TOWARD THE EUROPEAN FEDERATION? REFORM PROCESSES IN THE FINANCIAL STABILITY SYSTEM OF THE EUROPEAN UNION, ESPECIALLY TO THE EARLY CONCEPT OF EUROPEAN BANKUNION

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Since July 2007, the world has faced, and continues to face, the most serious and disruptive financial crisis which springs from 1929. The present crisis results from the complex interaction of market failures, global financial and monetary imbalances, inappropriate regulation, weak supervision and poor macro-prudential oversight. In this context the study analyses the reforms of the three-legged chair of European financial stability.

INTRODUCTION

The basic task of the financial system—as a whole—is to provide the economy with money. In order to fulfil this task, it collects the small sums of savings of households in forms of deposits, to satisfy the more significant financial needs of the players of economy by issuing credits to them. In order to ensure the finance of economy the financial system cares about the safe operation of the payment system in economy. In other words, it makes sure the price of goods and services between the players of economy is accounted and paid. These are the basic functions, by which the financial system realizes the distribution of incomes, in space—between different geographical and economical branches, —and time as well, by transforming short-term deposits into long-term credits or investments. These functions make it possible to handle all the uncertainities and risks immanent in the financial system.[1]

In order to make for the financial system possible to fulfil these tasks, thus promoting or rather supporting sustainable growth and social security by means of economic development, the financial system has to operate in a stable manner.

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[1] MIHÁLY ERDŐS & KATALIN MÉRŐ, PÉNZÜGYI KÖZVETÍTŐ INTÉZMÉNYEK. BANKOK ÉS INTÉZMÉNYI BEFEKTETŐK, 19-26 (2010).

Financial stability is a condition in which the financial system, including the markets of key importance and the system of financial institutions itself, shows resistance to economic schocks and is able to perform its basic functions. These basic functions are the mediation between the financial sources mentioned above, risk assessment and the management of financial transactions.

The world's economic crisis drew attention to the fact that vulnerability of the financial system had to be approached in a complex way. What is more, it also should be examined as a complex system, through the stability of its elements.

In the author's study he will try to review the changes which have taken or are still taking place in the three supporting pillars in the structure of financial stability in the European Union (EU). The author wishes to pay close attention to the experienced or recommended changes regarding the financial market supervisory, since the worldwide economic crisis rooted in this pillar. The author does not intend to go into further details concerning either the monetary or the fiscal pillar in this article.

I. The Three-Legged Chair of Financial Stability

The complex system of financial stability basically relies on three pillars. These three pillars are: (1) *monetary policy*, (2) *fiscal policy* and (3) the operation of *financial markets*. A great number of connecting points has been formed between the pillars, that is why the unsatisfactory operation of one of them can quickly spread to the others as well, which results in a loss of stability for the whole system. Thus we can approach the phenomenon of financial stability as if it was represented by a three-legged chair. Its most important feature is that if the three legs are adequate, the chair is steady and comfortable for the person sitting on it. However, if any of the legs is removed, the chair will obviously collapse. Actually, this is the phenomenon we are observing these days, observing the consequences of global crisis, which has affected and is still affecting our environment (dramatically increasing unemployment, growing debts of households and debt rescheduling packages, bank support, broadening social differences) which results in a dramatic rise of national (sovereign) debts, and in some European states even getting to the edge of bankruptcy.

Pillars of this three-legged chair has to be placed back to their right positions, stability has to be restored. One of the painful, but great truths of history is that profound, newly based economic reforms can be realized only consequently after economic crises. It worked the same way during the

Great Depression, when *New Deal* introduced a significant intervention on state level, and it works the same way today as well.

A. Pillar No. 1: Monetary Policy

Monetary policy, symbolized by the first pillar, has partly gained its position within the EU. Introducing Euro first as a bank account money, later as a legal tender, measures concerning the security of price stability (such as the issue of banknotes, currency management as well as managing and handling the currency reserves of member states) became controlled by European Central Bank. New member states that joined in 2004 already had to make a commitment to control their economic policy in order to be able to introduce Euro in an adequate economic environment, which would eventually lead to a situation where a significant part of their sovereignty would be transferred to the supernational organisation, to the European Central Bank (ECB).

As early as the foundation of the monetary union European leaders were aware of the fact, that the eurozone did not meet the criteria of an optimum currency area[2] as described by Mundell[3] and McKinnon.[4] Economic circles were not synchronized and even if the European Union was based on the free flow of goods, people, labour force and capital, the free flow of production factors has not been achieved. Moreover, the inner financial transfers did not exist, either. However, one of the reasons the euro was called to life was to protect the member states from the crisis symptoms of the international financial market. This function proved to be efficient for the first decades of the monetary union.[5] Problems started to emerge when,

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[2] The theory of *optimum currency areas* describes the optimal characteristics for the merger of currencies or the creation of a new currency. The optimum currency area is a geographical region in which it would maximize economic efficiency to have the entire region share a single currency.

[3] Robert A. Mundell, *A Theory of Optimum Currency Areas*, THE AMERICAN ECONOMIC REVIEW 657-665 (Vol. 51, No. 4, 1961).

[4] Ronald I. McKinnon, *Optimum Currency Areas*, THE AMERICAN ECONOMIC REVIEW 717-725 (Vol. 53, No. 4, 1963). The most important criterions of optimum currency areas are: 1.) labor mobility across the region; 2.) openness with capital mobility, price and wage flexibility across the region; 3.) a risk sharing system; 4.) the participant countries have the same business cycles. The theory of optimum currency areas have very wide literature, for further informations see Gábor Békési, *Optimális Valutaövezetek, Gazdasági Integráltság és Hasonlatosság: Az Európai Unió Példája*, KÖZGAZDASÁGI SZEMLE 709-737 (Vol. 45, 1998); A GLOBÁLIS ÉS REGIONÁLIS INTEGRÁCIÓ GAZDASÁGTANA 188-194 (András Blahó ed. 2011); Pierre-Richard Agenor & Joshua Aizenman, *Capital Market Imperfections and the Theory of Optimum Currency Areas*, JOURNAL OF INTERNATIONAL MONEY AND FINANCE 1659-1675 (Vol. 30, Issue 8, 2011).

