESM was established by a treaty among the eurozone states in 2012 and in its current form is limited to eurozone countries. There is a recent agreement in principle that the ESM should be the backstop to the Single Resolution Fund, in the form of a credit line, which is not bigger than the target level of the SRF of €55 billion (or 1 per cent of the covered deposits in the participating Member States). There has been less progress on the establishment of a European Deposit Insurance Scheme (EDIS), mainly for political reasons and in spite of a large amount of technical preparatory work (e.g., Carmassi et al. 2019).

Many observers have argued that a common deposit insurance scheme and a backstop are critical to the long-term sustainability of the eurozone.[21] Specifically, the failure of (several) larger banks might stretch the resources of the single resolution fund (even if some of this might be recovered later). The lack of the necessary, immediately available funding in turn might make supervisors/resolution authorities more reluctant to intervene. The case for common deposit insurance is based on creating trust across the eurozone that a euro is as valuable in any of the member countries. The cases of the Cypriot and Greek bank account freezes have shown that a national deposit insurance scheme within a currency union is only as reliable as the government backing it is solvent. The working hypothesis of this author is that the banking union will eventually be complemented by these missing elements.

[20] See here: https://europa.eu/rapid/press-release_STATEMENT-17-1502_en.htm

[21] For a more detailed discussion, see Carmassi et al. (2020).

5.2 A new relationship between the EU non-eurozone supervisors and the banking union

Beyond the establishment of the SSM and SRM, there have been several EU-wide initiatives, which are relevant for non-eurozone EU member states; further, the move towards the banking union has implications for non-eurozone EU supervisors of cross-border banks, as I will discuss in the following. Specifically, the establishment of the SSM and SRM has changed the role for non-eurozone EU supervisors of cross-border banking groups, in their role as both home and host supervisors. Most importantly, their counterpart for eurozone-based parent banks (subsidiaries/significant branches) is now the SSM as the home (host) supervisor.

Cross-border banking groups in the EU – including parent banks located outside the eurozone – are subject to a regulatory framework that mainly includes: (i) a Single Rulebook of regulations and directives, (ii) a harmonised supervisory framework, including common methodologies and approaches to perform risk assessment and require supervisory measures, and (iii) requirements for cross-border cooperation and coordination, including the establishment of supervisory and resolution colleges and joint decisions in some relevant areas, subject to binding EBA mediation if they do not involve fiscal expenditures. Specifically, joint decisions are to be taken in a number of relevant areas, including (i) institution-specific capital requirements, (ii) institution-specific liquidity requirements, (iii) the validation of internal models and approval of significant changes in them, (iv) the assessment of the significance of a cross-border branch in the EU, (v) the drafting of a Group Recovery Plan, (vi) the authorisation of a group financial support agreement and (vii) the authorisation of actual group financial support (non-binding). Except in cases where noted, home and (more likely) host supervisors can refer to the EBA for binding mediation.

While traditionally branches were almost exclusively under the supervision of the home supervisor, from the viewpoint of host supervisors (and thus in the future FI for Nordea), there has been an improvement in the supervisory host regime for EU branches. The introduction in 2009 of the concept of a "significant branch" into the Solvency Directive gave host supervisors the right to participate in the supervision of the branch and to receive timely information from the home supervisor. This amendment defines a number of criteria to determine when a branch is significant and creates a joint decision process to declare a branch to be significant. This regime has been strengthened by the new concept of a "significant-plus branch", which requires deeper involvement from both the home and the host supervisor in the oversight of the activities performed through the branch as well as a specific risk assessment for the branch. However, the rights and obligations of the home and host supervisors with regard to branches still appear to be unbalanced compared with the rights of home and host supervisors in the case of subsidiaries. Host supervisors, however, do not have the direct authority to challenge a cross-border bank when it wants to convert a subsidiary into a branch.

