RINGFENCING PRACTICES IN THE BANKING UNION

HARALD WAIGLEIN

Director General for Economic Policy, Financial Markets and Customs Duties Directorate - Federal Ministry of Finance, Austria & Member of the Board of Directors - European Stability Mechanism

Can we overcome ring-fencing?

When you consider ways to improve the efficiency of the European banking sector, the need to address ring fencing is very often on the top of the agenda – and there is a reason for it. No matter whether you look at the micro-level where banks are requested to ring fence certain categories of assets or at the macro-level, where the protection of national markets or finance stability concerns are the reasons for ring fencing domestic capital or liquidity in banking groups: all these measures lead to costs and lower the profitability of the group and the banking sector.

These costs derive from the fragmentation of the banking system due to barriers in place and lead as a consequence to the sub optimal allocation of capital and liquidity.

So why have several attempts to address these costs failed so far? The reason is straight forward, but the same does not hold for any solutions, since it will be difficult to align the interest of the different stakeholders involved. Although all of them have to face certain costs associated with ring fencing, the costs are not equally distributed and of different nature. Considering a cross-border banking group, the parent entity is usually worse off if it cannot manage its liquidity and capital on a global basis and might be therefore more exposed to idiosyncratic shocks and risks affecting the domestic economy. For the subsidiaries, ring fencing normally leads to higher funding costs either due to a smaller market or to limited market access. But these costs for the individual entity are often considered as negligible in comparison to the potential benefits of ring fencing measures for the overall financial stability of the host country. In the host country these measures are seen as efforts to protect the stability of domestic intermediation by preserving the individual economic substance of the subsidiaries. Therefore, they are considered as safeguards and not as barriers for cross border-integration.

Ring fencing is a result of a lack of trust, improvements will hardly be achievable in the short run.

Costs in the sense of reduced efficiency might be predominately in the focus during good weather times. However, the potential benefits of ring fencing might become more obvious if we consider the “walkaway risk”, which is highly unlikely for a going-concern group but cannot be entirely ruled out in a crisis. So the stakes are considered high especially in resolution. Despite a complex resolution framework with well-prepared resolution plans and adequate funding for a group, the scars of the past still remain visible and guide today’s political stance. Ideas are put forward to raise the credibility of group support by contracts, but they do not seem to be sufficiently reassuring for the host countries, and trust cannot be prescribed by laws or contracts. As long as national banks are seen as national champions and the focus remains on domestic consequences of any action or non-action, there will always remain the risk that in a severe crisis, decisions by supervisory or resolution authorities will deviate from agreed mechanism and frameworks. They might even put up with legal proceedings to shield the national market and protect the national interest at the time of the crisis. Furthermore from the parent perspective the more comprehensive the safeguards are, the more expensive will be the support measures and thereby reduce potential efficiency gains from enhanced integration. So the incentives to enhance the credibility of support mechanism might be limited for the parent company, adding up to a deadlock.

Ring-fencing measures (or safeguards depending on your perspective) can be of permanent nature and remain to a certain extent predictable, since at least some of them are publicly disclosed and the prudential regulations provide a legal basis for them. But ring fencing can also be of a temporary nature in the form of ad hoc-decisions by supervisors in response to problems that have emerged. This type of ring-fencing was often observed during the finance crisis. Decisions of this kind tend to catch the other stakeholders on the wrong foot, leading to unplanned distribution of costs and raising mistrust.

The lack of trust combined with diverging interest is the reason why it is difficult to enhance cross border integration. It will remain a challenge to overcome the implicit trade-off between efficiency and credibility of internal support mechanism. Awareness and internalisation of external effects, care-taking of second round effects and enhanced solidarity are areas for improving credibility and trust. It will take a lot of time to make decisive progress here - and it can be unravelled easily in a short time.

FERNANDO VICARIO
Chief Executive Officer
Bank of America Europe

Opportunities to accelerate European banking consolidation now

The near completion of the EU Banking Union, by strengthening institutional co-operation among EU Member States and national authorities, has a key role to play in enhancing financial integration and the achievement of a single jurisdiction status.

The EU banking reforms behind the creation of the Banking Union have been revolutionary rather than purely evolutionary. A lot has been achieved in such short time frame since 2008 such as a convergent set of regulations, supervisory practices, common risk management frameworks and the creation of the different pillars behind the Banking Union. However, also naturally, some of the fears prohibiting further integration are hiding behind ring-fencing and limits to the circulation of funds and capital across borders.