[5] Margit Rácz, *Vélekedés a Válságról az Európai Unióban Kialakult Helyzet Alapján*, PÉNZÜGYI SZEMLE 311 (Vol. 54, No. 3-4, 2009).

as a consequence of the economic crisis, a number of states—Greece, Spain, Portugal and Ireland—belonging to the eurozone needed an emergency aid, which caused a great loss in trusting the sustainability of euro. What is more, some analysts had even visioned the collapse of the euro.[6]

> If the euro fails, not only the currency fails. Europe fails too, and the idea of European unification…We have a common currency, but no common political and economic union. And this is exactly what we must change. To achieve this—therein lies the opportunity of this crisis.
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> —Angela Merkel said in 2010[7]

All the measures that lead to the restoration for the stability of the euro need to be found in the two remaining pillars.

B. Pillar No. 2: The Fiscal Policy

The economic crisis originated from the financial markets. In order to be able to manage it, countries all around the world were forced to offer emergency aids to banks financed by credits or taxpayers, to avoid a social cataclism caused by the collapse of the system of financial mediation. However, these measures resulted in national debts rising incredibly high, endangering the operation of states. We can see that the connections between the legs or pillars are so profound that in case one of them is shaken, others will definitely follow.

At the time of the introduction of the euro there was not an established political consent to the achievement of an economical or monetary union. At the same time the member states were not willing to sacrify more of their sovereignty. Although experts have emphasised the risks encoded in a monetary union without the convergency of budgets, the European Union still has not got its own fiscal policy. The monetary and the fiscal policy practically represent the two sides of a coin. The problem is rooted in the fact that monetary policy is at Union level, while fiscal policy is determined by the states. It means that one of the legs ensuring stability is located at a higher level, which leads to a basically assimetric structure. What is more, experts called attention that the supervision of the institutes of financial

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[6] Simon Tilford, *The Euro at Ten: Is Its Future Secure?* CENTER FOR EUROPEAN REFORMS (2009), *available at* http://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2011/essay_10_euro_7jan09-1337.pdf (last visited Nov. 02, 2012).

[7] *New Austerity Measures for Portugal, Spain* (2012), *available at* http://www.euractiv.com/priorities/new-austerity-measures-portugal-news-494137 (last visited Nov. 02, 2012).

markets (such as banks and big holding companies) should have been managed at European level.[8]

The political will needed for the creation of economic and monetary union was eventually born by the world economic crisis. The example of Greece showed that the most significant shortcomings of the monetary union was that it missed its own budget of crisis management.

Previous to the foundation of the monetary union, it had been different. On one hand, Article 108 of the Treaty of Rome specifically approved a mutual aid of the member states in case of unbalance in payments.[9] On the other hand, the Maastricht Treaty forbade both the Union and the other member states issuing such an aid to governments.[10] The reason of this was a widely accepted agreement among experts which regarded the balance of payments within the monetary union as irrelevant as it was within the regions of member states.[11]

However, there was one back-stair left due to paragraph (2) Article 122, which allowed a restricted financial support from the Union for a member state struggling difficulties in exceptional cases. Based on this claim EU founded the *European Financial Stability Mechanism* (EFSM),[12] a relatively small credit device within the system of the Union, and the *European Financial Stability Facility* (EFSF),[13] based on an interstate treaty, which is a much larger, temporary credit device.[14] However, instead of temporary crisis management mechanisms, a constant financing mechanism was

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[8] Mads Andenas & Christos Hadjiemmanuil, *Banking Supervision, the Internal Market and European Monetary Union*, EUROPEAN BUSINESS LAW REVIEW 153 (Vol. 9, 1998).

[9] The mutual assistance could be: a) a concerted approach to or within any other international oraganisations to which Member States may have recourse; b) measures needed to avoid defleotion of trade where the State which is in difficulities maintains or reintroduces quantitive restrictions against third countries; c) the granting of limited credits by other Member States, subject to their agreement.

[10] TFEU Article 125. 1: "The Union shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project."

[11] Jean Pisani-Ferry, *The Known Unknowns and Unknown Unknowns of EMU,* BRUEGEL POLICY CONTRIBUTION 5 (Issue 2012/18, 2012).

[12] Council Regulation (EU) No. 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism.

[13] EFSF Framework Agreement (2012), *available at* http://www.efsf.europa.eu/attachments/20111019_efsf_ framework_agreement_en.pdf (last visited Nov. 02, 2012).

[14] About the legal problems see Jean-Victor Louis, *Guest Editorial: The No-Bailout Clause and Rescue Packages*, COMMON MARKET LAW REVIEW 971-986 (Vol. 47, Issue 4, 2010).

needed. Member states agreed about the *European Stability Mechanism* (ESM) in December 2010 which started work in 8th October 2012. In order to establish ESM the Treaty of Lisbon had to be modified, too. According to this, Article 136 Treaty on the Functioning of the European Union (TFEU) was completed with the following paragraph:

> (3) The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality.[15]

The ESM treaty was finalized on 2nd February 2012 in Brussels.[16] An international financial organisation was established to operate this facility. The Luxemburg-based financial institution gives support to the eurozone countries if it serves the interest of safeguarding financial stability. ESM can be used only at an ultimate phase if the stability of the eurozone is threatened. This mechanism works on an intergovernmental base, furthermore, the private sector as well as the International Monetary Fund has to be involved in its activity.[17]

The economic governing of EU, including the fiscal pillar, is strengthened by the so-called "six-pack", which contains five regulations[18] and one directive.[19] With the help of these legal acts the Union ensures stricter application of the fiscal rules, as well as applying a specific forecasting technique in the system by being able to examine and evaluate other economic indicators and even punish in case of default.

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[15] 2011/199/EU European Council Decision of 25 March 2011 amending Article 136 of the Treaty on the Functioning of the European Union with regard to a stability mechanism for Member States whose currency is the euro, O.J. L. 91. 2011.