The EU home supervisor (the SSM within the eurozone) is responsible for establishing a supervisory college. In addition to the EU consolidating supervisor, the members of the college are: (i) the competent authorities responsible for the supervision of subsidiaries, (ii) the competent authorities of host Member States where significant branches are established, (iii) the central banks of Member States that are involved in accordance with their national law in the prudential supervision of legal entities but that are not competent authorities and (iv) the EBA.

Resolution colleges are the main instruments in the EU for cross-border cooperation in resolution, both for preparation and for the execution of resolution actions. EU hosts of both subsidiaries and significant branches have the status of members of the college, which means that they are entitled to attend the physical meetings of the college, receive the information shared within the structures of the resolution college and participate in joint decision-making regarding resolution. Within the resolution colleges, the Group-level resolution authority (either the SRM or – in the case of non-euro countries – a national resolution authority) and the other resolution authorities (i) exchange information required for resolution planning purposes, (ii) develop the group resolution plan, including the joint decision on the plan, (iii) discuss the group resolvability assessment, including the joint decision, (iv) discuss the measures to remove the obstacles to resolution, including the joint decision on their adoption, and (v) discuss the MREL requirements.

Concerning cross-border banks, the SRB considers all the branches and subsidiaries within the eurozone as the same point of entry, with repercussions for the MREL in eurozone subsidiaries. This does not necessarily apply to non-eurozone countries, even within the EU, as I will discuss below. Specifically, the external MREL (i.e., bail-inable instruments held by external investors) has to be held only at the parent bank level, while only the internal MREL (i.e., intergroup claims that allow losses to be up-streamed in the case of a failure) is necessary on the subsidiary level. National supervisors and resolution authorities (even in the home country) are no longer responsible on a stand-alone basis (rather in the Joint Supervisory Teams and Internal Resolution Teams), but this function is taken on by the SSM and the SRB. For subsidiaries and significant branches outside the eurozone, however, including within the European Union, the national supervisors and resolution authorities participate in supervisory and resolution colleges.

Therefore, in the case of Nordea after its move to Finland, the home supervisor (SSM) and the Group-level Resolution Authority (SRB) will invite FI and SNDO to the supervisory and resolution colleges, respectively. As a college member, FI will participate in all major planning and will be granted access to group-level information, which is very valuable for resolution planning purposes; at the same time, it will participate in the joint decisions that are made within the college, including those with regard to resolution plans, resolvability assessments and MREL requirements.

The main institutional change for host supervisors in non-eurozone EU countries (as well as outside the EU) is that they have to deal with the SSM or the SRB instead of the national authorities. This change has some advantages for non-eurozone authorities, as it might reduce the number of counterparties. However, this transition has also generated a potentially more unbalanced situation in which smaller host authorities have to deal with bigger and more powerful institutions, which are less specialised in dealing with the issues that their subsidiaries are facing.

There are also some concerns about the resolution colleges. Regarding resolution planning, resolvability assessments and the MREL, the resolution colleges have been useful for both sharing information between authorities and exchanging views on resolution planning and the MREL, having become a conduit for the spreading of best practices across the EU. The participation of the EBA in these colleges and the fact that a significant amount of colleges has been organised by the SRB have contributed to a certain degree of harmonisation across EU countries. The involvement of the colleges in coordinating and facilitating cooperation in resolution cases, however, is still to be tested, since no relevant cross-border bank failure has taken place since bail-in entered into force.[22] In addition, there is significant room for improvement with regard to the content and the dynamics of the resolution colleges organised by the SRB. Every part of the resolution planning process can be improved in terms of the information shared, technical developments, policy issues and so on (European Court of Auditors 2017).

While all subsidiaries and branches within the eurozone are considered to be a single point of entry for resolution purposes, subsidiaries outside the eurozone might or might not be considered to be separate points of entry. This has implications for the MREL at the subsidiary level. For example, host resolution authorities may consider that a separate point of entry implies independent funding and treasury functions, while the SRB may allow more leeway when defining those interconnections. On the other hand, the SRB does not consider it to be acceptable to consider a subsidiary as a separate point of entry with the MREL provided by the parent company. External MREL is thus required, which might pose problems in jurisdictions with shallow capital markets.

