Sverige och bankunionen

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Betänkande av Utredningen om ett eventuellt svenskt deltagande i Europeiska bankunionen

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SWEDISH GOVERNMENT INQUIRIES

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Summary

Remit of the inquiry

The remit of the inquiry has been to make a comprehensive analysis of the implications of the potential participation of Sweden in the European banking union. This report sets out the advantages, disadvantages and the risks that are associated with participating in or remaining outside that the inquiry has identified and analysed. The starting point for the inquiry is that Sweden does not have the euro as its currency. In that light, the inquiry has assessed the possibilities for Sweden to participate in the banking union on terms equivalent to euro area Member States. The inquiry has based its analyses on developments and experiences of the banking union so far. The banking union has only been operational for five years. Thus qualified assumptions about future developments in both the EU and Sweden have been required.

The banking union – single supervision and resolution of banks

In the first place, the banking union is a structure – an institutional framework – for organising supervision and crisis management of banks in the euro area. The supervision and crisis management of banks in the EU is based on an extensive regulatory framework – the 'single rulebook' – that is common to all Member States, irrespective of whether or not they participate in the banking union. The banking union itself consists of the Single Supervisory Mechanism and the Single Resolution Mechanism, including the Single Resolution Fund. A potential third part of the banking union – a jointly financed deposit guarantee scheme – remains subject to political deliberations.

The banking union currently consists of the 19 Member States that have the euro as their currency. Bulgaria and Croatia have submitted formal applications to participate in the banking union as a step towards adoption of the euro. Even though the banking union from the outset consists of the euro area Member States, Member States – like Sweden and Denmark – that do not have the euro as their currency can participate through what is called 'close cooperation'. One motive for having that possibility is to ensure that the internal market for financial services is not fragmented as a result of differences in the application of the single rulebook.

Supervisory Mechanism

The banking union's structure for common supervision is called the Single Supervisory Mechanism (SSM). It consists of a supervisory board (the Supervisory Board), an organisationally free-standing part of the ECB, and the national supervisory authorities of the participating Member States. The Single Supervisory Mechanism covers all banks, other credit institutions and certain groups of companies that include banking companies in the banking union.[1] The ECB is responsible for all supervision in the banking union but performs the supervisory tasks in cooperation with national competent authorities.

The ECB and the Supervisory Board apply the regulatory framework for capital adequacy in the day-to-day supervision of banks. The ECB performs direct supervision of large banks (called 'significant banks'), while national competent authorities perform the supervision of other banks (called 'less significant banks'). The ECB has to ensure consistent application of the single rulebook in the banking union and follow guidelines from the European Banking Authority (EBA), but also applies national law where required. The supervisory tasks include 'fit and proper' assessments, granting and withdrawing authorisations of banks and ensuring that banks have adequate capital and liquidity coverage. In the banking union the main responsibility for macro-prudential supervision, which is aimed at risks in the financial system as a whole, is located at national

[1] The inquiry uses the term 'banks' as a collective name for all companies covered by the banking union legislative acts. Banks are also covered by the single rulebook.

level. However, the ECB has some supplementary responsibility regarding macro-prudential tools harmonised at EU level; i.e. the macro-prudential requirements designed as capital requirements (and therefore not amortisation requirements, for instance).

The Supervisory Board consists of a chair, a vice-chair, four other members from the ECB and members from each national supervisory authority of Member States participating in the banking union irrespective of whether or not they have the euro as their currency. The Single Supervisory Mechanism is designed to clearly separate monetary policy and supervision of banks. For that reason, the Supervisory Board has a significant degree of independence in the ECB. However, it is the Governing Council of the ECB, as the highest decision-making body in the ECB, that has the final say in supervisory matters. The Governing Council consists of the members of the Executive Board of the ECB and the governors of the national central banks of the euro area Member States. The governors of central banks of Member States that do not have the euro as their currency do not participate in the meetings of the Governing Council. The Governing Council takes supervisory decisions through a procedure that enables the Governing Council to object to a draft decision from the Supervisory Board. If the Governing Council does not object, the decision is adopted. As yet, the Governing Council has never made use of this possibility. So far, the Governing Council has handled decisions in supervisory matters through a written procedure. Around 2 000 supervisory decisions have been taken each year. Only a few physical meetings have been held, mainly about thematic issues.

Single Resolution Mechanism

The Single Resolution Mechanism (SRM) is the banking union's structure for crisis management, more specifically 'resolution', of banks. The Single Resolution Mechanism consists of the Single Resolution Board (SRB) and the national resolution authorities of participating Member States. The Single Resolution Board also administers a common fund for financing resolution measures, the Single Resolution Fund (SRF).

The Single Resolution Board is, together with national resolution authorities, to apply the single rulebook regarding crisis management (the Bank Recovery and Resolution Directive, BRRD), in particular resolution of banks, in the banking union. The Single Resolution Board is to ensure the uniform enforcement of the rulebook but also apply national law. The main tasks of the Single Resolution Board include preparing and adopting resolution plans, deciding minimum requirements for own funds and eligible liabilities, deciding on resolution and applying the 'resolution tools'.

The Single Resolution Board prepares and makes decisions on resolution for the banks that come under the direct supervision the ECB (i.e. the significant banks) and for some smaller banks that have significant cross-border activities. The national resolution authorities have corresponding tasks for other banks (i.e. the less significant banks). But it is the national resolution authorities that carry out resolution for all banks.

The day-to-day work of the Single Resolution Board takes place in its *Executive Session*. This consists of a chair, a vice-chair and four board members who are all full-time employees of the Single Resolution Board. In addition, the national resolution authority(-ies) affected also take part. Its *Plenary Session* makes decisions on general strategic matters, the budget of the Single Resolution Board and, in certain cases, the use of the Single Resolution Fund. The Plenary Session consists of the members of the Executive Session plus the national resolution authorities of all participating Member States. A decision on the resolution of a bank requires an approval by the Commission and, in certain cases, the Council of the European Union (the Ecofin Council).