[16] http://www.european-council.europa.eu/media/582311/05-tesm2.en12.pdf (last visited Nov. 02, 2012).

[17] Bálint Ódor, *Az Európai Unió Működéséről Szóló Szerződés 136, Cikkének Módosítása*, EURÓPAI TÜKÖR 37 (Vol. 16, No. 2, 2011).

[18] Regulation (EU) No. 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area; Regulation (EU) No. 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area; Regulation (EU) No. 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No. 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies; Regulation (EU) No. 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances; Council Regulation (EU) No. 1177/2011 of 8 November 2011 amending Regulation (EC) No. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.

[19] Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.

The European Semester,[20] being part of the "sick-pack", is actually an integrated fiscal supervising mechanism, in other words, a yearly cycle of economic policy coordination. It is actually the pillar realizing the Europe 2020 strategy.[21] Unlike the Stability and Growth Pact, it is based on the logics of prevention, being more efficient, than the application of correction mechanisms. Within the framework of the European Semester, each year the European Commission undertakes a detailed analysis of EU Member States' programmes of economic and structural reforms and provides them with recommendations for the next 12-18 months (state specific recommendations).

The so-called "two-pack", which means two more regulations, aims at further strengthening the surveillance mechanisms in the euro area.[22] Work on the "two-pack" is still in progress.

The Euro Plus Pact,[23] as agreed by the eurozone heads of state or heads of governments will further strengthen the economic pillar of EU and achieve a new quality of economic policy coordination, with the objective of improving competitiveness and thereby leading to a higher degree of convergence. Apart from Member States, the Pact was joined by Bulgaria, Denmark, Poland, Latvia, Lithuania and Romania as well.

The brief outline of the measures, aimed at strengthening the fiscal pillar follow the policy of introducing definitely more fiscal regulations at national level in order to minimalize the risks of "tickery" within the umbrella of the common currency.[24] However, it may cause a great loss in the fiscal sovereignty of the Member States. On one hand, at a long term the convergency and the strictness of fiscal regulations is definitely a forwarding process, as it is vital for to restore the stability of the euro. On

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[20] Regulation (EU) No. 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No. 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

[21] Márk Bató, *Az Európai Szemeszter, Az Európai Szemeszter Szerepe az Európai Unió Gazdaságpolitikájának Kialakításában, Különös Tekintettel a Kohéziós Politikára*, KÖZ-GAZDASÁG 105 (Vol. 7, No. 1, 2012).

[22] COM (2011) 819: Proposal for a Regulation of the European Parliament and of the Council on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area; COM (2011) 821: Proposal for a Regulation of the European Parliament and of the Council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area.

[23] *The Euro Plus Pact—Stronger Economic Policy Coordination for Competitiveness and Convergence*, European Council (24/25 Mar. 2011) Conclusions, Annex I, *available at* http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf (last visited Nov. 03, 2012).

[24] Marek Dabrowski, *Fiscal and Monetary Policy Determinants of the Eurozone Crisis and Its Resolution*, CASE NETWORK STUDIES & ANALYSES 31 (No. 443, 2012).

the other hand, it raises the question of how many rates of speed the Union can tolerate. These regulations suggests the idea of a fiscal union as far as the Member States are concerned, which would not work at community level anymore, but at a kind of federative one, with all its consequences.

These thoughts are somewhat diverting from the real aim of the study, which is meant to be a systematic review of reform procedures. In order to restore and maintain financial stability, after strengthening the monetary and fiscal pillar, a stronger financial market supervision has an outstanding significance.

II. CHANGES IN THE REGULATIONS AND SUPERVISION OF FINANCIAL MARKETS

The beginnings of striving for an unified financial market in Europe leads back to the 70's.[25] "As early as that the establishment of such a financial environment was started, which could guarantee secure financial transactions in different member states of the Union."[26] The *First Banking Directive* was adopted in 1977, 20 years after the Treaty of Rome. This was nevertheless only the first step, after which markets still remained functioning separately, as the governments of the different countries had different interests regarding the financial system. As a consequence, it was rather difficult for financial institutions to perform indirect transactions crossing the borders.

The breakthrough, an acceleration in the integration of the financial market started in 1985. This was the year when the "White Book" was published by the Commission.[27] The White Book outlined three basic principles: (1) the principle of *home-country control*, (2) the principle of *mutual recognition*[28] and (3) the principle of *minimum harmonisation of*

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[25] LARISA DRAGOMIR, EUROPEAN PRUDENTIAL BANKING REGULATION AND SUPERVISION—THE LEGAL DIMENSION 33 (2010).

[26] Judit Lengyel, Éva Réz & Olivér Szép, *A Tőkepiacok Szabályozásának Aktuális Kérdései*, DÉL–KELET EURÓPA—SOUTH-EAST EUROPE INTERNATIONAL RELATIONS QUARTERLY 3 (Vol. 2, No. 7, 2012).

[27] COM (85) 310: Completing the Internal Market, available at http://europa.eu/documents/comm/white_papers/pdf/com19 85_0310_f_en.pdf (last visited Nov. 03, 2012).

[28] The principle of mutual recognition was made by the *European Court of Justice* in 1979. It was the famous case of *Cassais de Dijon*. The principle of mutual recognition guarantees free movement of goods and services without the need to harmonise Member States' national legislation. Goods (services) which are lawfully produced in one Member State cannot be banned from sale on the territory of another Member State, even if they are produced to technical or quality specifications different from those applied to its own products. The only exception allowed—overriding general interest such as health, consumer or environment protection—is subject to strict conditions. *See Rewe kontra Bundesmonopolverwaltung für Branntwe*, *in* 1979 C-120/78 European Court of Justice.

national laws. It is supplemented by the policy of the *Single Passport*, which means that different financial institutions has to bear the same operational licence. If such a licence is obtained in one of the member states, it means the institution is allowed to work in any other member state without a special licence.[29] Whether the institution controls its operation according to the freedom of settlement (establishing a branch office) or the freedom of service (without establishing a branch office, with cross-border service) it depends on the institution itself.

