Banking Union and Reform of the Financial Supervisory System: an Effective Resolution for the Eurozone Crisis

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Ⅰ Introduction

This paper aims to examine the Banking Union proposed as an effective resolution for recent Eurozone debt crisis, and to analyze the reform of Europe's financial supervisory system. First, it investigates structural problems within the European Economic and Monetary Union. Particularly, it places the Franco-German relationship at the centre, and tries to relate the historical viewpoint on monetary union to the current situation. Second, it analyses the ideals and concrete proposals

for the Banking Union submitted by European Commission in terms of comparative feasibility. Third, it considers solutions for the Eurozone's current financial and sovereign debt crisis from a comprehensive view including financial supervision.

The Eurozone's 18 countries are required, under the 'non-standard measures' implemented under the ECB's (European Central Bank) single monetary policy, to more strictly restrain their budgetary planning. As a result, member countries' budgetary polices are shifting drastically to 're-strengthening of discipline' as a reflection of the sovereign debt crisis. At this time, the unification of financial regulation, also known as 'homogenizing', is also curtailing individual member states' ability to set up individual budgetary policies. In recent years, the ESRB (European Systemic Risk Board) and the ESFS (European System of Financial Supervision) were launched as organizations that mandate both the micro-and macro-prudential policies using both the cross-section method and a uniform method. This approach is based on 'de Larosière Report' submitted in February 2009. However, these might change in future. On the other hand, the international monetary system is facing high uncertainty in two domains, namely financial conditions and fiscal conditions. Tensions exist between the 'market' and 'nation-states'. On the one hand, market pressures have increased due to, high openness of the Eurozone's government bond market following the global financial crisis. On the other hand, circumstances also increase governments' need to reflect 'public opinion'. In this context, this paper sheds light on three points as a possible resolution for the current Eurozone crisis. These points are of following hierarchy: monetary policy, financial supervision and fiscal and economic policies that include structural reform. The paper particularly focuses on financial supervision, the second point. In recent years, an unprecedented motivation has emerged to utilize financial supervision to tackle the Eurozone's sovereign debt crisis. Through a process of discussion and revision, it has moved from an ideal closer to practice. I analyze this process from the viewpoint of Banking Union first submitted in June 2012 by the European Commission.

In addition, the Archives de la Banque de France are also used in developing the

analytical framework. My research also draws on a series of discussions held the honorary and current director general of the Banque de France, the practical specialists of European Commission in Brussels and academic scholars in UK and Luxembourg from 2013 to 2014.

II Structural points of the European Economic and Monetary Union

1. Background of this article: a viewpoint on recent trends

We put forth the proposal of a Banking Union[i] in the European Union as a key solution for the current Eurozone crisis (European sovereign debt crisis). One key background point to note is the importance of financial supervision, which is becoming more important and policies more effective not only within nation-states but also for various markets. So far, though, the major reform of financial supervision and financial regulation have been dealt with simply as another dimension in the discussion of the problems facing the euro; in recent years, these have been addressed at the European Union-level by focusing on unifying financial supervision, particularly over the banking sector. On central pillar of such reform is the proposal for a Banking Union.

As of 2013, Banking Union remained a mere proposal, but it has relatively high feasibility. In fact, on 12 September 2013, it was finally passed by the European Parliament (EP), a significant step in the current situation. Nowadays, the Creation of the Single Supervisory Mechanism (SSM) is concrete, despite concerns from Germany and Finland about inappropriate concentration and the mandate for single banking supervision; although, the fact remains that the EP permitted the proposal. On the day it passed, European Commission President Barroso and Commissioner Barnier made statements stressing that attention should now urgently turn from creation of the SSM to developing an SRM (Single Resolution Mechanism)[ii].