Single Resolution Fund

Under the EU's regulatory framework for resolution the bank's shareholders and creditors – not taxpayers – are responsible for providing financing if the bank is, for example, in need of more capital. Like the Swedish Resolution Reserve, the purpose of the Single Resolution Fund of the banking union is to cover temporary funding needs that may arise in more serious situations where this is not possible or sufficient. The Single Resolution Fund consists of 'ex-ante contributions' from the banks of each participating Member State, which correspond to the resolution fees that Swedish banks pay to the Resolution Reserve. In 2024 the Fund is to be fully developed and then also fully mutualised. The target level is expected to correspond to roughly 60 billion euro (approx. 650 billion kronor). By 2024 the Single Resolution Fund will be supplemented by a backstop administered by the European Stability Mechanism (ESM). The backstop can be activated if the Resolution Fund lacks enough financial means and is to correspond to the size of the Single Resolution Fund. As regards the euro area Member States, the backstop is to be provided by the ESM in the form of a credit line to the Single Resolution Board. Participating Member States that do not have the euro as their currency provide parallel credit lines to the Single Resolution Board. The backstop can be used for the same purposes as the Single Resolution Fund may be used for.

Close cooperation and Swedish participation

The banking union is compulsory for euro area Member States. However, Member States that do not have the euro as their currency may participate by establishing what is called ‘close cooperation’ with the ECB. When close cooperation is established, the Member State participates in the banking union with, in principle, the same rights and obligations as the other participating Member States. A Member State that enters into close cooperation has the same access to the Single Resolution Fund and the backstop as the other Member States. When close cooperation begins, the Member State must pay the Single Resolution Fund a sum of the same size as if the Member State had been a participating Member State from the outset.

It is possible for Member States participating through close cooperation to leave the banking union at any time after three years. This safeguard mechanism also includes possibilities of objecting to decisions or draft decisions in supervisory matters. If the close cooperation is ended, the Member State has the right to recover the funds paid into the Single Resolution Fund less any costs for resolution regarding a bank that has authorisation in the Member State that is ending close cooperation.

Prerequisites for participation of Sweden

Participation of Sweden in the banking union does not require any transfer of competence to the EU since Sweden has already ratified the Treaties that include the competence to legislate and adopt decisions on supervision and resolution. Therefore, participation does not require any amendments to the Instrument of Government or the Accession Act. However, a new law would need to clarify the division of responsibilities between the EU bodies in the banking union and Swedish authorities.

Background to and reasons for the banking union

The establishment of the banking union must be viewed against the background of the acute economic crisis in the euro area in 2010–2012, often called the euro crisis, during which the banking system of the euro area Member States was of great importance. Capital flows in the EU internal market were only fully deregulated in the 1990s and then the euro was introduced in 1999; this was followed by the development of considerable imbalances in the euro area. Ultimately the euro crisis came to be a question of confidence in the common currency. The banking union and other proposals for a deepening of the Economic and Monetary Union (EMU) were intended to re-establish and strengthen confidence in the common currency thereby preventing its break-up.

The global financial crisis that preceded the euro crisis exposed deficiencies in bank supervision in many countries and made clear that there were no appropriate arrangements for managing banks in crisis. Until then, the state had in most cases (including Sweden in the early 1990s) taken over non-performing loans, injected capital and, in some cases, nationalised banks. After the financial crisis the EU took a number of measures to strengthen both regulatory frameworks and the forms for supervision and crisis management of banks. In addition, cooperation between supervisory authorities increased in the EU as well as globally. Questions concerning coordination and harmonisation of, for instance, supervisory requirements in the EU had already been raised in the 1960s but had, thus far, often encountered political resistance.

The banking union was also intended to safeguard and deepen the EU internal market for financial services. When rules are applied in a similar way by joint bodies in the banking union, this creates better conditions for competition on equal terms, a 'level-playing field' for banks. In the longer term the banking union can be expected to play a greater role for strengthening the internal market.

Possibilities of participation on equivalent terms

Single Supervisory Mechanism

Finansinspektionen would participate in the Supervisory Board on the same terms as the national supervisory authorities of the participating Member States that have the euro as their currency. But account needs to be taken of the fact that the Governing Council is the ECB's highest decision-making body in supervisory matters. Since Sweden has not introduced the euro, the Governor of the Riksbank is not a member of the Governing Council and therefore has no vote. This means that Sweden is not able to participate in the Single Supervisory Mechanism on the same terms as euro area Member States.

There are factors that may offset the absence of equal terms to some extent. For instance, it is reasonable to believe the Governing Council will invite representatives of Swedish authorities to participate when the Governing Council has physical meetings in supervisory matters. Members of the Governing Council are not allowed to take account of special national considerations; they may not take any instructions from others, such as the government of their home country. In addition, voting is by simple majority and a system of rotation of voting rights means that there are always four members from central banks of euro area Member States that do not have voting rights.

It is not clear how active the ECB Governing Council will be in supervisory matters in a long-term perspective. So far, they have never objected to a draft decision from the Supervisory Board. This does not guarantee that the Governing Council will not object to proposals from the Supervisory Board. It is not possible to rule out cases where objections may be of importance for financial stability in Sweden. The safeguard mechanism enables Sweden to leave the banking union, as a last resort, after participating for three years. The very existence of the mechanism may have a restraining effect on any negative discrimination of Member States that do not have the euro as their currency; an exit of a Member State from the banking union could be seen as a loss of credibility for the banking union as such. This does not mean that the political (and possibly also economic) costs for Sweden of leaving the banking union are negligible.

In summary, there are factors that reduce the potential negative consequences of it not being possible for Sweden to participate on the same terms as euro area Member States. In this respect, *prerequisites* exist for Sweden to participate on equivalent terms. However, it is not possible to determine on objective grounds whether the countervailing factors, including the safeguard mechanism, are *sufficient* to enable Sweden to participate on equivalent terms. Ultimately, this should be a political judgment. Another important consideration is the confidence in the ECB's view of its responsibility to consider the uniformity and integrity of the internal market in its supervisory role. Nonetheless, a decision needs to weigh in the risk of negative discrimination, and the consequences of this.