[22] Spanish-based Banco Popular, resolved in 2017 by the SRB, had one banking subsidiary in Portugal and another one in the US. However, no resolution college had been set up to deal with the bank, since both Spain and Portugal are eurozone Member States and Banco Popular did not have any subsidiaries in other non-eurozone EU Member States.

6 In or out: the case for/against Sweden joining the banking union

Several non-eurozone host countries have analysed the possibility of joining the banking union even without being part of the eurozone. More concretely, in Central Europe, Romania, Bulgaria and Croatia are considering applying for banking union membership. It should be noted that these countries are also seeking eurozone membership. However, other countries in the same region (Poland, the Czech Republic and Hungary) remain opposed to joining the banking union. Both Denmark and Sweden have been exploring the possibility of joining the banking union.[23] For these countries, the high ownership and market linkages provide strong arguments in favour of joining the banking union, though there are also strong arguments against joining. The discussion above on the different externalities as well as the structure and the development of the banking union allows me to present these arguments more clearly.

The arguments in favour of joining include:

- *A seat at the table*: Joining the banking union would be consistent with the high ownership linkage of the Swedish banking sector with other countries in and outside the eurozone. By joining the eurozone, FI and SNDO would coordinate more closely with the SSM and SRB, respectively, and could thus help to influence policymaking and the overall development of the banking union. Participating would imply influencing. This is especially relevant for the case of Nordea, as FI staff might be able to form part of the JST for this institution.
- *Stronger supervision of SIFIs*: Swedish domestically owned significant institutions may benefit from being subject to supervision by the eurozone authorities, as the SSM collects significant experience across the member countries and different types of institutions.
- *Shifting the bail-in of subsidiaries upstream*: If Sweden entered the banking union, the SRB would adopt a Single Point of Entry approach to any subsidiaries in Sweden, resulting in the "de facto" guarantee of the subsidiary's external creditors by the parent bank. Currently, however, this might not be as relevant, given that Nordea's presence in Sweden is through a branch and non-Swedish subsidiaries are not prominent. This might, however, change in the future.

[23] There is also the option for non-euro countries of exiting the banking union after three years. I would see such a move initiated by the non-euro country as rather unlikely, though, given the negative market signals it would send.

- *Avoiding supervisory divergence*: A negative argument (against staying outside the banking union) would be that there might be supervisory and resolution divergence between banking union countries and other EU countries over time. While the legal basis for supervision and resolution is the same across the EU, the actual implementation might very well vary. In the case of such a divergent process, then either Sweden would have to adopt the banking union "style" without being able to influence it or the divergence might increase the frictions in the cross-border cooperation and coordination between supervisory and resolution authorities.
- *Joining your neighbours*: Finland and the Baltic countries are part of the banking union, while Norway as a non-EU country does not have the option to join, though, by being a member of the EEA, it is part of the Single Market in banking, participates in the ESRB and is subject to all EU legislation and directives in the financial sector. This changes the dynamics within the supervisory and resolution colleges, as Nordea, for example, will be supervised by the SSM rather than by the Finnish authorities. A more institutionalised cooperation might also allow countries to deal better with the spillover effects of credit booms than the current arrangements in the Nordic-Baltic region.
- *Participating in the Single Market*: Joining the banking union would allow Sweden to be more closely integrated into the Single Market in banking, with possible positive repercussions for competition and efficiency.[24] However, this has to be balanced vis-à-vis a further trend towards branchification and thus a further loss of supervisory oversight. However, it is not clear whether the trend towards branchification can be countered by being outside the banking union, as is obvious from the case of Nordea.
- *Still some independence left*: even if Sweden decides to join the banking union, its macroprudential authority, FI, will still be in charge of identifying systemic institutions and setting buffers for other systemic important institutions (O-SIIs). Similarly, other macroprudential tools will stay the national responsibility. It is important to note, however, that, in the development of the banking union, these responsibilities might also be shifted to a central authority (in line with the arguments discussed above).