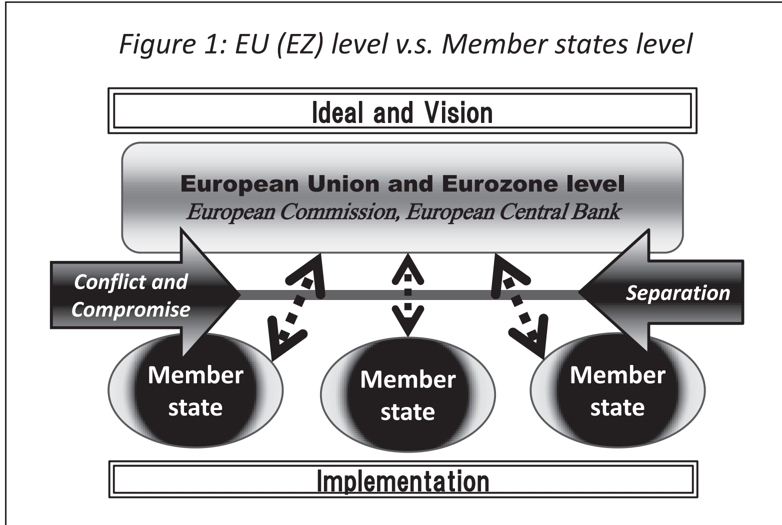
Certainly, it is evident that this plan has been developed fully and carefully by the multi-dimension view presented in the proposal paper and subsequent revision. So it has become a way of proceeding worthy of the European Union, showing its

characteristic accumulation of ‘acquis-communautaire’.

In general, the substantial problem of the EU’s debt crisis is a ‘fiscal’ matter; however, member countries have retained control of their sovereign financial supervisory systems as well as budgetary policy. However, banking crises should be de-linked from sovereign crises as soon as possible. One possible mechanism is fiscal union.

Several important financial, monetary and regulatory matters were extensively discussed at the October 2012, Annual Meeting of IMF-WBG held in Tokyo. Special ‘Program of Seminars[iii)]’ focused on, for example, 1) Sovereign Risk, Capital Markets and Financial Stability: The Interconnections and 2) Restoring Public Debt: Sustainability in a High-Risk Environment. Mr. Carlo Cottarelly, Director, Fiscal Affairs Department, IMF, stressed the importance of ‘fiscal union’. This led to the realization that the solution to the EU’s fiscal problem has already been devised — simply by a different organization working at a different economic scale. However, much of the discussions that have occurred at the IMF-WBG level need to be discussed and approved at the G20 level; in other words, the level of EU political decision making, rather than imposed from above. Indeed, public opinion is growing on the point that it is a substantial and significant problem for policies decided by independent (on ideals) bodies such as Central Bank and IMF can effectively overrule the political level. It is essential for stabilizing international financial architecture so that the practical methods and contents are transferred to the political level (democratic understanding).

In addition, we should recognise that conflict and compromise will always occur between the EU/Eurozone level and member states level, which shows the difference between ‘ideal and vision’ and ‘implementation’ **(Figure 1)**. This point was presented by Mr. Didier Bruneel (Honorary Director General of Banque de France) in discussion with author in Paris in February and September 2013.



2. Historical perspective on the Franco-German relationship

When analysing the structure of European monetary integration, the perspectives should be examined of both France and Germany, the core countries toward the monetary integration. The current Eurozone crisis is the first huge problem for European countries since 1999 and the achievement of monetary integration. This crisis is not a 'currency crisis', which had occurred in Europe in 1992-93 as EMS crises, but a 'budgetary crisis' and 'sovereign crisis'. Today's crisis is also a 'banking crisis', which is a central reason for the 'banking union proposal'.

In 1970s, following several currency crises, the 'snake' system was destabilized because France, as a core country, suffered from speculators selling francs and the pressure of higher interest rates. France was forced to exit from the snake in January 1974, returning in July 1975 only to re-exit in March 1976. In the economic situation of stagflation, France injected unstable movement into European monetary cooperation. However, following reforms spearheaded by Raymond Barre, who assumed the post of French prime minister in the mid 1970s, French policies were similar to German policies[iv)]. Such an alignment process continued, with exception of 'the experiment of Mitterrand', under the 'Mauroy Plan' in 1982 and the 'Delors

Plan' in 1983. By 1986, the change in policy direction was already bearing results[v].