Single Resolution Mechanism

It is the Single Resolution Board that makes decisions in resolution matters regarding significant banks. National resolution authorities are represented in its Executive Session (extended format) when the decision relates to resolution of a bank or part of a banking group established in the Member State. The Board seeks an agreement by consensus on its decision. If this is not possible, the Single Resolution Board can adopt a decision that goes against a National Resolution Authority. This applies both to euro area Member States and to Member States that do not have the euro as their currency. The national resolution authorities of Member States participate in the Plenary Session of the Single Resolution Board. This means that the Swedish National Debt Office would participate in decision-making in the Single Resolution Board on the same terms as other national resolution authorities.

Where required, for example in the case of withdrawals from the Resolution Fund, the Ecofin Council may approve or object to draft decisions. When these decisions are adopted, the ministers of finance of all participating Member States can attend, receive information and, when needed, vote. Decisions are then adopted by simple majority. As regards the use of the backstop, the euro area Member States and the Member States that do not have the euro as their currency have agreed to forms of cooperation on was is deemed to be on equivalent terms. Only euro area Member States can be members of the ESM, but the same terms apply to Member States without the euro as their currency concerning, for example, loan conditions, disbursements and access to information as apply to euro area Member States.

EU legislation in the area of banking and financial services

Irrespective of whether or not Sweden participates in the banking union, representatives of the Swedish Government will participate in negotiations on EU legislation in the area of banking and financial services (and banking union regulations) and in preparatory bodies. Even if Sweden can refer to its formal influence in negotiations about directives and regulations, it may be more difficult, in practice, for a Member State that does not participate in the banking union to make its voice heard. There is, in general, a risk that Member States that choose to remain outside areas of cooperation in the EU become marginalised in negotiations. This is especially the case if a Member State wishes to achieve an exemption from the rules. The Member States that currently participate in the banking union make up a qualified majority in the Council. This means that if they agree to adopt a decision, it is already very difficult, at present, for the other Member States to prevent the decision from being adopted.

Discussions about the development of the banking union

When it comes to strategic and general discussions about the development of the banking union, the euro group and the euro summit play an important role, even though they are not formal decision-making bodies. As a general rule, Member States that do not have the euro as their currency have participated in these meetings when the banking union has been discussed. In contrast, the possibility of achieving equivalent terms for participation in the euro group and the euro summits in discussions about the future of the banking union is limited for a Member State that does not have the euro as its currency, irrespective of participation in the banking union. In recent years issues related to the banking union have often been discussed in the European Council instead of at the euro summit. To the extent that this practice continues, Sweden would have just as much formal influence irrespective of whether or not Sweden participates in the banking union. It is, however, difficult to foresee how the president of, respectively, the European Council and the euro summit (who have been the same person up to now) will plan the agenda of these two forms of meetings in the future.

Supervision

Supervisory approach and day-to-day supervision

The supervisory approach and the methods used by Finansinspektionen and the ECB are the same in all essential respects even though there are certain differences. The ECB is uniquely placed to assemble the resources needed to understand and examine large banks with complex business models. In addition to having access to more resources, the ECB also has access to the experience and knowledge held by national supervisory authorities. This can facilitate the development of new methods or systems for comparisons of banks. From that perspective, participation in the banking union provides both greater possibilities of developing skills and greater understanding of stability risks in the banking union banking systems that may be of importance for financial stability in Sweden as well as stability risks in the Swedish banking system.

Access to large, common resources can also provide better conditions for identifying and handling risks that arise as a result of new vulnerabilities (e.g. cybersecurity threats or climate-related risks). At the same time, national supervision of these risks may enable more flexible ways of working and more efficient cooperation with other relevant authorities (e.g. law enforcement authorities).

In some respects, Swedish participation in the banking union would result in more intrusive supervision of Swedish banks. There is, at the same time, a risk, at least in the short term, that supervision in the banking union will become too uniform as a result of the Supervisory Board's efforts to ensure consistent supervision and remove options and national discretions. There is also a risk of operational inefficiencies in an organisation as large as the ECB. Furthermore, one disadvantage of participation in the banking union is that micro-prudential supervision of significant Swedish banks will be separated from the other financial supervision that Finansinspektionen is responsible for. There are, for instance, synergies between micro-prudential supervision and macro-prudential supervision, between stability-centred micro-prudential supervision and consumer supervision and between bank supervision and supervision of other parts of the financial sector (e.g. securities market supervision and insurance supervision). How serious the consequences of this separation will depend on Finansinspektionen's access to information and the possibility to share that information with other departments.

The fact that the Joint Supervisory Teams are led by senior staff members (from the ECB) who come from Member States other than those where the banks are established may bring different perspectives on risks in national banking systems. One potential initial challenge when supervision is performed by staff members who are not as familiar with specific risks in banking systems is that supervisory decisions may be based on incomplete information. However, the Supervisory Teams, which would include personnel from Finansinspektionen, are expected to acquire the necessary knowledge of Swedish banks.

The ECB is not responsible for ensuring that banks comply with the EU's regulatory framework on money laundering. For that reason, participation in the banking union is deemed to not to have any direct consequences for the money laundering supervision carried out by Finansinspektionen. The ECB does however consider, in its day-to-day supervision, risks that may have links to money laundering. Participation in the banking union thus means that the supervision of significant Swedish banks over time also will include these risks. It is not likely that the ECB will be given explicit authority to conduct money laundering supervision in the EU in the future.

Capital and liquidity requirements

The application of capital requirements by Finansinspektion and by the ECB is based on the same regulatory framework. The methods for assessing banks' overall risk levels are similar and follow detailed guidelines from the EBA. There are certain differences in the application of the bank-specific capital requirements, 'pillar 2 requirements'. These differences are not considered so significant that Swedish participation in the banking union would entail material changes in total capital requirements for banks headquartered in Sweden. It is, moreover, likely that the possibilities of applying national requirements will decrease over time since capital adequacy regulation is increasingly being harmonised. Another difference is that Finansinspektionen, unlike the ECB, publishes banks' capital requirements, which increases predictability.

Finansinspektionen and the ECB use the same guidelines for calculating banks' needs of liquidity coverage. In this respect, participation in the banking union is probably not of decisive importance. At present Finansinspektionen has a separate liquidity requirement in Swedish kronor as well as separate liquidity requirements in euros and US dollars. The ECB has not published any corresponding requirements, so it is difficult to assess how the ECB's stance on such requirements.