At the end of the 90's, though the integration of financial markets had accelerated, the European Union had to face the fact that markets had still remained segmented.[30] The introduction of the euro represented a unique chance for the Union to integrate the sphere of financial service and remove the remaining frontiers within the market. Therefore in 1999 the so-called *Financial Service Action Plan* (hereafter: FSAP) was adopted. The three strategic objective of the plan were the establishment of an integrated market in the areas of institutional or enterprising financial market service, to open and safeguard the public service of financial markets as well as strengthen the regulations of prudential supervision. Prudential supervision was reinforced by the reform of the financial supervisory structure of the Union in parallel with the FSAP. It was called the *Lamfalussy process*.[31]

Regulating the financial market is expected by both the regulators and society to ensure the security and the stability of the financial industry, while the stability of the global financial system is also given.[32] Due to FSAP "financial industry's performance has improved; there is higher liquidity, increased competition, sound profitality and stronger financial stability despite much external turbulence".[33] As for the improvement of integration, White Book II outlined further legal activities (including the revision of previous regulations).

In 2007 the economic crisis began, which put the regulation system of

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[29] HAJNALKA LŐRINCNÉ ISTVÁNFFY, PÉNZÜGYI INTEGRÁCIÓ EURÓPÁBAN 173 (2001).

[30] COM (1999) 232: *Implementing the Framework for Financial Markets: Action Plan, available at* http://ec.europa.eu/internal_market/finances/docs/actionplan/index/action_en.pdf *3 (*last visited Nov. 03, 2012*)*.

[31] Further details about the Lamfalussy progress see Sideek Mohamed, *Reform of the EU Securities Markets: A Critical Assessment of the Lamfalussy Report*, BUSINESS LAW INTERNATIONAL (Issue 3, 2002); EILÍS FERRAN, BUILDING AN EU SECURITIES MARKET (2004); Duncan Alford, *The Lamfalussy Process and EU Bank Regulation: Another Step on the Road to Pan-European Regulation*, ANNUAL REVIEW OF BANKING AND FINANCIAL LAW (Vol. 25, 2006); DRAGOMIR *supra*.

[32] András Blahó, *Az Átalakuló Globális Pénzügyi Szabályozó Rendszer Kérdései*, KÖZ-GAZDASÁG 49 (Vol. 6, No. 2, 2011).

[33] *White Paper*—Financial Services Policy 4 (2005-2010) (hereafter: White Paper II.), *available at* http://ec.europa.eu/internal_market/finances/docs/white_paper/white_paper_en.pdf (last visited Nov. 10, 2012).

the EU on the test. The EU responded to the unbalanced phenomena like never before, by preparing, adopting and putting into force a wide range of legal acts.[34] However, the integrated markets of the EU need not only an *ex post* regulation, but a direct supervision by the union.

The long-term strategy of European integration—the *Europe 2030 Project*—also adopted the policy, that is:

> If the EU is to avoid a repeat of the crisis, it must urgently undertake reforms to the functioning and supervision of our financial institutions. Today, these financial institutions have changed few of the practices which led to the crisis, except to significantly reduce their lending. It would be desirable for these reforms to be coordinated among the G20, but until this happens, the *EU must develop its own regulatory norms and mechanisms* for control and supervision.[35]

On 2011 January 1st a completely new EU supervisory structure, the *European System of Financial Supervisors* was formed, based on the Lamfalussy process and its experience.

In this European System of Financial Szupervisors there are two pillars, a macro (ESRB)[36] and a microprudential pillar (ESAs)[37] working in order to maintain financial stability for the whole European Union, find solutions to forecast crises and manage them. It is an ambitious, though necessary task, for which the authorities have to be armed with adequate devices. Accordingly, supervisory authorities became armed with new device of power of a different quality.

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[34] See, e.g., Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies; Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II); Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to Undertakings for Collective Investment in Transferable Securities (UCITS), Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management (CRD II).

[35] *Project Europe 2030—Challanges and Opportunities* 5, *available at* http://www.consilium.europa.eu/uedocs/cm sUpload/en_web.pdf (last visited Nov. 05, 2012).

[36] Regulation (EU) No. 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board.

[37] Regulation (EU) No. 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No. 716/2009/EC and repealing Commission Decision 2009/78/EC; Regulation (EU) No. 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No. 716/2009/EC and repealing Commission Decision 2009/79/EC; Regulation (EU) No. 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No. 716/2009/EC and repealing Commission Decision 2009/77/EC.

The preparation of *regulatory technical standards* and *implementing technical standards* will primarily be the authorities work, even if the Commission brings decisions about their adoption. Decisions made by the European authorities[38] are legally binding not only on the authorities at national level, but eventually on players in the financial markets. What is more, the decisions adopted under the ESAs regulations shall prevail over any previous decision adopted by the competent authorities on the same matter. Enabling a direct supervision of private companies at the Union's level (in restricted cases!),[39] the supervisory policy of the given country was seriously damaged by the new regulation.

As well as the existance of direct supervision of private companies in restricted cases, the power of pure direct supervision also appeared among the competencies of the European Securities Markets Authority (ESMA). Namely, after the establishment of the new European System of Financial Supervisors it became possible to raise the licensing and supervision of credit-rating agencies to the European level. In accordance, regulation 513/2011/EU amended regulation 1060/2009/EK regarding credit-rating agencies and the ESMA regulation defined the direct European supervision of credit-rating agencies as a special task of ESMA. If during its activity it observes a violation of the law by the credit-rating agency, it has the right to order a supervisory measure or impose a fine.[40]

These reforms have represented a significant change in the European Union, though the appearance of the supervision on a direct union level foresaw further steps of integration (broadening the range of competences of the Union).[41] This tendency was supported by the sovereign debt crisis, which resulted in one thing being *stabile*, and that was *instability*. The President of the European Council and the European Comission set the aim of establishing a "*genuine economic and monetary union*".[42]

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[38] The ESAs decisions includes three types of legally binding decisons: I.) decision in breach of union law (ESAs reg. Art. 17), II.) actions in emergency situations (ESAs reg. Art. 18), and III.) decisions in settlement of disagreements between competent authorities in cross-border situations (ESAs reg. Art. 19).