The EMS (European Monetary System) was actually founded in 1978 by two significant agreements, namely the Bremen Accord and the Brussels Resolution. The EMS consists of three pillars; ERM (Exchange Rate Mechanism), ECU (European Currency Unit) and EMCF (European Monetary Cooperation Fund, or FECOM, to use the French abbreviation). In particular, FECOM's role had been inherited by EFSF (European Financial Stability Facility) after the euro's introduction (in the sovereign debt crisis), and has been succeeded by the ESM (European Stability Mechanism), which started in October 2012. The character of 'fund', which plays an important part as a 'short-term facility' or 'fund supply', has been to keep a universal value through social history.

As a prerequisite of the above two agreements, in August 1978, the European Council in Copenhagen made an agreement in principle of the need for monetary stability in Europe. On that basis, the agenda in the above Bremen Conference in July 1978 focused on only monetary matters. The European Council approved the outline of EMS together with describing its principle and advanced the integration of the above-mentioned FECOM to EMF (European Monetary Fund). Furthermore, plans were made to implement in this process within two years of the inauguration of the EMS (1979-81). However, concerns were raised that this posed too short of a time period to implement such an ambitious program of integration.

However, as a result, even though the Brussels Resolution in December 1978 officially established the EMS, the European Council had no choice but to renounce proposals requiring meeting the 1981 deadline to set FECOM in the EMF. This also reflects disagreements between member states over the EMF's character and organization[vi].

When examining the particular history of France and Germany in respect to the above policy failure, we should keep the three following points in mind regarding French political development in the history of European monetary integration: (1) France's tactics in European monetary integration and its interaction with the Franco-Germany or Franco-American relationship, (2) within France's relationship

with Germany, the consequences of conflict and/or compromise with the Bundesbank during monetary integration and (3) within France's relationship with America, its appearance of competing several times with the US in its proposal of international financial systemic reform. France put forward proposals on the return to the gold standard in 1960s, a policy presented by Jacques Rueff, Valéry Giscard d' Estaing, on reform of international financial architecture in the middle of 1980s, and on the unification of the 'Palais Royal Group' after global financial crisis in 2008. In particular, Banque de France took the initiative and published a 'Financial Stability Review', which consisted of a technical analysis by the governors of the main central banks. These activities indicate France's influence as a state possessing the power to present proposals to international society.

On the contrary, with regard to Germany, as a significant core country that has effective power over the convergence of policies in Eurozone member states, we could note the three following points. They are in line with developments on the road to monetary union that, (1) the Bundesbank has more original theories than the German government, (2) a decision was made to discard the mark as a stable currency and (3) it clearly appeared that 'monetarism', which attached a high value to M3, has been chosen since the late 1970s. In terms of the current Eurozone crisis, some differences between Germany and other member states are unavoidable, and indeed, are vital (however, some states are similar to the German stance). This point particularly emerges when examining the difficulty gaining agreement as to the feasibility of the current Stability Bond (Eurozone common bond) proposal. On the other hand, TSCG (Treaty on Stability, Coordination and Governance) was agreed on 2 March 2012; however, Mr. François Hollande was sworn in as the new President of the French Republic, Europe faced a complicated situation including the requirement of new policies on growth and employment.

3. The importance of completion of the free capital movement and the recognition of inter-community disequilibrium in the EC: regional imbalances

The Archives de la Banque de France reveal several interesting historical points regarding this article's theme. One such example is the importance of 'the free movement of capital'. In the late 1980s, the authorities' recognition of this point is reflected in the popularity of the 'la libération complète des mouvements de capitaux', namely the complete liberalization of capital movement, in the records of the committee of governors of EEC central banks (Procès-verbal de la 223e séance du Comité des Gouverneurs des Banque Centrales des États membres de la Communauté Économique Européenne, tenue à Bâle, le mardi 8 mars 1988[vii]). In addition, the Groupe d' experts présidé par M. Raymond (1987) and Groupe d' experts présidé par M. Dalgaard (1988), two documents written by experts groups in the committee of governors of EEC central banks, show that the problem on liberalization of capital movement was recognized at the highest levels. Furthermore, Mr. de Larosière said that as the free movement of capital in the Community was a vital purpose and it constituted a fundamental part of development of the single market, then France regarded this step as irreversible.