Macro-prudential supervision requirements

If Sweden participates in the banking union, Finansinspektionen would continue to be responsible for macro-prudential supervision. However, the ECB would have a supplementary responsibility for harmonised macro-prudential tools; i.e. requirements designed as capital requirements (and therefore not amortisation requirements, for instance). The ECB cannot stop the use of macro-prudential tools. The starting point is, however, that changes in the harmonised tools have to be made in joint agreement between the ECB and the national macroprudential supervisory authority. Moreover, the ECB has the authority to apply higher macroprudential requirements and thereby reduce the risk that individual Member States do not take sufficient action against systemic risks. In the event of Swedish participation in the banking union, the ECB's influence would probably be significant. If the ECB were to oppose Finansinspektionen's assessment, it would be difficult to implement the change in practice. In other words, there is a risk that banking union participation would restrict the discretion in the application of macro-prudential tools to some extent. Sweden applies higher buffer requirements than participating Member States, which currently reduces the importance of the ECB's authority to set higher requirements. Finally, it is not certain how active the ECB will be in the design of macro-prudential requirements; no formal decisions about the application of macro-prudential requirements have been made as yet.

Resolution

The Single Resolution Board has been operational since 2015 and has handled few banks in crisis, one of which has been placed in resolution. Against that background, it is uncertain to what extent the conditions for efficient resolution of Swedish banks would change in the event of participation compared with remaining outside. As is the case with the Single Supervisory Mechanism, the size and scope of the Single Resolution Mechanism is likely to entail better possibilities for development of skills. For the Single Resolution Board this means, not least, an advantage (over time) in the form of more practical experience of resolution cases than a national authority can get.

The Bank Recovery and Resolution Directive is common to the whole of the EU and therefore also applies in the banking union. This means that the fundamental conditions for efficient resolution of banks are similar in Sweden and in the banking union. As in the area of supervision, the regulatory framework for resolution is moving in the direction of greater harmonisation. All the indications are thus that the differences in regulatory application between the Swedish National Debt Office and the Single Resolution Board will decrease over time. Irrespective of whether Sweden participates in the banking union or remains outside, there are other EU rules that restrict national discretion as regards crisis management, not least the State aid rules.

Assessment of which banks will be resolved

It is a starting point of both the Swedish National Debt Office and the Single Resolution Board that only systemically important banks are placed in resolution. In that respect Swedish participation is not likely to affect which Swedish banks will be put in resolution or wound up through bankruptcy or liquidation. There ought to be good prospects of consensus between the Swedish National Debt Office and the Single Resolution Board about whether the conditions for resolution have been met. Nor should there be a clear risk of conflicting objectives regarding, on the one hand, financial stability in Sweden and, on the other, what benefits stability in the banking union or the internal market. It is, as yet, uncertain how the Single Resolution Board weighs financial stability in individual Member States against financial stability in the banking union as a whole. Representatives of Swedish authorities will be involved in producing draft decisions of the Supervisory Board if a Swedish bank is to be declared to have failed or is close to failing and will be present when decisions relating to resolution of a Swedish bank are discussed and adopted. Moreover, the Commission has to approve the assessment of whether resolution is in the public interest.

Inter-authority cooperation and decision-making

It is difficult to see any particular obstacles to well-functioning cooperation between the Single Resolution Board and the Swedish National Debt Office if Sweden participates in the banking union. The Single Resolution Board applies a special procedure for approval of a ‘resolution scheme’. The procedure is designed to take account of two facts. First, a decision on how to implement resolution must be made quickly, preferably within 48 hours. Second, the decision must be adopted by an EU institution. This is because resolution decisions both include an assessment of whether resolution is in the public interest and potentially can involve a need to make use of the Single Resolution Fund. In the latter case it is the Ecofin Council that makes the final decision. The procedure for adopting the resolution scheme within the Single Resolution Mechanism has not been tested to any great extent. For that reason, it is, as yet, next to impossible to evaluate the efficiency of this decision-making, especially in a crisis situation. It can, however, be noted that there is a high number of actors involved in decision-making at EU level, with the Ecofin Council as one example.

Choice of resolution tools

Participation of Sweden in the banking union is not expected to result in any significant changes in terms of which resolution tools will be applied. Both the Swedish National Debt Office and the Single Resolution Board have indicated that bail-in will be their main resolution tool. The Single Resolution Board cannot apply the 'government stabilisation tools' since the decision to use the tools must be adopted by the government or a government ministry and since it is the Member State itself that is responsible for funding. It should be stressed that these tools are to be seen as a last resort in a highly exceptional crisis. The starting point is that they will, in principle, not be used.

Cross-border resolution

Resolution colleges

'Resolution colleges' are set up for banking groups with cross-border banking activity. The role of these colleges includes exchanging information and agreeing how to carry out the resolution of such a bank. The Swedish National Debt Office leads the work of the resolution colleges for the three largest Swedish banking groups. Finansinspektionen and the Ministry of Finance are also members of these colleges. No resolution colleges are set up for cross-border groups that solely have activities in the banking union. In the case of participation, the colleges for Swedish banking groups with activities outside the banking union will be led by the Single Resolution Board and the Swedish National Debt Office will be an observer. In other words, the Swedish National Debt Office's direct influence on and control of the decisions about how to handle Swedish banking groups with cross-border activities outside the banking union in resolution will decrease with participation compared with if Sweden stays outside. However, the Swedish National Debt Office will participate in the work done in the 'internal resolution teams' within the Single Resolution Mechanism. These teams are responsible for resolution preparations if a resolution college is not required.

Implementing resolution of a cross-border banking group

It is likely that the resolution of a Swedish cross-border banking group will be implemented with the same starting points in the Single Resolution Mechanism as if the Swedish National Debt Office had implemented the resolution. The prospects for the efficient resolution of a cross-border group may be better in some respects within the Single Resolution Mechanism. For instance, the financial burden sharing arrangements between Member States will have been addressed in advance when the Single Resolution Fund is fully mutualised as of 2024. This provides better prospects for taking decisions rapidly. There are, however, certain other aspects that make the procedure more complex in the Single Resolution Mechanism. When decisions are made about resolution of a cross-border group, situations can arise in which the Commission and the Single Resolution Board reach different conclusions, e.g. as to whether resolution is in the public interest. Nor is it possible to rule out the existence of different interests in the Ecofin Council regarding how to finance resolution. This may lead to the decision-making procedure not being followed as intended and that the resolution decision (and therefore also its implementation) takes longer. This can be problematic if there is instability on financial markets.