Nevertheless, there are also arguments against joining, which include:

- *Loss of regulatory and supervisory independence*: Nordea stated, as one of the reasons for its move to Finland (and thus under the supervision of the SSM), the more rigorous supervisory approach in Sweden – however, this supervisory approach might reflect the Swedish preferences in terms of capital and liquidity buffers. A move into the banking union with the SSM as the direct supervisor for SIs (which would include at least the remaining three large banks in Sweden plus possibly several other banks) might thus not necessarily reflect the Swedish preferences. More specifically, FI would largely lose its power to

[24] As already mentioned above, the experience from the U.S. has shown the benefits from financial integration.

impose higher institution-specific capital and liquidity requirements, among others, under the SREP and Pillar 2 rules. On the other hand, forthcoming regulation, as reflected in the so-called "banking package", would most likely lead to a convergence in Pillar 2 practices across the EU. Another concern is that FI cannot oppose the granting of cross-border liquidity and, where legally possible, capital waivers for their subsidiaries across the banking union, since granting such waivers is within the SSM's powers.

- *Move towards branchification*: Since all the supervisory and resolution powers are transferred to the eurozone authorities, there is an increasing probability of further branchification of the financial system, especially when the banking groups are headquartered in the eurozone, as this would involve cost synergies for the banks. These could take the form of other Swedish banks with significant presence in other Nordic countries shifting their headquarters into the banking union and turning the Swedish operation into a branch. Beyond the move towards branchification, Swedish authorities would no longer be able to apply the multiple point of entry approach to any of Sweden's institutions, even in the case of subsidiaries of systematic banks headquartered in non-EU member countries. While this might seem irrelevant considering the current structure of the Swedish banking system (given the absence of any systemically important subsidiaries of foreign banks in Sweden), it might become relevant in the future.
- *Being a small member*: There is the fear, taking into account the relatively small size of the Swedish banking system when compared with others in the eurozone (Germany, Italy, France or Spain), that the SSM, despite the provisions of non-discrimination laid down in the SSM Regulation, would not pay enough attention to Swedish banks compared with the national supervisor, FI.
- *Governance challenge*: One important constraint is the governance structure within the ECB – in the case of disagreement between the Supervisory Council (which Sweden would be part of) and the Governing Council (which Sweden, as a non-eurozone country, is not part of), the Governing Council would have the final word. This would limit the influence of Sweden and put it at a relative disadvantage in relation to eurozone members of the banking union.[25]

Critically, as the banking union is a project that is still "under construction", many open questions remain:

- First, there is the issue of *funding*. While it has been agreed that the Single Resolution Fund will be a shared pool after 2023, the question of common funding of deposit insurance is still open. Most important, and the biggest concern in this context for many "creditor countries", are the legacy losses in several Southern countries of the eurozone, most prominently (especially

[25] However, there is the option of appealing to the European Court of Justice or start the expedited exit from the banking union.

in absolute terms) Italy.[26] While the sequencing of establishing common supervision, common resolution and common funding has been seen as a guarantee to avoid this problem exactly, the recent experience with the failure and resolution of several Italian banks has not been in line with that.[27] Related to this is the question of the ultimate backstop. Given the character of the ESM as a eurozone rather than an EU institution, what would be the relationship between Sweden and the ESM? How and on which terms would Sweden contribute to and use the backstop?

- Another big question for non-eurozone countries that are pondering whether to join the banking union is *access to liquidity from the ECB*. The Riksbank functions as a lender of last resort, and – as mentioned above – there are reciprocal arrangements in place with the central banks of Norway and Denmark. What would be the arrangement in the case of Sweden joining the banking union?
- Given the *close cooperation in the Nordic-Baltic region*, what would be the implication of Sweden (and possibly Denmark) joining the banking union for this cooperation? There might be a risk that being part of the banking union will undermine this rather close cooperation, given that the SSM and SRB would replace the national supervisors and resolution authorities.

