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PRELIMINARIES AND EXPECTED CONSEQUENCES OF THE CHANGES IN THE EU BANKING REGULATION

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Summary: The crisis in 2008 resulted in significant changes in banking regulation just as in all fields of economy. The business activities of the greatest banks encompass the whole world. It is not easy to follow these complex connections and to observe the regulations. The infectious effect of the systematically important financial institutions (SIFIs) may endanger the whole bank system. Such banks are able to drag down even the economies of the countries in which they operate. This is why it is important to apply more stringent regulations to banks than to other businesses. The Basel rules, the latest EU regulations and the bank union itself have been created also for this purpose. In our study, we shall present changes in the field of the EU bank regulation, which tends to become rule-based rather than risk-based. We discuss how the latest regulations shape the operation of the sector. Naturally, there are opponents to bank regulation. The so-called free banking means, in fact, that the regulation of the banks is based on the market, the managers are aware of the risks they take, and therefore they are able to react to the economic shocks in due time, and ultimately, they take it for granted when they are bailed out by the central bank which supports them. Nevertheless, bank regulation has been continuously developing and supplemented with new elements in the recent years. And experiences show that such a regulation is really necessary.

Keywords: banking regulation, SIFIs, bank union, free banking

1. Importance of Banking Regulation in the European Union

The various financial institutions, including banks, insurance companies, institutional investors, are closely related. The banks get close to the operators of the financial life via the various payment systems, and therefore if a bank has liquidity problems and subsequently becomes insolvent (on a long term) then it will affect all institutions being in connection with it. This is called an infection effect when the problem causes a severe crisis in the whole financial system, which means that much more stringent rules should be applicable to the financial institutions than to traditional businesses.
We would believe that the necessity of banking regulation is clear, however, even economic specialists do not agree in this matter. Many refer to the significant costs of state interventions which are financed from the taxpayers' money in the case of a bankruptcy. At the same time, on the basis of so-called free banking, banks should operate on the basis of the regulatory mechanism of market, as in the case of other business, which would result in mush less costs.
"Free banking is, in fact, a limited presence or even lack of banking regulation; money creation, more closely its regulation or non-regulation is decisive within regulation. This approach questions the necessity of central banks and is based on absolutely proper decisions of the banks, the full applicability of the laisser-faire principle." (Zsolnai, 2012, p.213)
In our opinion, the managers of the financial institutions are fully aware of the extent of the risks assumed by them. They know that keeping of the confidence of depositors is the most

important task, and therefore they spend much on protection against the occurrence of unfavourable events.
The Union's banking regulation contains guidelines and regulations. The member states have to transpose the guidelines into their national legal framework, while the regulations are mandatory for all countries.
The banking regulation within the Union has been divided into two parts until now:

- the regulatory level of the national authorities which regulates the operation of the financial institutions in accordance with the national specificities in all countries, and
- the directives of the European Union, which are mandatory but are transposed by the countries into their own legal framework in accordance with the national specificities.