Bail-in requirements

The big difference, under current regulations, between how the Swedish National Debt Office and the Single Resolution Board have designed the requirements for bail-inable liabilities (the 'MREL requirements') is that the Debt Office applies higher requirements for subordination. All else equal, this facilitates write-down and conversion of debt in purely practical terms in Swedish banks and makes Swedish banks more resolvable in this respect than corresponding banks in the banking union. The consequences of participation of Sweden depend on how the revised capital adequacy and bank recovery and resolution rules (the banking package), which are currently being implemented in Member States, are designed. The new rules are to be implemented in national law no later than December 2020. It remains to be seen what impact the regulation will have but the design and application of the MREL-requirements will most likely differ less between Member States going forward.

Accountability

In terms solely of the number of mechanisms, the banking union provides for more possibilities for political accountability regarding supervision and resolution decisions than there are in Sweden. However, the accountability mechanisms in the banking union consist mainly of access to information and possibilities for politicians (also in national parliaments) to ask questions to representatives from the banking union bodies. The legal framework of the banking union provides banks and private individuals with good means of access to justice. The possibility to institute proceedings directly to the Court of Justice of the European Union in certain cases and obtaining access to the ECB's Administrative Board of Review ought to increase the predictability of decision-making and save time compared to corresponding possibilities in Sweden outside the banking union.

Participation of Sweden would most likely mean that individuals who take part in the meetings of the Supervisory Board or the Single Resolution Board (director-general or corresponding senior manager from Finansinspektionen and the Swedish National Debt Office), need to meet stricter requirements when moving to a new post compared with their assignment at the Swedish authority. Participation does not necessitate amendments of the Swedish legislation concerning conflicts of interest.

Financial safety net

The establishment of the banking union means that part of the financial safety net – financing in the event of resolution – is common to the participating Member States. The third part of the banking union – a jointly financed guarantee scheme – is still not in place, and its political future is at present unclear. The banking union also includes the application of the parts of the regulatory framework for bank recovery and resolution that deal with liquidity assistance. However, the possibilities for central banks to provide liquidity assistance to (solvent) banks are not part of the regulatory framework of the banking union.

Resolution financing

Since the areas of use, financing and other conditions of the Single Resolution Fund and the Swedish Resolution Reserve are governed by the same rules, there are no decisive differences regarding the financing of resolution. The starting point is that money from resolution funds will only be used in exceptional cases and for a limited period. Nonetheless, there are a number of differences regarding the design of resolution financing in Sweden and in the Single Resolution Mechanism.

Fund size

Participation in the banking union significantly increases the potential capacity for financing loss absorption or recapitalisation of large Swedish banks. Provided that the Single Resolution Fund is not placed under great strain, this provides better conditions for efficient bank recovery and resolution in Sweden. However, the starting point is that loss absorption and recapitalisation should be handled using the banks' internal buffers, i.e. as bail-ins. Any drawings from the Single Resolution Fund are financed by all banks, irrespective of which Member State they are established in. If the Single Resolution Fund nevertheless needs to be used, Swedish banks will share the cost of restoring the Single Resolution Fund to its target level with all the banks in the banking union, i.e. with a much larger number of banks than they do if the Swedish Resolution Reserve needs to be replenished. In times of financial instability, it can be of importance that banks are not charged excessive fees, as their repayment capacity may be under strain.

Estimates indicate that, in combination with the backstop, the Single Resolution Fund will be sufficient even in a very serious systemic crisis. Nevertheless, a very exceptional situation may arise in which not even full use of the backstop is sufficient to deal with recapitalisation needs. In such a situation, access to the Single Resolution Fund may be rationed and a greater financial burden may fall on Member States. In that case, efficient crisis management is likely to be predicated on the Swedish state still having good borrowing capacity.

Account or fund?

One advantage of the Single Resolution Fund being an actual fund is that it may create greater certainty that money is immediately available. In this respect, a fund can be seen as a way of reducing the harmful co-dependence between government finances and the banking system in a crisis. The Resolution Reserve is instead an account at the Swedish National Debt Office, and this means that if withdrawals need to be made from the Resolution Reserve, the Swedish state has to borrow money. The question is however whether the design of the financing arrangement is the best way to reduce this co-dependence; the size and degree of mutuality of the financing arrangements are likely to be of greater importance. Moreover, Sweden's government debt level is currently low, which decreases the risk of negative co-dependence between banks and government finances in a banking crisis. The fact that participation in the banking union means that the ex-ante contributions paid in by Swedish banks are managed in a fund instead of in an account ought, in an overall assessment, not to be of great importance for the possibilities of efficient crisis management Swedish banks.

Flexibility in the application of certain rules

Some of the rules of the Bank Recovery and Resolution Directive have been implemented in Swedish law with a view to provide flexibility in the Debt Office's managing of Swedish banks in resolution. In some respects, this flexibility will decrease in the event of Swedish participation in the banking union. Participation would probably mean restrictions on the possibility of using the deposit guarantee scheme in resolution. It is, however, difficult to assess the importance of this. In addition, the alternative basis for calculating write-downs necessary to access the resolution fund will not be applied by the Resolution Board. The practical importance this will have is expected to be limited.

Liquidity assistance

The establishment of the banking union does not affect the Riksbank's possibilities of providing liquidity assistance for monetary policy reasons. However, if a central bank in the banking union wishes to provide general liquidity assistance, with the express purpose of promoting financial stability, this is likely to be a matter that the ECB can have views on, in its role as a *supervisory authority*. Even if participation in the banking union does not change the Riksbank's responsibility in relation to Swedish banks when it comes to providing liquidity, greater coordination will probably be required with the ECB, the Supervisory Board and the Single Resolution Board.