As noted by the EBA in a staff paper series in February 2020, on "Potential Regulatory Obstacles to Cross-Border Mergers and Acquisitions in the EU Banking Sector", the level of cross border M&A activity in the EU banking sector has remained far below its pre-crisis level, despite the regulatory reforms implemented after the financial crisis.

Despite progress being made in the convergence of supervisory practices across the EU, the current regulatory framework still largely relies on a territorial approach such as the uneven application of cross-border waivers for capital and minimum requirements for own funds and eligible liabilities (MREL), a multiplicity of macro-prudential tools and the existence of options and national discretions within the Single Rulebook. This favours pre-positioning resources with the subsidiaries and inefficient intra-group financial support arrangements. This causes market fragmentation and can challenge the comparability of institutions across countries and reduce the incentive to conduct cross-border consolidation.

One of the key challenges facing trans-national banking groups operating across the EU is the different interpretation and applicability of key laws, rules and regulations (LRR) dependent on the EU jurisdiction in which the bank is based in. Where possible, trans-national banks are seeking to apply a common framework/processes around compliance with applicable LRR within its EU Operations, however, this can be challenging due to level of "gold-plating" being applied to EU LRRs by local jurisdictional legislative, regulatory or supervisory bodies.

An integrated financial market will rely on trust between national supervisors and EU authorities

A number of supervisory approaches are not yet fully consistent, as evidenced by the imposition of intragroup dividend restrictions during the Covid-19 pandemic in particular with respect to the link between prudential requirements and restrictions on distributions. There is also a lack of a transparent approach when setting Pillar 2 requirements. The absence of common and fully transparent EU practices for the prudential assessment of M&A transactions, including the determination of capital requirements, further adds to the complexity, in spite of the initiatives taken by the ECB.

The level of systemic buffers (O-SII, SRB) varying across the EU creates an uneven playing field dependent on where the entity is based. In addition, there is a lack of transparency as to how an O-SII score equates to the level of O-SII buffer being applied, with firms having a higher O-SII buffer also having a higher MREL requirement.

Inconsistent interpretation/application of EBA Outsourcing guidelines across the EU means that providers and receivers of services work to different regulatory standards.

Finally, different national AML standards and inconsistent customer identification requirements across EU jurisdictions, as well as multiple EU/jurisdictional sanction lists, are often required to be met, dependent on the applicable jurisdiction of the banking entity/client or the payment. This leads to different policies, processes and standards being managed by the same teams and salespeople. The prospect of a more harmonized European AML Rulebook will be welcome in order to reduce some of these complexities over time.

Appropriate consideration should be given to the reform of these various barriers to further facilitate the formation of transnational banking groups. A review of the current EU legislative framework and a greater use of regulations across the European Union would be an important step. In the long term, forming an integrated financial market will rely on a high level of trust between different national supervisors and EU-wide authorities. A common EU Deposit Guarantee Scheme would be crucial to support that.

GEDIMINAS ŠIMKUS
Governor - Bank of Lithuania

Completing the Banking Union is a necessary step towards ending ring-fencing

The benefits of cross-border banking are indisputable – it allows for economies of scale and geographic diversification, reduces bank exposure to negative shocks through better risk sharing, and enables a more efficient allocation of resources. So-called ring-fencing practices, such as application of capital and liquidity requirements on banks limiting activities to national boundaries, hinder the deepening of the single banking market. Typically, ring-fencing evolved as a result of countries' concerns about financial stability. The resulting fragmentation comes at a cost for both the efficiency of the financial system and the banks themselves.

While the issue of ring-fencing should be resolved, developing pan-European banks should not come at the expense of host jurisdictions. Only completing and expanding the Banking Union, and complementing it with a deep and well-integrated Capital Markets Union, would sufficiently reduce the risks that can presently be addressed only by domestic ring-fencing.

First, the European Deposit Insurance Scheme (EDIS) – the third pillar of the Banking Union – should be established and become fully operational. For host countries, a fully-fledged EDIS is crucial. A hybrid model, where EDIS only comes in once national depositor protection tools are depleted, is not an adequate compromise. As banks become larger, we need correspondingly stronger safeguards. Assume that a consolidated transnational bank (for which the prudential requirements are applied on a group level only) fails and the host country has to compensate the depositors of its domestic subsidiary. Local taxpayers' exposure to the risk of losses can be substantially reduced only with a fully-fledged EDIS in place.

Furthermore, a fully-fledged EDIS is necessary to remove present risks of transforming subsidiaries into branches. Home countries as well as hosts face downside financial stability risks, because the home country might be unable to cover depositor claims of the large banks in other Member States. Such risks are even more pronounced when a large entity makes its headquarters in a small home jurisdiction. As occurred in one case in the EU, if a bank's asset portfolio becomes three times larger than the GDP of the home nation, the stakes on EDIS rise.