The Single Rulebook is intended to change this division by providing uniform rules in each member states by means of regulations and standards issued by the European Banking Authority (EBA). The Single Rulebook sets capital requirements for the banks, provides a higher level of protection for depositors, and helps to prevent bankruptcy situations and to manage bankrupted banks. From 2015, the banks must publish their data (Kiss, 2014).
Basel III was published in 2009 and finalised in September 2010, which contains significant changes, in particular, in the solvency margin elements. All G20 countries recognise it as binding, i.e. it is created as a global standard (Szombati, 2012, p.33). The regulation introduces the term of leverage ratio which is the ratio of the common equity and all exposures. The specified value is 3%, which must be reached from 2018.
The Basel Committee on Banking Supervision has worked out quality and quantity indexes to qualify the global systematically important banks (GSIBs). These banks were classified into five groups on the basis of their systemic risk effects, and surplus capital requirements were assigned to the individual categories (2.5% as the highest) the adherence to which gradually becomes compulsory between 2016 and 2019 (Mérő, 2011, p.8.).
The introduction of new indexes is the greatest change, since the previous Basel directives did not contain requirements for the liquidity levels of the banks.
In accordance with the first proposal, the banks have to possess liquid financial assets for at least 30 days. The LCR (liquidity coverage ratio) is an index necessary for its calculation. It was introduced in 2015, which means that 60% of the assets of the banks have to be liquid assets good enough to be involved in crisis management for 30 days. This value has to be increased by 10% per year in order to reach 100% by 2019.
In accordance with the second proposal, the bank's balance structure must allow independent operation on a long term, i.e. the permanent sources must exceed the rate of liquid sources. It is calculated with the NSFR (net stable funding ratio) index, and it is planned to be introduced in 2018.
In the recent years, most of the rules have become less significant due to the liberalisation of the financial markets, globalisation, the free capital flow within the European Union. By now, the geographic limitation of opening of a bank has been terminated, resulting in a much less transparent system. The regulation tends to move from risk base regulation to rule base regulation in the whole world, and is supplemented with the regulation of system risks. This will rearrange the relations between the states and banks, the European Central Bank and other Union institutions as well as the member states of the euro zone and non-euro zone Union countries.

2. Micro- and Macroprudential Regulation, System Risk in the Banking sector

The necessity of micro- and mainly macroprudential regulation has an increasing priority at international level. The first is intended to protect the depositors and to reduce the probability

of occurrence of bankruptcies. While the macroprudential regulation is intended to minimise large scale system level risks.
The attention to the lack of the macroprudential regulation of banks was called by the financial crisis. In the narrow sense, system risk means that a specific event affecting first only a narrow part of the economy adversely influences also other economic fields after a while. In its broadest sense, the event has a severe effect on several institutions and markets. The event is weak if no institution goes bankrupt as a result of the shock. It is strong if even only one institution goes bankrupt, which could not have happened without the shock (Lublóy, 2003, p. 78).
There are two types of risks in the case of banks. The individual risks affect only the bank concerned, while the system level risk has an influence on the financial system as a whole and thereby also on the whole economy. Such economic operators are called Systematically Important Financial Institution (SIFI).
Today, new terms appear in connection with this topic. The principle of "too big to fail" is replaced by the principle of "too big to save" to an increasing extent, that is the most giant banks are now too big to save. Banking regulation has moved into this direction. The economic capacities of the countries do not allow them to allocate enormous amounts to the saving of financial institutions and thereby to risk the stability of the country.
The global systemically important banks (GSIB) having the largest assets in the world. Based on the report of November 2014 of the Financial Stability Board, 31 such banks operate currently in the world.There are four Chinese banks and one Japanese bank among the first 10 ones. The first ICBC was only the 32nd on the list in 2004, and was already among the 10 best ones from 2006, and became the first one from 2013. Though the seat of the third largest HSBC Holdings is in the United Kingdom, most of its incomes come from the Asian market. JP Morgan Chase is the largest bank in the United States. In addition to them, the top ten include the French BNP Paribas, Credit Agricole and the English Barclays (Realbank, Economy Watch, 2014.).
Compared to their GDPs of the countries, the European banking system is larger than the American one. The balance sheet totals of the large European banks are not high compared to the European GDP, but are enormous compared to the national incomes of their own countries.
The GDPs of Chine, US and Japan are enormous, and the balance sheet totals of the banks are insignificant compared to these values. However, the difference between the assets of the largest European banks and the GDPs of their home countries is not so significant at all.
In 2014 the English HSBC Holdings was the greatest bank in Europe. The 8th largest bank, Banco Santander had assets exceeding the GDP of Spain.
Among the 10 largest European banks, 4 are located in the United Kingdom, 4 inFrance, 1 inGermany and 1 inSpain. In 2014, the balance sheet totals of all banks exceeded 50% of the GDPs of the countries where they had their seats, and 7 banks had assets exceeding 10% of the GDP of the EU (Realbank, Economy Watch, 2014.).
It is still not clear for the decision makers of the EU what will happen to those TBTF banks that are two big to save. The separation of the classical and commercial activities of the banks has been recommended to solve this problem, on which discussions are being held.