Participation of Sweden in the banking union does not affect the legal possibilities of providing liquidity assistance to solvent banks within the framework of precautionary government support. However, if Sweden participates, it is the ECB, and not Finansinspektionen, that assesses whether it is possible to provide this support. The financing is however provided at the national level via the Stability Fund.

The Single Resolution Fund is probably not sufficient for liquidity assistance for large banks undergoing resolution. Discussions are under way at the EU level with a view to find an acceptable solution. For Sweden's part it is important that a solution enables access to liquidity assistance on equivalent terms, as in the case of the backstop linked to the Single Resolution Fund. The Swedish Resolution Reserve has access to a backstop (sv. *garantiram*), which provides relatively good possibilities of providing liquidity assistance to a bank undergoing resolution if Sweden remains outside the banking union. Ultimately the borrowing capacity of the Swedish state determines the size of the liquidity assistance that can be provided by the Resolution Reserve.

Deposit guarantees

Deposit guarantees are a national responsibility in the EU, although there are common rules. The Commission has presented a proposal for a common deposit insurance scheme for the banking union. Political discussions are under way about whether or not to introduce a scheme. From a Swedish perspective, the value of a jointly financed deposit guarantee is assessed as limited. The large Swedish banks will have high levels of bail-inable debt of good quality, which improves the possibilities of implementing resolution in an orderly way and thereby reducing the risk that the deposit guarantee will have to be activated in conjunction with resolution. In addition, Sweden's borrowing capacity is currently high, which should imply a high credibility of the Swedish deposit guarantee scheme.

Consequences for Swedish banks, the credit supply and Sweden as a financial centre

Participation of Sweden in the banking union would impact on the costs and competitive situation of Swedish banks in various ways. They concern, first, changes in supervision and the requirements set for banks and, second, the contributions the banks pay to the Single Resolution Fund and banking union bodies.

Effects of the design of supervision

From the perspective of Swedish banks there are both advantages and disadvantages in how the ECB conducts supervision. One advantage that can be noted is greater awareness among external assessors of Swedish banks that they will be examined and compared more with corresponding banks in the banking union. At the same time, ECB supervision results in greater requirements for detailed reporting in combination with a larger number of on-site inspections and meetings with supervisory teams. This is likely to result in higher administrative costs for banks. A possible countervailing effect is that costs of regulatory compliance for banking groups that already have activities in the banking union may decrease due to uniform reporting requirements and since the banks will not need to interact with as many supervisory authorities (and resolution authorities). The decision-making process in the Supervisory Board has been slow, which, if it is a lasting problem, may create uncertainty about how to apply rules.

The ECB is also working to harmonise supervisory methods for less significant banks. For that reason, it is probable that the supervisory methods for smaller banks will be more like those applied to significant banks. For smaller banks an adaptation of their supervision may increase costs and risk being disproportionately onerous.

Higher level of fees

Provided that the financing of the Single Resolution Fund takes place with existing means in the Resolution Reserve, Swedish participation will not result in additional expenditure for the banks in the short term. If the Single Resolution Fund falls below its target level in the future, the banks will have to make new contributions. This is also the case if the Resolution Reserve falls below its target level.

In the event of participation in the banking union, Swedish banks will have to pay supervisory fees to the ECB. A rough estimate is that Swedish banks would have to pay a sum of the order of 200 million kronor per year in total to the ECB in addition to the fees they pay to Finansinspektionen. The higher level of fees may be palpable for smaller banks. The experience of participating Member States is that, even though the ECB has taken over the direct supervisory responsibility for significant banks, national supervisory authorities have needed to significantly increase their staffing to match up to the increased requirements of the ECB. This probably means that additional resources will need to be provided for the bank supervision of Finansinspektionen in the event of participation. However, Finansinspektionen may need increased resources for banking supervision even if Sweden remains outside the banking union, if Finansinspektionen adapts its supervision to the ECB's more intrusive and resource-heavy supervision.

In the banking union all banks and other credit institutions pay administrative fees to the Single Resolution Board. In that case, this will be a new form of fee for Swedish banks, since the activities of the Swedish National Debt Office are financed by appropriations. A rough estimate is that Swedish banks and credit institutions would have to pay a sum of the order of 40 million kronor per year in total to the Single Resolution Board if Sweden participates in the banking union.

Effects on the credit provision to companies and households

There is considerable uncertainty in any quantification of the effects of participation in the banking union on the financing costs of Swedish banks. In the short term and given the existing regulatory framework, the assessment is that, with participation, Sweden will have slightly lower financing costs. In the longer term, the assessment is that financing costs – and therefore the provision of credit to companies and households – will not be affected to any great extent by participation. One contributing factor is the ongoing harmonisation of regulatory frameworks in the EU, which means that differences in regulatory requirements between Sweden and the banking union will decrease.

The long-term effects of participation on the supply of credit are very much bound up with the quality of supervision, how the competitive situation of Swedish banks develops and whether it will be easier or harder to maintain financial stability. Previous financial crises have shown that banks try to ensure their survival by reducing their supply of credit, especially to riskier customers with a poorer ability to repay (e.g. small businesses and low-income households).

Effects on banks' business models

Banks may make some changes in their business models and the direction of their activities in order to better match up to the requirements set by the Supervisory Board and the Single Resolution Board.

The ECB places great weight on supervision of banks' governance and management. Finansinspektionen essentially has a similar approach, but the ECB goes further in some respects, e.g. by having representatives of the ECB participate in board meetings. Irrespective of the importance of well-functioning forms of governance and management in a bank, the ECB's supervision in this area appears to be very detailed and intrusive.

Cross-border banking activity

It is still too early to assess what impact the banking union may have on the cross-border activities of banks in the future. Since the banking union was established, there has not been any distinct re-integration of banking markets in the euro area. The same applies to cross-border mergers and acquisitions. If anything, a renationalisation has occurred; the consolidation of euro area banks is mainly taking place within national borders.