In addition, the French archives also shed light on the issue of 'regional balance', or, 'les déséquilibrés intracommunautaires de balances des paiements', revealing that concern over this issue in the documents of the research department of Banque de France on 23 November 1989[viii]. The surplus countries at the time were Germany, the Netherlands, Belgium/Luxembourg and Ireland, while deficit countries were France, Denmark, Italy, Spain, Portugal, Greece and United Kingdom. This situation is similar to the current status. The matter of imbalances in the Community's current account depends on competition and industrial structure, rendering it impossible to resolve in the short-term. On the contrary, an effective solution needs to utilize the differences and diversity in the region.

Ⅲ The structure of a Banking Union and its impact

1. Prerequisite of a Banking Union: current framework of the financial supervisory system

This chapter examines the system of financial supervision, which is currently conducted by several bodies across the European Union. First, the SEA (Single European Act) and Second Banking Directive, established and implemented from the latter part of the 1980s to the early 1990s, served as important foundations to the EU's regulatory and supervisory framework. Second, the FSAP (Financial Services Action Plan) as well as the four levels of the Lamfalussy process and its implications played vital roles in constructing the EU's framework of regulation and supervision.

Following these first steps, the High Level Group, chaired by Mr. de Larosière, published the framework for a new cross-sector supervisory system designed to safeguard Europe's financial stability[ix)]. It positively impacts the EU's financial stability. The report begins with very strict recognition for this global financial crisis. This framework envisioned a central role for the chairperson of ESRC (European Systemic Risk Council) as the governor of the ECB (European Central Bank); namely, the ECB would play a core role. It also called for the ESRC to issue an early warning of risk to ESFS (European System of Financial Supervision). This reflects an 'ex-ante prevention' approach to dealing with a financial crisis and shows the importance of pre-emptive measures.

Next, we examine the situation of the system in December 2013. Currently, the ESRB (European Systemic Risk Board) implements macro-prudential supervision. This institution holds responsibility of summarizing the overall situation, and it monitors and makes assessments on the risks to financial stability. It also keeps an eye out for early indications of systemic risks that could contribute to accumulation. After the global financial crisis, this macro-prudential policy seems to be even more significant in the main advanced central banks. The ESRB's creation may act in concert with that of the FSB (Financial Stability Board) at the G20 level. This

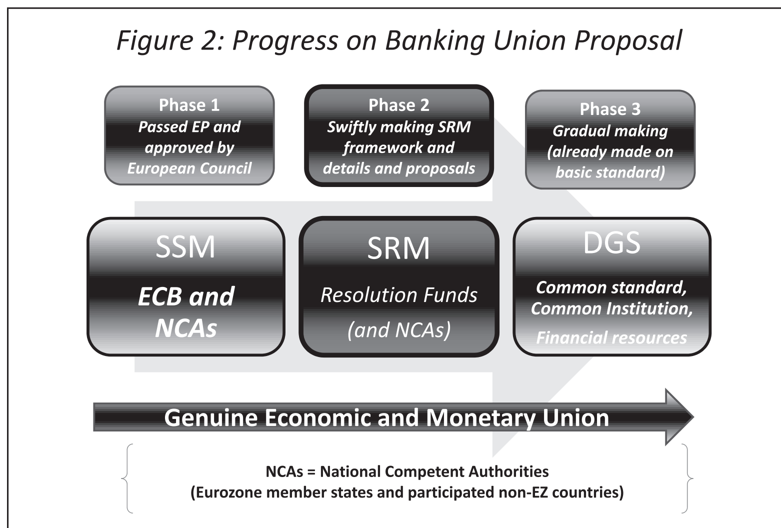
reflects the increasing trend of multinational level initiatives outside the EU. It reflects the development that ‘substantive’ political cooperation is not bilateral but multilateral; in other words, the power constraints operating on member states, hardly or softly, were implemented in response to real economic pressures and brought a sense of tension. In addition, it reflects the facts that the world has increasingly commoditized the need for financial regulation, and the financial regulation gradually becomes level with diversity.