3. New Regulatory Framework: the European Bank Union

The bank union is part of an integrated financial framework, and is also a response to the financial and economic crisis, which was specified when it became clear that an intensive reform was needed to eliminate the regulatory and supervisory deficiencies. The bank union is based on three pillars.

The single supervisory mechanism (SSM) considered the first pillar of the bank union was assigned to the scope of the European Central Bank form 1 November 2014. It means, in fact, the supervision over commercial banks belonging to the euro zone is assigned to the scope of the ECB. This means currently 124 banks and more than 80% of the assets. Banks managing financial assets above 30 billion euro or having assets above 20% of their country's GDP are under control. Based the Union's stress test made in October 2014, OTP Bank meets this condition in Hungary. In 2014, 76% of the bank deposits available in the European Union were owned by banks seated in the euro zone, and this is one of the reasons a more intensive supervision is reasonable (EBF, 2014, p.18.).

The second pillar, the single resolution mechanism means, in fact, that banks close to bankruptcy are not saved from the money of taxpayers, but the responsibility must be assumed by their shareholders and creditors. The single resolution panel on which the single resolution mechanism (SRM) is based started to operate in Brussels on 1 January 2015. In all Union countries, national resolutions funds have to be created, and from January 2016, these will be replaced with a single restoration fund, and from that time the banks will pay 1% of the secured deposits into it. The estimated amount of the paid contributions will be EUR 55 billion by the end of the period, i.e. 2022, or even higher if non-euro zone countries also join meanwhile.

The deposit guarantee scheme (DGS) is an important element of the bank union, since with its rules it may contribute to the restoration of the confidence of depositors in the financial institutions. In April 2014, the latest decision on the regulation of the third pillar was made, which must be transposed by the member states into their practice by 3 July 2015. It is a new element that the credit institutions must pay a fee on deposits subject to compensation obligation by 31 December preceding the subject year. Bonds and deposit certificates issued by the credit institutions are removed from elements protected by deposit guarantors, but from now a compensation limit of EUR 100,000 is applicable to community deposits, and local governments with budgets less than EUR 500,000 are protected by deposit guarantors. Now, 20 banking days are available for payments, but in accordance with the Union's requirements, this period must be gradually limited to 7 banking days until 2024.

Currently 19 euro zone countries are members of the bank union. The remaining 9 countries have different opinions on joining. Since the idea of the single supervision, Great Britain has been emphasising that they do not want to expose their banks to control by the ECB due to its special situation in the financial sector. Sweden has a similar viewpoint. 3 Union countries, Denmark, Romania and Bulgaria are for joining, but have not yet indicated their intention. Our country, the Czech Republic, Poland and Croatia joining in 2015 are currently waiting.

The formation of the system has been preceded by a long process, as nearly 8 years have passed since the crisis. The bank union will surely be in the focus of discussions between the decision-makers for a long time, as certain rules will be introduced with periods of grace, and the EU countries will gradually join, i.e. the final formation of the bank union will last for several years. Though none of the countries wants it, but the operability of the system could possibly be evaluated and really studied in another crisis.

4. Conclusions

The quantitative regulation characteristic of the 70s has been replaced with risk based approaches by now, i.e. the economic importance of the banks depends not only on the volume of deposits but also on the risks entailed by them.

Safe operation of the banks is in the interest of all operators of economy. Prudent operation is important due to the increase of deposits primarily from the aspect of the inhabitants, which finally affects consumption, production and ultimately the economy as a whole.

The major problem with state assistance is that they use the money of taxpayers to bail out banks instead of spending money on the creation of proper protection systems and using the money first of all of shareholders and creditors to solve the problem. Today, large banks expect the state to bail them out, and therefore they are inclined to invest the savings of people in assets involving high risks. This way of thinking endangers the operation on the economy. The crisis of 2008 has called the attention to the deficiencies in the banking regulation and to the resulting problems. Due to the complexity of connections and to the risk of any negative consequence's becoming an international one, it is difficult but indispensible to find a proper solution which may result even in additional expansion of banking regulation at international level.

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