Over time, more uniform supervision and application of the single rulebook may make it less attractive for banks to locate their activities on the basis of how supervision is carried out and what requirements are set. More intrusive supervision can also contribute to closer scrutiny of banks, which reduces uncertainty for an acquiring bank. Finally, more uniformity in supervision and common financing of resolution (and thereafter a possible deposit guarantee) may lead to supervisory and resolution authorities in host countries being less liable to safeguard (‘ring-fence’) subsidiaries of international groups. This may enable banking groups to allocate capital and liquidity more efficiently, which will then increase the return on establishment in other countries. The management of capital and liquidity in cross-border banking groups is also influenced by these aspects of the design of the single rulebook. It should also be pointed out that banks’ decisions on the location of their activities are influenced by factors other than banking regulation and supervision. Several of these areas (e.g. taxes and insolvency law) are not, as of now, harmonised within the EU.

To the extent that the banking union provides better conditions for cross-border banking activities, Swedish banks can see business opportunities in the consolidation of banks in the euro area Member States. More uniform supervision and application of requirements in the banking union may, if Sweden participates, at the same time make it easier for foreign investors to analyse and compare Swedish banks. This may be a factor that will make Swedish banks more attractive as acquisitions. Moreover, better conditions for cross-border banking may help to increase the geographical diversification of Swedish banking groups, which are less diversified than many of their European peers.

Macroeconomic stability

Cross-border banking activities make banks less dependent on economic conditions in their own Member State. The banking union may therefore contribute to more macroeconomic risk-sharing. The experience of the US – which has a form of banking union – supports such a development. More integrated banking markets are thus stabilising and can contribute to evening out business and household income. At the same time, risk-sharing means that disturbances spread more easily to banks in other counties. It is not obvious that the long-term net effect of these two movements will be positive for a single country like Sweden. As long as the banking systems of several participating Member States display weaknesses, it may be the case that the spread of contagion will dominate.

Sweden as a financial centre

The banking union may come to be of some importance for where financial activities are located in Europe. Nordea presented the possibility of joining the banking union as the main reason for its relocation from Stockholm to Helsinki. As rules are applied more uniformly and supervision is designed on the basis of a common approach, the link to national regulatory and supervisory regimes will weaken. Over time, however, the effects on Sweden as a financial centre of being outside the banking union are assessed to be limited as long as banking supervision maintains high quality and economic policy is responsible. Factors such as access to a well-educated labour force, openness in various dimensions, the design of the tax system and political and legal stability are probably of greater importance for the location of financial activities.

Sweden's financial commitment

In the banking union all banks contribute mutually to the Single Resolution Fund. This means that, with Swedish participation, Swedish banks (and their customers) also assume a potential financial commitment for systemically important banks in other participating Member States. The burden on the Single Resolution Fund is likely to be limited in normal circumstances. Using the Single Resolution Fund for loss absorption or recapitalisation will not be an option up until a situation where the bank concerned have made considerable losses and a further bail-in is deemed impossible. Access to fund money for an individual bank undergoing resolution is also limited. It is nonetheless likely that there will be banks in need of financing from the Single Resolution Fund. On the whole, Swedish banks appear to be less risky and more resilient than banks in the banking union. There is, however, considerable variation between banks in the banking union. Against this background, the probability that the Single Resolution Fund will need to be used to recapitalise a Swedish bank is lower than for banks in the banking union. Swedish participation in the banking union might therefore entail a greater financial commitment than if Sweden is outside the banking union.

If an efficient resolution of a systemically important Swedish bank presupposes money from the Single Resolution Fund, Swedish banks will not bear the full cost of this. In other words, the financial commitment for resolution of *Swedish banks* may be smaller than if Sweden remains outside the banking union and the same costs are charged solely to the collective of Swedish banks.

Participation in the risk-sharing made possible by the Single Resolution Fund has an insurance value. This consists, in the first place, of a lower variation (and therefore the uncertainty) in the costs that may arise in resolution. There may also be an insurance value in the possibility of "full insurance cover" for a large financial risk that a state does not have the resources to deal with. The Swedish Resolution Reserve is larger than the Single Resolution Fund in relation to potential resolution costs for Swedish banks. In addition, the borrowing capacity of the Swedish state is currently good. This enables the Swedish National Debt Office to even handle a serious disturbance of the financial system if Sweden remains outside the banking union. Even though risk-sharing in the Single Resolution Fund has an insurance value for Sweden, these factors can reduce the reasons for being part of this risk-sharing. However, in a period of financial stress, market reactions can decrease borrowing capacity by making it difficult (or much more expensive) to borrow the funds necessary.

Effect on government finances

From a fiscal perspective, the clearest effect of participation in the banking union is that a sum corresponding roughly to Swedish banks' share of the total guaranteed deposits in the participating Member States (including Sweden) has to be transferred from the Resolution Reserve to the Single Resolution Fund. An approximation indicates that 14–18 billion kronor will have to be transferred, given that close cooperation is established no earlier than 2024. This implies a corresponding increase in the government borrowing requirement, and therefore the government debt. However, government net lending is not affected. As long as there is no common system of financing deposit guarantees in the banking union, the Swedish Deposit Guarantee Fund will not be directly affected by Swedish participation in the banking union. Participation is assessed not to have any direct effects on Sweden's contribution to the EU budget.

It is also very likely that participation in the banking union will mean that Finansinspektionen's banking supervision will require additional resources. Such an increase of resources is fiscally neutral over time since the banks must pay supervisory fees corresponding to Finansinspektionen's appropriation for supervisory activities. The resource need of the Swedish National Debt Office is not expected to be affected to any great extent by participation.

Financial assistance programmes

Both euro area Member States and Member States that do not have the euro as their currency have access to other financial assistance mechanisms, over and above the Single Resolution Fund, which can be used to restore financial stability in a severe crisis. Participation in the banking union does not affect Sweden's access to this assistance or require participation in assistance programmes intended for crisis-hit euro area Member States. Participation may create a political *expectation* that Sweden will contribute to financial assistance programmes, alongside the ESM. As long as the lending capacity of the ESM is good, which it currently is, it is not particularly likely that euro area Member States would like to involve participating Member States that do not have the euro as their currency. It will, in any case, be up to the Government and the Riksdag to decide on any involvement.