Out of these concerns, the future expansion of the banking union to include a joint deposit insurance scheme and backstop seems to be the most relevant one, given that it has the potential to affect the fiscal policy autonomy of Sweden directly. This is clearly a political rather than a regulatory question, on which wide political consensus would have to be achieved.

[26] It is important to stress that this relates to the legacy problems rather than forward-looking, as Carmassi et al. (2020) show that there is not really a concern of cross-subsidisation in such a fund.

[27] While not directly related to the question at hand, this author has advocated strongly for resolving the legacy losses before moving to a pooled insurance scheme (Beck and Trebesch 2013).

7 Conclusions

This paper described the current state of the banking union and the relationship between the Swedish authorities and the SSM and SRB as banking union authorities. It then discussed the arguments for and against Sweden joining the banking union.

The discussion on whether non-eurozone EU member countries should join the banking union can only be answered on a case-by-case basis. For Sweden, one critical element to take into account is the close interconnectedness with other countries in the Nordic-Baltic region and the already close cooperation between the supervisory and resolution authorities in the region. What would be the gains from joining the banking union compared with the gains from the current close cooperation?

While I do not want to take a firm stance on whether Sweden should join the banking union, I would like to offer some criteria for the decision process. It is important to stress that these criteria are not static but might develop over time.

- Financial stability in the Swedish banking system has been benefitting from Nordic-Baltic cooperation while at the same time benefitting from the efficiency of cross-border banking in the region – *compared with the status quo, what additional benefits are there to be gained from joining the banking union*? Critically, one of the least-developed parts of the Nordic-Baltic cooperation seems to be crisis resolution and burden sharing (RG 2016); this, however, is also the least-developed part of the banking union.
- Would the situation change *if Denmark joins as well and at the same time as Sweden*? Would that change the possible negotiations for joining and the possible position of both countries as non-eurozone countries? Might a joint approach result in a more favourable structure of banking union membership for both countries?
- *How would the supervision of significant institutions*, including SEB, Swedbank and Handelsbanken, *be dealt with now as compared to within the SSM/SRM*? This question arises not so much in terms of the legal requirements and rules on the book but in terms of supervisory practices.
- *How would banks in Sweden react to the structural change in supervision and resolution*? Would it influence their cross-border expansion strategy? Would it affect their organisational structure? Vice versa, would a negative decision on applying for banking union membership result in a reaction by banks, such as in the case of Nordea?

Sweden cannot isolate itself from development in the eurozone given its close integration with the banking systems of the currency union. Joining the banking union would be a quantum jump and one that needs to be considered carefully.

Having the option to join the banking union is valuable; it is less clear whether now is the optimal time to exercise this option, especially given the incomplete structure of the banking union.

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Svensk sammanfattning

Frågan om Sveriges eventuella framtida deltagande i EU:s bankunion har varit aktuell sedan bankunionen inrättades 2012 men har kommit i ett annat ljus sedan både Sverige och Danmark har inlett offentliga utredningar. Den svenska utredningen tillsattes i december 2017. De pågående diskussionerna om en fördjupning av euroområdet har också varit pådrivande. En komplicerande faktor i sammanhanget är att Sverige, liksom Danmark, inte har euron som valuta. I den här rapporten analyserar författaren vilka argument som talar för respektive mot ett medlemskap under dessa villkor. Rapporten tar inte ställning till om Sverige bör gå med eller inte men ställer upp kriterier som bör vägleda beslutsprocessen.