[39] About the limits of the new supervisory authorities see Stijn Verhelst, *Renewed Financial Supervision in Europe—Final or Transitory?*, EGMONT PAPER 48-57 (No. 44, 2011).

[40] The III Annex of the regulation includes a "black list" about the credit rating agencies' infringements. The regulation classifies the infringements: a) Infringements related to conflicts of interest, organisational or operational requirements; b) Infringements related to obstacles to the supervisory activities and c) Infringements related to disclosure provisions.

[41] János Kálmán, *Az új Európai Pénzügyi Felügyeleti Architektúra*, *in* MAGYARORSZÁG ÉS AZ EURÓPAI UNIÓ—DÍJNYERTES PÁLYÁZATOK 2011, 88 (Csaba Gergely Tamás ed. 2012).

[42] *Toward a Genuine Economic and Monetary Union—Interim Report* (Brussels, Oct. 12, 2012), *available at* http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/132809.pdf (last visited Nov. 10, 2012).

This conception, also known as *bankunion*, means an integrated or rather a centralized financial framework, which includes: 1) an *integrated resolution mechanism*; 2) an *integrated deposit-guarantee mechanism*; and 3) a *single supervisory mechanism*. The author intends to give only a brief review the resolution and deposit-guarantee mechanisms, while going in details concerning the single supervisory mechanism.

A. The Integrated Resolution Mechanism[43]

Economic crisis put the problem-solving abilities of both the national and the union level authorities on a hard test, concerning the bank system. The financial markets of the Union, due to the previously described processes, have become integrated to the extent that an internal economic shock within a member state can easily spread to other member states as well.

In most European countries the same proceedings in insolvency are to be applied for banks, as for other enterprises. However, banks are regarded as special compared to other enterprises, for at least three reasons: 1) banks are *opaque*, because they access information that other players of the market cannot do (bank secrecy); 2) banks act as performers of *deposit-taking and lending*, thus they transform short-term commitments into long-term products; 3) banks incur *special risks* (domino effect).[44] Insolvency regulations cannot always manage the bankruptcy of financial institutes, because they do not considerate the avoidance of instability, ensuring the continuous operation of basic service and protect deposit owners. What is more, proceedings in insolvency are circuitous and in case or re-organisation it is necessary to reach an agreement through long and difficult series of negotiations. This may cause a loss in forms of time, cost and an insufficient result to both party.

In case of a state resolution it is the state which makes a decision on the resolution of the enterprise in question, which, at least theoretically, goes together with the central sources playing the leading role in restoring the financial balance.[45] Contrarily, the European resolution system outlined in

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[43] COM (2012) 280: 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 and amending Council Directives 77/91/EEC, 82/891/EC, 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC and 2011/35/EC and Regulation (EU) No. 1093/2011, *available at* http://eur-lex.europa.eu/LexUriServ/Le UriServ.do?uri= COM:2 012:0280:FIN:EN:PDF (last visited Nov. 10, 2012).

[44] DRAGOMIR, *supra* at 27-30.

[45] Anna Kúti & Mária Móra, *Szanálás és Felszámolás 1986 Után*, KÖZGAZDASÁGI SZEMLE 703 (Vol. 37, No. 6, 1990).

the proposal would be based on the idea of establishing a bank resolution fund from previous bank payments on the member states level, which could finance the restoration of near-bankrupt banks. This way it would not be the taxpayers who would bear the risks of the bank system, but the system itself (providing that the bank did not transfer the cost to the clients!).

In market economies state resolution is regarded as an *exceptional device* of crisis management.[46] That is why the proposal would broaden the competence of national supervisory authorities, so that they could intervene at an early stage in case the financial state or the solvency of an institute declined. Within the framework of such an early intervention the institute can be called upon the execution of regulations and measures, as defined in the resolution plan, preparation and execution of a proceeding programme and a schedule and summon a general meeting of the share-holders. Resolution measures can only be taken in case of or near bankruptcy, and there is not a solution to restore the institution within an acceptable period of time. Moreover, the intervention aiming at resolution has to be justified by public weel as well.

The proposal of the commission is aimed at the harmonisation of the system of resolution authorities at member state level, which could work according to common regulations. However, if the enhanced supervision within the bankunion was created, it would have to give place to a more centralised management of bank crises.[47] In order to realize this, according to the plans, a European resolution authority should be formed regarding state members within the bank union, which could eliminate all those negative externalities caused by decisions made at purely national level.[48]

B. The Integrated Deposit Guarantee Mechanism

The principle of "*minimal harmonisation*", applied in 94/19/EC directive about deposit guarantee mechanisms results in very different coverage levels by the different member states, so 2009/14 EC directive fixed the minimal margin at 100,000 Euro. It was necessary because when the financial crisis deteriorated during the autumn of 2008, certain Union deposit owners tranferred their deposits from states with lower coverage

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[46] *Id.* at 703.
[47] COM (2012) 510: Communication from the Commission to the European Parliament and the Council on a Roadmap towards a Banking Union 8.
[48] *Press Release—Towards a Genuine Economic and Monetary Union* 5 (Jun. 26, 2012), *available at* http://www.consilium .europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131201.pdf (last visited Nov. 10, 2012).

levels to ones ensuring better coverage levels. These differences caused serious deformations.[49]

In July 2010 the Commission made an even more ambitious proposal to create the Paneuropean Deposit Guarantee Scheme. In this scheme they urged the harmonisation and the simplification of deposit protection, the acceleration of payments and enhancement of finance, particularly through deposit insurance funds filled up by previous contributions and funding devices between deposit protection systems of member states, mandatory within the given limits.[50]

According to the primary principle ultimate responsibility should stay at the same level in both cases of deposit protection and financial supervision.[51] Expert analysts suggest the solution that the deposit guarantee system should be connected to the resolution system at a European level, thus establishing the *European Deposit Insurance and Resolution Fund*.[52] This solution could enable a quick and efficient decision making, which has a vital role in crisis management.