Sweden's international cooperation

Banking union and deepening of the EU's economic policy cooperation

The euro area Member States have an explicit ambition of deepening their economic policy cooperation. It is difficult to have a view on how quickly, how deeply and in what direction this cooperation will develop. But considering the economic influence of the euro area Member States in the EU, particularly after the UK's presumed exit, deeper cooperation in the currency union is likely to influence the direction of cooperation on economic policy in the whole of the EU.

Participation in the banking union may signal that Sweden is prepared to take a joint responsibility for financial stability in the banking union. This might give Sweden better possibilities of influencing the direction of policy aimed at ensuring financial stability, especially regarding the EU's legislation in the area of banking and financial services. Sweden has limited influence on the development of the euro area even though Sweden takes part in discussions on the overall architecture of the euro area within the framework of the Fiscal Compact. The informal influence that Sweden nevertheless has is chiefly affected by its overall approach to EU's economic policy cooperation, of which the banking union is an important part. Finally, the banking union is not directly dependent on steps towards integration in the economic, fiscal or political areas. Thus, participation in the banking union does not need to either assume or lead to participation in other parts of the euro area Member States' economic policy cooperation.

One trend, which can also be relevant for Sweden's relation to the banking union in the short term, is that Sweden's possibilities of influencing the agenda for important issues that concern economic policy in the EU decrease as more and more Member States join the euro (and therefore the banking union). This risk of marginalisation is particularly clear in the area of banking and financial services, especially given that the UK is expected to leave the EU. However, the dividing line regarding the design of legislation in the area of banking and financial services – or economic policy in the EU in more general terms – does not necessarily go between euro area Member States and Member States that do not have the euro as their currency.

Nordic-Baltic cooperation on supervision and crisis management

The Nordic-Baltic cooperation between the region's authorities, which is motivated by the level of integration of banking activities in the region, would probably change character if Sweden and Denmark participate in the banking union; the differences between the two countries that are not EU members – Iceland and Norway – and the other countries would increase. The Nordic-Baltic region will continue to be of great importance for the Swedish banking sector, and therefore for financial stability in Sweden. If Sweden were to stay outside the banking union, this partnership also offers a well-functioning structure for future cooperation on supervision and crisis management in the region. Danish participation in the banking union would probably result in a shift of influence on the future design of this cooperation in favour of banking union bodies.

Multilateral economic and financial cooperation

Sweden is currently represented (through the Riksbank and Finansinspektion) in the Basel Committee and participates in work in the Financial Stability Board (FSB) – the global standard-setting bodies for banks. Participation in the banking union is not deemed be of significant importance for Sweden's representation and influence in these bodies. In the longer term it is not impossible that the participating Member States will increasingly coordinate their positions regarding the development of global standards for the supervision and crisis management of banks. Joint representation, e.g. through the ECB, does not seem likely. Sweden's representation on and influence in the Basel Committee is determined in the first place by factors other than participation in the banking union; while Sweden's economic importance is small from a global perspective, the Swedish financial sector is important for the whole of the Nordic-Baltic region. As regards the IMF, there is no obvious impact from whether or not Sweden participates in the banking union. The controversial proposal of joint EU representation on the Executive Board of the IMF is not likely to be realised.

Key considerations

A decision on potential participation in the banking union requires the balancing of several – often uncertain – consequences of participation. These consequences should be assessed in their overall context. In the view of the inquiry there are certain aspects of particular importance to consider.

– **The Swedish banking sector's development and importance for business is an important starting point**. In view of the importance of the internal market for the Swedish economy and Swedish living standards, as well as for European cooperation as a whole, integration of financial markets in the EU should be an important starting point for the deliberations Sweden needs to make. If great weight is given to internationalisation of the Swedish banking market, it is more important to ensure adequate tools and resources to manage potential stability consequences of a more internationalised banking system.

– **The Swedish economy and financial sector have close links to the euro area, especially Finland and the Baltic region.** Participation can increase Swedish authorities' insight into stability risks in the euro area and the possibilities of influencing the design of measures to manage these risks.

– **Participation is not assessed to have apparent consequences for stability in normal circumstances.** As long as banking crises are more isolated phenomena without substantial contagion, participation is not deemed to affect the conditions for good supervision and efficient crisis management of Swedish banks in any decisive way. Swedish authorities will, however, have some flexibility to design supervision and requirements if Sweden stays outside. At the same time, participation would generate clear benefits, not least in the form of access to the large resources of the banking union bodies and better opportunities for thorough examination of banks.

– **The consequences of participation should also be assessed from a systemic crisis perspective.** The risk of a conflict arising between the objectives of financial stability in Sweden and in the banking union as a whole increases in a systemic crisis. The inquiry therefore points to some aspects that are particularly important to take into account from a systemic crisis perspective: the possibilities of participating in decision-making on equivalent terms (in the ECB Governing Council, for instance); the efficiency of decision-making in resolution cases; and also the risk that crisis management become politicised and what influence Sweden has – and wants to have – in such a situation.

– **Political legitimacy in Sweden.** Participation means that great responsibility for the supervision and crisis management of Swedish banks is entrusted to banking union bodies. The banking union's accountability mechanisms should therefore be subject to particular appraisal.

– **Swedish influence and the risk of marginalisation.** There is a risk of marginalisation for Member States that are outside currency cooperation, particularly in the light of the UK's intention to leave the EU. Against that background, Sweden's possibilities of influencing the direction of economic policy in the EU should be given weight when the advantages and disadvantages are to be balanced.

– **New vulnerabilities in the financial system.** Risks linked to new vulnerabilities, e.g. in the form of cybersecurity threats and climate-related risks, may require new approaches. Consideration should therefore be given to how to detect and manage new vulnerabilities in the most efficient way.

Time frame for political decision making. Remaining banking risks in the euro area and the UK's intention to leave the EU are two uncertainties which may, in combination with uncertainty about the final design of the banking union, be arguments for postponing the decision. Another argument for postponing the decision is that potentially negative consequences of remaining outside the banking union might become apparent. However, there are a couple of arguments *against* waiting. First, it is difficult to determine a specific point in time when the banking union is to be considered complete. Second, there is probably more scope in the near future to realise arrangements that make the conditions for participation more equal to those of the euro area Member States.