Bakgrunden till att bankunionen behövdes kan spåras till den senaste globala finanskrisen. När stora och gränsöverskridande banker som Lehman Brothers, Fortis och Dexia fallerade eller behövde räddas, ökade trycket på att fördjupa samarbetet mellan tillsynsmyndigheterna i olika länder. Inom euroområdet centraliserades tillsynen i den så kallade gemensamma tillsynsmekanismen (Single Supervisory Mechanism, SSM) och blev Europeiska centralbankens (ECB) ansvar. Samtidigt skapades en gemensam resolutionsmekanism (Single Resolution Mechanism, SRM) för att hantera betydande (eng. *significant*) banker som är på väg att fallera. (Med resolution avses att staten tar kontroll över ett institut som är på väg att fallera, genom rekonstruktion eller avveckling under ordnade former. Institutets verksamhet fortgår så att kunder har tillgång till konton och andra tjänster. Aktie- och fordringsägare får sina innehav nedskrivna.) Ett tredje steg, som ännu är i sin linda, är att centralisera insättningsgarantierna i bankunionen i ett europeiskt insättningsgarantisystem (EDIS). Än så länge deltar endast euroländerna i bankunionen men diskussioner pågår i samtliga övriga medlemsstater (förutom Storbritannien).

Globala banker med nationell tillsyn

Det finns betydande så kallade externa effekter när gränsöverskridande banker fallerar i en kontext med helt nationell finansiell tillsyn. För det första kommer ett fallissemang i en bank med utländska tillgångar och utländsk finansiering att ge kostnader bortom den nationella tillsynsmyndighetens regleringsmässiga räckvidd. Då tillsynsmyndigheten inte tar hänsyn till dessa kostnader blir myndighetens ingripande partiskt. För det andra kan liknande problem uppstå om bankerna har gränsöverskridande förgreningar genom exponeringar mot interbankmarknaden och gemensamma tillgångar. För det tredje har banker incitament att flytta till jurisdiktioner med svagare reglering, vilket kan resultera i negativa effekter för andra länder om den svagare regleringen leder till bankfallissemang. Avslutningsvis uppstår externa effekter särskilt i monetära unioner, då de ingående länderna inte har möjlighet att devalvera valutan för att återfå konkurrenskraften efter en chock.

De kan därför vara i behov av finansiell hjälp från övriga länder. Om det finns en gemensam sista låneinstans kan detta i sin tur leda till en så kallad *allmänningens tragedi*: medlemsstater med svaga banker har incitament att försöka dela den självpåtagna bördan med andra medlemsstater genom att motta likviditetsstöd från den gemensamma sista låneinstansen.

De tillgängliga verktygen för gränsöverskridande samarbeten är otillräckliga

Det verktyg som hittills i huvudsak har använts för att reglera och övervaka gränsöverskridande banker har varit en *konsolidering* av tillsynen – det vill säga att reglera och övervaka hela bankgruppen (det vill säga moderbank samt dotterbank och/eller filial). Det förutsätter samarbete mellan tillsynsmyndigheterna i bankens värd- och hemländer. Ofta har samförståndsavtal (eng. *memorandum of understanding*, MoU) upprättats för att möjliggöra informationsutbyte, medan så kallade tillsynskollegier bestående av de respektive tillsynsmyndigheterna i hem- och värdländerna har bildats för att möjliggöra samarbete och samordning dem emellan. I dessa samarbeten kvarstår emellertid problem. Det rör sig exempelvis om skydd av nationella finansiella intressen samt att asymmetrisk information mellan hem- och värdländers tillsynsmyndigheter ger en skev beslutsprocess till nackdel för såväl värdlandsmyndigheterna som för deras ekonomier. Erfarenheterna från den globala finanskrisen visade att de dittills vidtagna åtgärderna var otillräckliga.

Den nordisk-baltiska finansiella integrationen och tillsynssamarbetet

Det svenska banksystemet är nära sammanlänkat med motsvarigheterna i den nordisk-baltiska regionen. Fyra (tre sedan oktober 2018) av de sex största nordiska bankerna har sina huvudkontor i Sverige. Huvuddelen av den gränsöverskridande bankverksamheten i Norden utförs av nordiska banker, medan banker med hemvist utanför regionen generellt har mindre marknadsandelar. De fyra största svenska bankerna har verksamhet – antingen via dotterbanker eller filialer – i angränsande och andra europeiska länder.