Resolution and deposit insurance system has the same purpose. Both have the common aim of bearing the costs of future crises by previously established funds of financial institutes instead of tax payers.

C. The Single Supervisory Mechanism

The third pillar of the bank union is the forming of the single supervisory mechanism. It is necessary because, as described above, bank supervisory, being split up at national levels, have not kept up with the integration of bank markets.

Based on the single supervisory mechanism, it is the European Central Bank (ECB) that would supervise banks at an integrated union level. Within this framework ECB could directly control the strict and impartial enforcement of prudential regulations as well as an efficient control of

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[49] COM (2010) 369: Report from the Commission to the European Parliament and to the Council, Review of Directive 94/19/EC on Deposit Guarantee Schemes 3.

[50] Proposal for a Directive: EU of the European Parliament and of the Council—On Deposit Guarantee Schemes (recast), *available at* http://ec.europa.eu/internal_market/bank/docs/guarantee/2010071 2_proposal_en.pdf (last visited Nov. 03, 2012).

[51] Dirk Schoenmaker & Daniel Gros, *A European Depsit Insurance and Resolution Fund*, DSF POLICY PAPER 7 (No. 21, 2012).

[52] FRANKLIN ALLEN ET ALL, CROSS-BORDER BANKING IN EUROPE: IMPLICATIONS FOR FINANCIAL STABILITY AND MACROECONOMIC POLICIES 107-108 (2011); Maria Gerhardt & Karel Lannoo, *Options for Reforming Deposit Protection Schemes in the EU*, ECRI POLICY BRIEF 11-13 (No. 4, 2011); SCHOENMAKER & GROS *supra* at 4.

cross-border bank markets.[53] The Proposal suggests that from the moment the regulation comes into force, the ECB should apply its supervisory tasks to any banks, in particular banks which have received or requested public financial assistance. After this date, from July 1st 2013 the most important European banks with system level significance (*European Systemically Important Financial Institutions*, ESIFIs), later, after 1st January 2014, all the remaining banks would be supervised by the ECB.[54] The author would call this proposal ambitious, even irrealistic, considering the fact that the date of writing this study is November 2012 and the regulation has not been adopted yet. As a matter of fact, the economic crisis prompts the legislator of the Union and its engine, the Commission as well, to get regulations adopted they regard vital as soon as possible. However, speed should never be put forward at the expense of *quality*!

The single supervisory mechanism would concern countries which have euro as the official currency (*eurozone country*), with the opportunity for other states to join. The Proposal calls it *close cooperation*, though it is not a simple cooperation, but essentially makes national supervision authorities *deconcentrated* organisations of ECB, as far as the financial supervisory of banks is concerned.

The close cooperation between the ECB and the national competent authority of a non participating Member State shall be established, by a decision adopted by the ECB, where the following conditions are met: (1) the Member State concerned *notifies* the other Member States, the Commission, the ECB and the European Banking Authority (EBA) the request to enter into a close cooperation with the ECB in relation its new tasks; (2) the Member State undertakes to ensure that its national competent authority will *abide by* any guidelines or requests issued by the ECB; (3) the Member State undertakes to *provide* all *information* on the credit institutions established in that Member State that the ECB may require for the purpose of carrying out a comprehensive assessment of those credit institutions; and (4) the Member State concerned has adopted *national legal acts* to ensure that its national competent authority will be obliged to adopt any measure in relation to credit institutions requested by the ECB.

In case the given member state does not meet these requirements anymore, the ECB in its discretional power may decide on terminating close cooperation. The subordinative feature of national authorities is also emphasised by the fact that in case of termination of close cooperation the

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[53] COM (2012) 511: Proposal for a Council Regulation conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions (hereafter: Proposal).
[54] Proposal Art. 27.

Proposal does not institutionalize any previous consultation mechanism.

Due to the single supervisory mechanism the ECB shall, in accordance with the relevant provisions of Union law, be exclusively competent to carry out, for prudential supervisory purposes, in relation to all credit institutions established in the participating Member States.[55] In accordance with this, the ECB would authorise credit institutions and withdraw authorisation if necessary; to assess acquisitions and disposals of holdings in credit institutions; only int he cases specifically set out in Union acts, ECB shall set higher prudential requirements and apply additional measures to credit institutions; ECB may carry out supervisory stress tests; it may also carry out supervisory tasks in relation to early intervention etc..[56] The ECB is allowed to make regulations, adopt proposals and make decisions regarding all these tasks.

To perform its supervisory role the ECB would have significant investigational power as well. The ECB would have the right to ask direct information from any legal or individual entity[57] within its competence. It may process all the necessary inspections of these entities; it may ask for documents, may examine their books and records and also may ask for a written or oral explanation. The ECB also may lead on side inspections, even without prior announcement. These examinations have to be abided.

For the purpose of carrying out the tasks conferred upon it by this study, where credit institutions, financial holding companies, or mixed financial holding companies, intentionally or negligibly, breach a requirement under directly applicable Union acts in relation to which administrative pecuniary sanctions shall be available to competent authorities under Union law, the ECB may impose *administrative pecuniary sanctions* of up to twice the amount of the profits gained or losses avoided because of the breach where those can be determined, or up to 10% of the total annual turnover of a legal person in the preceding business year. The sanction taken has to be effective, proportionate and dissuasive.

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[55] "After the decision by the Eurozone council, some commentators have argued that the ECB would only cater for the larger, systematically important banks, whereas the member states' authorities would remain responsible for smaller banks." Karel Lannoo, *The Roadmap to Banking Union: A Call for Consistency*, CEPS COMMENTARY 4-5 (2012).

[56] Proposal Art. 4.

[57] The ECB's investigatory powers would cover: **a)** credit institutions, **b)** financial holding companies, **c)** mixed financial holding companies, **d)** mixed-activity holding companies, **e)** persons involved in the activities of the entities referred to in (a) to (d), and related third parties, **f)** third parties to whom the entities referred to in (a) to (d) have outsourced operational functions or activities, **g)** persons otherwise closely and substantially related or connected to the activities of the entities referred to in (a) to (d), **h)** national competent authorities.