In contrast, the ESFS plays the role of micro-prudential supervision. This is system holds the domain of supervision for each individual credit institution. The ESFS consists of a network binding the supervisory authorities of EU member countries, and is managed through cooperation with ESAs (European Supervisory Authorities), which consist of the EBA (European Banking Authority) in London, the EIOPA (European Insurance and Occupational Pensions Authority) in Frankfurt and the ESMA (European Securities and Markets Authority) in Paris. Therefore, these institutions are largely affected by the de Larosière Report.

2. The approach of a Banking Union

Next, we will review the fundamentals of a banking union, or in French, ‘une union bancaire’. A banking union has as important a role to play as the EMU (Economic and Monetary Union) and fiscal cooperation. Its main tenets are construction of pan-European supervision, a single-resolution measure and harmonisation of national deposit guarantee schemes. The Banking Union project therefore consists of three pillars, namely, SSM, SRM and a Common DGS (Deposit Guarantee Scheme) **(Figure 2)**. Spain’s banking crisis has placed particular impetus behind the Banking Union project as one of Spain’ s major banks, Bankia, needed to be rescued from its non-performing loan problem. In addition, Spain’s sovereign risk of state triggered the Eurozone’s overall sovereign debt crisis.

It must be pointed out that as measure of sovereign debt problem, European sovereign debt markets have ‘high openness’, which is a high contrast to the JGB (Japanese Government Bond) market. In addition, because fiscal policies basically



depend on the autonomy of member states, market participants can continue to exploit a gap between expectation and reality. By the mechanism, the element of risk contributes to extraordinary rise of the yield from national bonds. In contrast, US national bonds are largely held by Asian authorities such as China and Japan for the holding as foreign reserves. So the characters of these markets substantially differ. The openness of the European bond markets generates a situation of continued acceptance of market pressures at all times.

The proposal for a Banking Union was first presented in full in June 2012. The document proposed by the European Commission is a vital reference; namely, the European Commission (2012) (Brussels, XXX COM (2012) 280/3), *Proposal for a Directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms*[x].

Its main points are the following. The document sets up the effective recovery of banking sector and a framework for resolution. Originally, bank and investment firms operating as credit institutions supplied vital and essential services for consumers, industries and overall economies, such as holding deposits, lending and operating a payment system. Because these operations are based on credit, once

customers or counterparties lose confidence in the competence of payment obligations, the credit institution's financial operations must become immediately invisible. If the bank fails, the document depicts how the bank will gradually end its operations along with ordinary bankruptcy procedure. However, on the other hand, the document sounds a warning when a single bank's problem could be possibly spread to the overall system due to increasing interdependency among credit institutions.

The document further states that certain cases from can be exempt from ordinary bankruptcy procedures owing to the systemic risk posed by the individual credit institutions and important functions such as financial operations. The report also indentifies the lack of effective tools for credit institutions on the verge of crisis, which led to the frequent demands for injections of public funds for the recovery of credit. Currently, public funds could be injected into relatively small credit institutions to prevent heavy damage in real economy or forestall the 'domino phenomenon'. For this reason, a tool is required to enable banking resolution in an orderly manner and avoid contagion from spreading to other institutions.

The political framework of the Banking Union gives the supervisory authorities responsibility for overseeing the overall health of the system through the following common effective tools an competences: (1) to 'pre-emptively' deal with banking crises, (2) to implement safeguards for financial stability and (3) to minimize taxpayers' exposure to losses. Particularly, the document frequently highlights the third point in relation to fiscal stringency.