De starka gränsöverskridande kopplingarna har lett till att nära samarbete och samordning har upprättats mellan tillsynsmyndigheterna i den nordisk-baltiska regionen. Tillsynskollegiet för Nordea var det första i sitt slag i EU och etablerades redan 2001. Det växte till att även omfatta bankresolution och har följts av andra kollegier. Det finns även ett samarbete med överenskommelser avseende makrotillsyn och likviditetsstöd mellan centralbankerna i regionen.

Bankunionen som svar på krisen

EU:s bankunion upprättades ursprungligen som ett svar på eurokrisen och endast euroländer är ännu (2019) medlemmar. Ett annat viktigt motiv till bankunionen är emellertid att skapa en gemensam bankmarknad, då det kan ge effektivitets- och konkurrensvinster samt ge möjlighet att bättre sprida risker.

Bankunionen i sin nuvarande form består av tillsynsmekanismen, SSM, och resolutionsmekanismen, SRM. Tillsynsmekanismen etablerades när ECB tog över ansvaret för banktillsynen (direkt för de största bankerna och indirekt för resterande banker) i euroområdet i slutet av 2014. Detta följde på en årslång så kallad *samlande bedömning* (eng. *comprehensive assessment*) av de största bankernas kapitalpositioner samt stresstester som bedömde deras motståndskraft mot finanskriser. SRM är bankunionens andra pelare och är, till skillnad från SSM, mer av en samordningsmekanism utöver de nationella resolutionsmekanismerna. Den inbegriper Europeiska kommissionen, Europeiska rådet, ECB samt de nationella resolutionsmyndigheterna. De nationella resolutionsfonderna ska länkas samman för att etablera resolutionsfonden (Single Resolution Fund, SRF), som blir helt gemensam senast 2024. Det finns även en överenskommelse om att Europeiska stabilitetsmekanismen (ESM) ska fungera som finansiell säkerhetsmekanism för SRF, via en kreditlina, i den händelse fonden töms på sina resurser. Säkerhetsmekanismen är inte större än SRF:s målnivå på 55 miljarder euro. När det gäller bankunionens tredje pelare, EDIS, har förhandlingsframgångarna hittills varit blygsamma.

Bankunionen – blandade erfarenheter i ett ofärdigt bygge

Erfarenheterna av SSM och SRM har tekniskt och praktiskt i huvudsak varit positiva, medan kvarstående politiska begränsningar minskar bankunionens ändamålsenlighet. Erfarenheterna är hittills blandade. Resolutionen av den spanska banken Banco Popular 2017 innebar att den togs över av konkurrenten Santander samtidigt som aktieägarnas kapital raderades och fordringsägarnas skulder skrevs ned. Processen var förhållandevis smidig och drabbade inte skattebetalarna. Å andra sidan krävdes stöd från skattebetalarna i ett antal fall där italienska banker räddades utan att nedskrivningsreglerna användes fullt ut. Dessa erfarenheter visar att det framåtblickande överstatliga finansiella skyddsnätet kom på plats *innan* de ärvda problemen från den globala finanskrisen och eurokrisen till fullo hade tagits om hand.

Förutom SSM och SRM har flera EU-initiativ etablerats som är relevanta även för icke-euroländer. Gränsöverskridande bankgrupper i EU – inklusive moderbanker som är placerade utanför euroområdet – lyder under ett regelverk som huvudsakligen inkluderar: a) en gemensam regelbok och ett antal direktiv; b) ett harmoniserat tillsynsramverk; samt c) krav på gränsöverskridande samordning och samarbete, inklusive etablering av tillsyns- och resolutionskollegier med gemensamt beslutsfattande inom vissa områden och vilka lyder under Europeiska bankmyndighetens (EBA) medling (om de inte innefattar finanspolitiska utgifter). Dessutom har ställningen för värdländers tillsynsmyndigheter stärkts i förhållande till hemländernas tillsynsmyndigheter, där de senare tidigare var i princip ensamt ansvariga för tillsynen.