Followed by the brief outline of the most important reforms of the supervisory mechanism, it is inevitable to talk about the problems concerning which the author previously underlined that speed should never be put forward at the expense of quality! The author intends to highlight two topics: 1) the separation of monetary policy and institutional (micro) level supervision, and 2) the relations between ECB and EBA.

1. The Separation of Monetary Policy and Institutional (Micro Level) Supervision

The first problem is to be found in the centralisation of monetary policy and institutional (micro) level supervision into one organisation. There is the fundamental problem of having a built-in conflict of interest between monetary policy and financial supervision.[58] The primary objective of monetary policy—as it described in TFEU paragraph 1 Article 127—shall be to maintain price stability, that is, to stop inflation. Contrarily, the financial supervision concentrates on the safety and soundness of individual institutions.

Monetary policy in certain situations favours other facts than financial supervisory does. Such a case could be when the central bank radically raises interest rates in order to maintain the stability of macro economy, which at the same time devaluates the coverage behind debenture-type investments, thus risking the secure functioning of the individual institution.[59] This is the reason why the two functions, if concentrated at the same institution, has to be separated the adequate way in order to save their integrity.[60]

The separation of functions, despite of the Proposal emphasising it,[61] remains insufficient. According to the Proposal, an internal body, a supervisory board shall be established within the ECB, to the planning and execution of the tasks conferred upon the ECB. However, the ECB's Governing Council would be ultimately charged for decision making, in exceptional cases having the right to delegate clearly defined supervisory tasks and related decisions regarding individuals. These delegated tasks also subjects to the oversight and responsibility of the Governing Council. At the

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58 See for more details, Charles Goodhart & Dirk Schoenmaker, *Should the Functions of Monetary Policy and Banking Supervision Be Separeted?*, OXFORD ECONOMIC PAPERS, NEW SERIES 539-560 (Vol. 47, No. 4, 1995).
59 ERDŐS & MÉRŐ *supra* at 276.
60 Jacopo Carmassi, Carmine Di Noia & Stefano Micossi, *Bankin Union: A Federal Model for the European Union with Prompt Corrective Action*, CEPS POLICY BRIEF 4 (No. 282, 2012).
61 Proposal 8.

same time, the Governing Council of ECB consists of the members of ECB's Executive Board and governors of national central banks of member states in which the common currency is euro. In other words, countries which join the single supervisory mechanism through close cooperation, are precluded in the right to vote.

Members of the supervisory board are: 1) four ECB representatives appointed by the ECB's Executive Board; 2) one representative from each of the national authorities functioning as supervisor of the financial institutes of participating member states;[62] 3) a Chair elected by the Governing Council from the members of the Executive Board with exeption of the President, and 4) a Vice Chair elected by and from the Governing Council from its own members. Most probably, though it is not mentioned in the Proposal, these members will have the right to vote in the Supervisory Board.

From members of the supervisory board a steering committee may be appointed based on a more restricted selection, which supports the work of the supervisory board. The representatives of the competent authority of the Member States which established a close cooperation in accordance with Article 6 shall take part to the activities of the supervisory board in accordance with the conditions set out in the decision adopted by the ECB. The Chair of the European Banking Authority and a member of the European Commission may also participate as observers in the meetings of the supervisory board.

Therefore it is obvious that monetary policy and institution supervision are definitely not separated from each other. What is more, the 2nd paragraph of Article 18 of the Proposal emphasises that the tasks rooting from the ECB's supervisory function may not interfere with the ECB's tasks relating to monetary policy and any othe tasks. This implies that monetary policy must abide by in its new functions. Furthermore, those non-eurozone countries which join the single supervisory mechanism, are hardly given any rights, but more obligations.

What can be the reason of placing the union level supervisory of banks within the organisation of ECB by all means? In the author's opinion the EU simply has not got any other legal basis to build up this structure, unless it amends the founding treaties. Such an amendment, though, is a long and difficult process. The single legal basis, on which the single supervisory

[62] "*Participating Member State*" means a Member State whose currency is the euro. The definition of participating Member States does not include Member States joining to the single supervisory mechanism by close cooperation.

mechanism may be established is TFEU Article 127, as follows:

> (6) The Council, acting by means of regulations in accordance with a special legislative procedure, may unanimously, and after consulting the European Parliament and the European Central Bank, confer specific tasks upon the European Central Bank concerning policies relating to the prudential supervision of credit institutions and other financial institutions with the exception of insurance undertakings.

Even the regulations deciding about the establishment of European Supervisory Authorities were seriously criticised both by national[63] and international experts,[64] because the system of functions of the ESAs exceeded the criterions of delegation of power, which criterions was built up by the European Court.[65] Therefore, based on the current founding treaties, it is not possible to transfer the powers of (discretionary) supervision to EBA. After taking this into consideration, there may be two possible solutions.

According to the first one,[66] ECB would attend the supervisory function, following the Proposal, but by the establishment of a completely independent inner Supervisory Board, absolutely separated from monetary policy. This Supervisory Board could be formed after the Governing Council of ECB, and would consist of a Steering Committee and the chair person of the national supervisory authorities. Members of the Steering Committee would be: the six members appointed by the Council, one of the Vice-Presidents of ECB, the Chair of EBA as well as the Managing Director of ESM. This structure could enhance efficient coordination between the institutions, thus avoiding the financial supervision being subordinated by monetary policy. At the same time it would involve ESM in decision making, which in the future may as well contribute to deposit guarantee and resolution. The Supervisory Board would be responsible for financial supervision and would not accept orders concerning its competence from the

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[63] *See* László Szegedi, *A Pénzügyi Felügyeletek Európai Rendszere a Meroni-Doktrína Tükrében*, PRO PUBLICO BONO (Vol. 1, No. 1, 2011); László Szegedi, *A Pénzügyi Piacok Közvetlen Európai Felügyeletének Kihívásai*, PÉNZÜGYI SZEMLE (Vol. 57, No. 3, 2012); KÁLMÁN *supra*.