Finally, I mention the four concrete tools for banking resolution. First, the *sale of business*; this means the sale of targeted credit institutions, or the sale of all or part of its operations (however, it doesn't need approval by stake holders), and as much as possible, the authority would sell the targeted credit institution or part of its operations on the market. Second, the idea of a *bridge institution*, where the authority would require targeted credit institution to transmit all or part of its operations to an official management institution. The bridge institution needs a license along with a CRD (Capital Requirement Directive). If the market condition

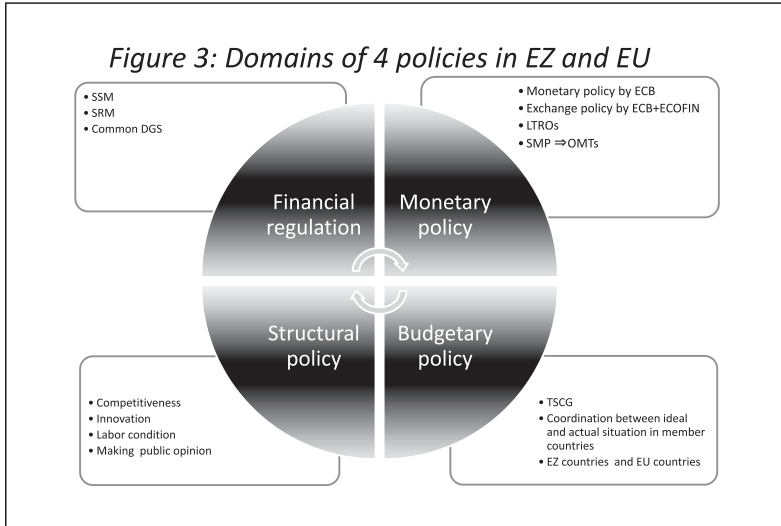
is put into place, the authority would sell the operation to the private sector. Third, the *asset separation*; a problematic asset would be transmitted to an asset vehicle and be managed within the vehicle. The asset would be transmitted to the market and, in the long term, grow in economic value. To minimize competitive distortion and the risk of moral hazard, the tool should be utilized in tandem with other tools. Fourth, the *bail-in*, which means that the price of a claim held by an unsecured creditor of credit institution in failure would be devaluated and the requirement of debt satisfaction would be converted to stock. Herein, the authority could produce considerable flexibility in the resolution of large, complex financial institutions.

In addition, the document presented by the European Commission in September 2012 provides regulations for strengthening the ECB's regulatory power in detail, and importantly, it includes the implication for the future in full. The European Commission's (2012) *Proposal for a COUNCIL REGULATION* [xi] draws up a detailed mandate for the ECB and the legal foundation, such as in Article 127(6) and in Article 132 of TFEU (Treaty on the Functioning of the European Union).

Ⅳ A solution for Europe's financial and sovereign crisis through financial supervision

1. Searching for a new prospective ideal of EMU

In this chapter, we will examine the issue of financial regulation from the viewpoint of big picture in dealing with the Eurozone crisis **(Figure 3)**. A summit meeting was held in Rome on 22 June 2012, attended by Germany, France, Italy and Spain and chaired by Mr. Monti, former prime minister of Republic of Italy. This meeting's agenda discussed funding 'growth' by the amount of 130 million euros. This decision seemed to reflect recognition that simply restoring fiscal health was not sufficient. France's change in political administration in the last month had impacted the situation, so they examined how to reconcile growth policies with budgetary restrictions. They also considered the positive utilization of the EIB (European Investment Bank), by which EU member states would fund an increase



its capital, and it would loan to infrastructure and clean energy projects. In addition, utilization of SF (Struetural Funds) was discussed (approximately 55 billion euros for job creation), and the agenda also included a discussion on the revaluation and improved utilization of procurement and lending by policy finance institutions. These topics show new directions of thought on SF particularly that for correcting Eurozone imbalances, SF should be utilized more flexibly.

Next we will discuss with the EU's approach towards 'a Genuine Economic and Monetary Union', a document submitted by Helman Van Rompuy, chairman of European Council, on 26 June 2012[xii]. It examined how such a union could contribute to the EMU's future with a focus on growth, jobs and stability. It presented the architecture to build a stronger and more robust EMU through integrating the financial sector, fiscal matters and economic policy. However, it cautions that these factors should be supported by strengthened 'democratic legitimacy' and 'accountability'. Banque de France's Governor, Mr. Christian Noyer, cautions that in terms of 'accountability', the domain of exchange rate policy and the power in the relationship between the ECB and ECOFIN (Economic and Financial Affairs) Council pose vital and sensitive issues[xiii]. Recently, the

importance of accountability has naturally arisen even more on the side of publicity given to monetary policy by advanced central banks. This reflects the organization's legal position as a central bank and its responsibility for accountability to its own parliament. As mentioned above, the documents show that a longer term perspective is necessary for considering and monitoring future issues to enable a breakthrough in the current situation.