Innanför eller utanför: argumenten för och emot svenskt medlemskap i bankunionen

Det finns argument både för och emot att Sverige som icke-euroland går med i bankunionen. Argumenten *för* ett medlemskap är följande:

- Berörda svenska myndigheter skulle samordna mer nära med SSM och SRB och därmed kunna påverka politiken och den övergripande framtida utvecklingen för bankunionen.
- Svenskägda betydande finansiella institut kan dra nytta av att stå under tillsyn av myndigheter i euroområdet, då SSM samlar värdefulla erfarenheter från medlemsstaternas olika institutioner.
- En divergerande praxis kan utvecklas över tiden mellan bankunionen å ena sidan och resterande EU-länder å den andra.
- Genom att gå med i bankunionen skulle Sverige bli mer integrerat i den gemensamma bankmarknaden, med potentiella konkurrens- och effektivitetsvinster.

Argumenten *mot* ett medlemskap är följande:

- Det oberoende som åtnjuts när det gäller den finansiella regleringen och tillsynen skulle gå förlorad, även om svenska myndigheter fortsatt skulle delta i gemensamma tillsyns- och resolutionskollegier.
- Medlemskap kan leda till ytterligare filialisering, det vill säga att svenska banker med betydande verksamhet i andra nordiska länder kan komma att flytta huvudkontoren dit.
- Även om SSM-förordningen anger att diskriminering inte får förekomma, kan SSM komma att fästa mindre vikt vid problem i de mindre bankunionsländerna än vad den nationella tillsynsmyndigheten hade gjort.
- Sverige skulle inte vara en fullvärdig medlem, givet hur styrningsstrukturen är uppbyggd i ECB: om det råder oenighet mellan tillsynsnämnden (som Sverige deltar i) och ECB-rådet (som Sverige som icke-euroland inte deltar i) har ECB-rådet sista ordet.

Eftersom bankunionen fortfarande är ett pågående projekt kvarstår flera frågor:

- Givet frågans betydelse för ”borgenärländerna”, vilket arv har finanskrisen efterlämnat i södra euroområdet, särskilt i Italien?
- Med tanke på att ESM ska utgöra finansiell säkerhetsmekanism för SRF och är en konstruktion för euroområdet snarare än en EU-institution, vilket förhållande kommer att råda mellan Sverige och ESM?
- Vilket förhållande kommer att råda mellan Riksbanken i dess roll som sista låneinstans och ECB i dess roll som euroområdet (och därmed bankunionens) sista låneinstans?
- Vilka konsekvenser skulle ett svenskt (och eventuellt danskt) medlemskap i bankunionen ha för det nordisk-baltiska samarbetet i tillsyns- och resolutionsfrågor?

Är det nödvändigt att ta ställning nu?

Det finns argument både för och emot ett svenskt deltagande i EU:s bankunion. Det är viktigt att förstå hur tillsynen av viktiga finansiella institut – inklusive SEB, Swedbank och Handelsbanken – hanteras i dag i jämförelse med hur de skulle hanteras inom ramen för SSM och SRM. Det är även nödvändigt att söka förstå hur banker i Sverige skulle reagera på ett sådant strukturellt skifte i tillsyn och resolution. Ytterligare en omständighet är att bankunionen fortfarande är under uppbyggnad. En viktig aspekt att ta hänsyn till är dessutom vad en expansion till ett gemensamt insättningsgarantisystem implicerar för Sveriges finanspolitiska autonomi.

Sammanfattningsvis är det av värde för Sverige att kunna välja mellan att gå med och att stå kvar utanför bankunionen. Det är dock inte klart att den optimala tidpunkten att gå med är just nu, i synnerhet som bygget ännu pågår.

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The European Commission: Less a Leader and More a Manager?
Authors: Neill Nugent and Mark Rhinard

"As a child of the global financial and eurozone crises, the banking union's primary focus is stability. The second important objective is to create a 'truly' European banking system or a Single Market in banking."

This report was originally written for the Government inquiry Committee on Potential Participation in the Banking Union.

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