[64] *See* Eddy Wymeersch, *The Institutional Reform of the European Financial Supervisory System, An Interim Report*, GHENT UNIV. FINANCIAL LAW INSTITUTE WORKING PAPER (No. 2010-01, 2010); Lorenzo Sasso & Nicolette Kost de Sevres, *The New European Financial Markets Legal Framework: A Real Improvement? An Analysis of Financial Law and Governance in European Capital Markets from a Micro and Macro Economic Perspective*, CAPITAL MARKETS LAW JOURNAL (Vol. 7, No. 1, 2012); Eilís Ferran, *Understanding the New Institutional Architecture of EU Financial Market Supervision*, UNIVERSITY OF CAMBRIDGE FACULTY OF LAW RESEARCH PAPER (No. 29/2011, 2011).

[65] *See Meroni v. High Authority*, 1958 Case 9/56 European Court of Justice; *Giuseppe Romano v. Institut National D'assurance Maladie-Invalidité*, 1981 Case 98/80 European Court of Justice.

[66] *Based on* CARMASSI, DI NOIA & MICOSSI *supra*.

Governing Council of ECB, which would only be in charge of monetary policy. However, a problem still remains in case of this solution as well. Namely, the ECB would not have any power in the supervision of insurance companies, though there is a great number of connections between the activity of banks and insurance companies in the financial sector. A microprudential type of supervision, of which the competence of insurance is excluded, means a lot of risk in itself.[67]

According to a second solution, all the supervisory tasks and competences would be transferred to EBA. Thus, a confrontation with monetary policy could be avoided as well as the risks of the insurance sector would not remain hidden, due to the cooperation with the European Insurance and Occupational Pensions Authority (EIOPA).

This solution would also serve the policy of institutional balance, since the concentration of supervisory functions in ECB would create a significant concentration of power, too.[68] In accordance with the above written, it would raise serious doubts regarding legal basis, whether it could be possible to organise the supervision of banks in this very structure, without the amendment of the founding treaties.

2. The Relation between ECB and EBA

The Proposal suggests a role of key importance concerning the single supervisory mechanism, by the fact that the EBA would remain in charge of creating the Single Rulebook. This function will have an outstanding significance in safeguarding the integrity of the sigle market, even in connection with member states which do not transfer their supervisory functions to ECB, as the rulebook will apply to all the member states of EU.

Experts fear that the role of EBA will have to be completely re-defined, if the single supervisory mechanism is carried out the way described above, because losing the opportunity to function as a supervisor, it will have to concentrate rather on the supervision of the counduct of business and the regulation of products regarding the bank sector.[69] In other words, it will have to strengthen its functions of consumer protection and financial

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[67] *The High Level Group on Financial Supervision Is the EU: De Larosiere Report* 43-44 (Brussel, Feb. 25, 2009), *available at* http://ec.europa.eu/internal_market/finances/docs/de_larosiere_report_en.pdf (last visited Oct. 10, 2012).

[68] Jean Pisani-Ferry et all, *What Kind of European Banking Union?* BRUEGEL POLICY CONTRIBUTION 12 (Issue 2012/12, 2012).

[69] LANNOO *supra* at 6 (2012).

activity, as it is regulated in article 9 in EBA regulations,[70] and European supervisory architecture will result in a similarity to the so-called "twin peaks" model.[71] The competence in consumer protection is to be enhanced also because an efficient financial consumer protection is one of the important elements of the stability of financial markets.

> The effective financial consumer protection is a crucial pillar of financial stability; transparent products and services, fair and accurate information to customers, responsible service providers and generally satisfied customers all form the basis of confidence in the sector…financial consumer protection is an integral and inseparable part of traditional supervision. Prudential market supervision and consumer protection mandates help strengthen financial stability and the expansion of financial intermediation at single institution and systemic level.[72]

In connection with the relations between ECB and EBA, not repeating any of the written in the previous subsection, it is important to highlight that the President of EBA shall not be involved in the work of the Supervisory Board of the ECB as an observer, but with the right to vote, through which he can work more efficiently in the supervision and extortion of executing the regulations of the hand book.

CONCLUSION

The crisis of the euro, the common currency of European Union, and consequently the crisis of European integration have been going on since 2007 and we still cannot see the light at the end of this tunnel. Since the outbreak of the economic crisis the Union has been trying to use every effort to find its way out and restore the economy in Europe. During this process decision makers have already introduced significant reforms concerning the European Union. It is enough to refer to the measures taken in order to strengthen the fiscal pillar, or the changes made in the field of supervision of financial markets. However, reforms that already have been or still waiting to be achieved, are constantly raising questions on the future of the

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[70] For example: collecting, analysing and reporting on consumer trends; developing training standards for the industry reviewing and coordinating financial literacy and education initiatives by the competent authorities; contributing to the development of common disclosure rules.

[71] About the "Twin peaks" approach see Eddy Wymeersch, *The Structure of Financial Supervision in Europe about Single, Twin Peaks and Multiple Financial Supervisors*, EUROPEAN BUSINESS ORGANIZATION LAW REVIEW (Vol. 8, Issue 2, 2007).

[72] The HFSA's Concumer Protection Risk Report 4 (July-December, 2010), *available at* http://www.pszaf.hu/data /cms2309653/cons_report_2010H2.pdf (last visited Nov. 03, 2012). (HFSA is the Hungarian Financial Supervisory Authority.)

European Union, predicting the potential of a political union (federation) approaching.

The reforms outlined within the structure of the Bankunion is a great step toward taking a merely new stand of the European Union. The elements of financial stability have to be restored by all means. Moreover, fiscal discipline has to be strengthened and effective mechanisms have to be developed for the supervision of the players in financial markets. These changes altogether may be able to stop the instability of the monetary pillar. The most important objective is, though, to get financial stability steady indeed, that is, to have its elements at the same level. Whether that level should be that of the nations, or the European Union, it will turn out soon.