The Eurozone does possess a high degree of diversity; the European Council (2012) said with certainty that in this context, policy planning at the 'nation state level' was the most effective method in many economic decisions[xiv]. However, it also made a categorical decision that each policy could not be independently decided at the nation state level when the health of the overall region was contingent upon a coordinated policy response. This serves as evidence of a phenomenon of maturation in the presence of globalization, with the consolidation of the EU's internal 'single market' as proof.

As a whole, the documents stress the essential need to keep 'competitiveness', 'coordination' and 'convergence' at appropriate levels to ensure sustainable economic development without excessive imbalances. In this way, policy could be appropriately mixed between the single monetary policy and the above three concepts to pursue price stability as before.

On 28-29 June 2012, the European Council held, in the opinion of French Ambassador to Japan Mr. Chistian Masset, a significant meeting[xv]. In his lecture at Keio University, in Tokyo, in July 2012, Mr. Masset reiterated the importance of ideals such as 'solidalité' and 'convergence'. In August 2010, Chairman Van Lompuy also discussed the theme of 'solodality' in his lecture at Kobe University. These two words remain key to the EU's vision; even as it faces a debt crisis, the EU can sustain a strong will to pursue economic growth in the true sense.

2. Financial supervision as the solution of Euro crisis from a general perspective

In this section, we reconfigure the main agendas of both the Eurozone and the

European Union. In terms of the political pillars, the following five issues are assessed in order of relative importance: (1) monetary policy by the ECB, including conventional policy and non-standard measures such as LTROs (Longer-Term Refinancing Operations) and OMTs (Outright Monetary Transactions), (2) exchange rate policy by the ECB and ECOFIN and its ‘neutral’ stance, (3) a Banking Union, consisting of SSM, SRM and Common DGS, (4) structural reform including strengthening competitiveness, reform of industrial structure and dealing with employment and (5) strengthening of fiscal policy coordination at the EU or Eurozone level, such as implementation of TSCG.

The first topic is existence of sufficient facility. If we refer to the EFSF and ESM from the viewpoint of facility, the EFSF is a body that can issue bonds and accept the effect of being rated by the market, namely, CRAs (Credit Rating Agencies). Currently, it seems to enjoy a stable reputation; however, it has been forced to face market pressures on a continuous basis. The EFSF transmitted to the ESM in October 2012. However, the transmission seemed to limit lending capability at the real level as a sole body. This leads to the IMF serving as the global LLR (Lender of Last Resort). This point was clearly apparent in that when dealing with the Eurozone crisis, the European Commission, ECB and IMF always made a troika. Furthermore, due to the growing power of international assertiveness and funding supply of emerging economies, the IMF can continue to lend despite global financial crisis. However, because of the strong conditionality that the IMF imposes, its facility is not really comparable in substance to that of the ESM. Our historical experience tells us that the EMF, as mentioned above, and the AMF (Asian Monetary Fund), were both good ideas that did not translate into reality.

The discussion will now move on to the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), signed on 2 March 2012[xvi)]. In the EU, 25 countries have signed with the current exceptions of the United Kingdom and Czech Republic. In particular, Article 3 in the Part 3 ‘FISCAL COMPACT’ needs to be examined. The TSCG mentions several pillars of such a compact: (1) maintaining fiscal discipline and re-strengthening coordination on

economic policy, which means establishment of a 'balanced budget rule', (2) lowering the limit of 'structural deficit' to 0.5%, (3) stipulating that signatory counties have a mission to accomplish swift 'convergence' as a medium-term target and (4) specifying that the TSCG's purpose will be incorporated into the fundamental law of the EU, namely, the Lisbon Treaty. The last pillar is essential given the intention of harmonisation stated by the fundamental treaty of the EU.

The third topic is the effect of BIS capital requirements and the impact of Basel Ⅲ as an event, which, from a macro viewpoint, is inextricably bound with financial regulation; namely, a bank's capital problem is defined by capital regulations from Basel (or BCBS: Basel Committee of Banking Supervision). Basel Ⅲ, published by BCBS in December 2010, reached to accordance[xvii]. It stipulates that the minimum required Common Equity Tier 1 such as common stock etc. is 4.5% par risk asset. However, this measure comes into effect after 2015 and will be implemented as transition measures such as 3.5% in 2013 and 4.0% in 2014. The minimum required Tier 1 Capital is determined to be 6.0%. As mentioned above, it becomes effective after 2015 and is implemented in stages of 4.5% in 2013 and 5.5% in 2014. In sum, core capital strength is essential and a buffer for emergency situation should be prepared. These requirements harmonise the stress test, or the degree of tolerance for stress, as implemented in the US and the EU. It must also apply to private banking activities. Therefore, it has strong potential to restrictive the EU's abovementioned growth strategy. It is vital for the banking sector to make an effort to assess the impact on lending behaviour of the Basel Ⅲ restrictions on the management of risk in credit activities. Authorities might need to intervene to ensure banks undertake the appropriate degree of lending activities.

Ⅴ Conclusion

To summarise this article, we present the following four points: First, not only 'preemptive' views but also 'ex-post' views are needed in micro-and macro-prudential policies to deal with emergent crises. In the recent global financial crisis,

the concept of 'policy in time' proved far more valuable than the specific 'contents of policy'. In this regard, the US political response towards the financial crisis since 2008 has mostly been successful; thus, demonstrating that 'immediacy' is more effective in a real situation, contradicting the critics of rapid sequence or premature responses. Similar to the US case, in the EU, the 'preventive' approach was considered and chosen by authorities. Words such as 'preemptive' or 'ex-ante' appear before the fact and preemptive measures gain recognition. However, not just an in-time approach, but also ex-post measures could be stronger and implementing ex-post measures in a 'preemptive' manner has appeared successfully in the Eurozone's political decisions.

Second, the Banking Union is a breakthrough project. For banks that have outstanding 'publicity' (or require a license) in any other credit institution, it would unionise the resolution tools and reduce the burden on the taxpayer. On this point, we need to show the type of resolution or rescue in Continental Europe are similar to the 'ring fence' measures used in the UK[xviii)]. This European type of resolution is designed to resolve problems with credit institution in an orderly manner with clear systematization. Furthermore, it is a distinction to think primarily of total 'cost reduction'. The US political response to the recent crisis indicates the opportunity for the general mobilization of all possible policies. So, the American response forms a contrast to Europe's. In the future, the European response could serve as a global standard in resolution and financial regulation.

Third, in the future, we could think that central banks would play a more significant role not only for price and financial stability, but also play a central role as a supervisory institution. Originally, administrative order can be issued by the government, however, from now on, we think an order by the central bank could be similar to an administrative one because the independence of central bank is assured *de jure*. It is possible that central banks are given such influence in advanced economies due to the central role of ECB as a key pan-Eurozone supervisor of 128 measure banks directly in the SSM.

As observed, the Banking Union proposal has relatively high feasibility in

comparison to fiscal union. To complement the ECB's non-standard monetary policy and member states' fiscal coordination and structural policies, the Banking Union is essential to make a genuine EMU, as part of not just the common concrete vision but also its implementation.

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Notes

i) In English and in French, it is called 'a banking union' and 'une union bancaire', respectively.

ii) European Commission (2013), *Statement by President Barroso and Commissioner Barnier following the European Parliament's vote on the creation of the Single Supervisory Mechanism for the eurozone*, Brussels, 12 September.

iii) International Monetary Fund-The World Bank Group (2012), *2012 Annual Meetings: Program of Seminars*, Tokyo, Japan, October 10-13. This brochure lists the purposes of each program, the points of the agendas and the introduction of panellists.

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