Efforts should be taken to complete and expand the Banking Union beyond the euro area.

Second, further efforts should be taken to expand the Banking Union beyond the euro area. This is important for countries where a substantial share of the banking sector is foreign-owned, primarily by non-euro area entities. For example, the parent companies of many of the largest banks in the Baltic States are not supervised by the Single Supervisory Mechanism (SSM).

A Banking Union which spans beyond the euro area would solve this issue. We should therefore look for ways to encourage the non-euro area countries to joining the Banking Union through the 'close cooperation' regime by emphasizing the benefits of the SSM supervisory expertise, information-sharing, and efficiencies arising when the home and the host jurisdictions make collective decisions.

Finally, it must be noted that while the completion of the Banking Union with a fully-fledged EDIS and establishing a pan-European Banking Union are both key in curtailing ring-fencing practices, these alone are not enough. For a truly integrated European banking market, we also need a deep and well-functioning Capital Markets Union. Research shows that while risk is efficiently shared in a banking union when economies are hit with demand shocks, a capital markets union is necessary to help absorb supply-side shocks. Without security market integration complementing banking activities, as well as a higher level of harmonization of national insolvency and taxation regimes among the European Union member states, cross-border banking will remain hindered.

Removing the non-prudential barriers to cross-border banking will take time and determination. Member States need to agree on how to collect taxes on cross-border investments and establish unified definitions of the underlying tax base for banks. Furthermore, insolvency law should be harmonized to make outcomes of insolvency procedures more predictable. For this reason, we have to take a long-term view and aim to reform these specific topics which create obstacles to pan-European activities.

An incomplete Banking Union is the main reason behind the low levels of cross-border consolidation in the European banking sector. Thus, a complete and expanded Banking Union, complemented by a well-functioning Capital Markets Union, should allow us to suspend ring-fencing practices and unlock the full potential of Europe-wide banking.

ELIZABETH MCCAUL

Member of the Supervisory Board - European Central Bank (ECB)

Enhancing banking consolidation without major legislative change in Europe

Ring-fencing is an important explanation behind the scarcity of cross-border bank mergers in the euro area. Over the last two decades, an average of thirty to forty bank mergers occurred each year, including a small number of cross-border ones. The costs of ring-fencing practices are difficult to quantify, but we know they can be substantial. For an individual banking group, ring-fencing reduces the economies of scale and impedes the efficient allocation of capital and liquidity that can be realised in cross-border mergers and acquisitions (M&A).

At a sector level, cross-border M&A activity can address overbanking and inefficiencies in the euro area banking sector, improving profitability and strengthening resilience. While consolidation must be a market-driven process and it is not for the ECB to promote specific types of consolidation, sector consolidation delivering efficiencies means that European banks will be in a stronger position to finance important green and digital transformations towards sustainable business models.

Capital and liquidity ring-fencing of subsidiaries occur primarily in host countries, which fear that their deposit insurance schemes and/or taxpayers will be at risk, if in times of crises the support of the foreign parent company stays away. Ring-fencing could be avoided by further steps in establishing the banking union, especially a European Deposit Insurance Scheme, and by creating possibilities for intragroup cross-border capital waivers. More integration can also be achieved within the existing EU framework with smaller legislative changes.

More integration will increase the efficiency of banking groups and the competitiveness of Europe.

A first route is through establishing a more solid basis for competent authorities to grant waivers for liquidity requirements of subsidiaries with a stronger mechanism to enforce intragroup liquidity support facilities linked to the group recovery plan. Banks generally perceive that market entry is easier through the acquisition of a local entity especially for retail operations. Yet subsidiary-based group structures can face impediments when it comes to the central management of capital and liquidity. A legislative change could facilitate integration by empowering supervisors to enforce intragroup liquidity support included in the group's recovery plan at an early stage in the event of a crisis. This would allow for more efficient liquidity management at the group level, however the extent of the possible use of such waivers is limited owing to national limits on large intragroup exposures in certain jurisdictions. Internal calculations show that the combination of liquidity requirements for individual subsidiaries and national rules on large exposures means that around €250 billion worth of liquidity is currently prevented from moving freely in the banking union. Even if full waivers were granted, €140 billion would still not be freely transferable because of national large exposures rules that would continue to apply.

A second route for cross-border banking is via corporate reorganisations from subsidiaries to branches. We have seen a number of examples of banks in various Member States transformed into cross-border branches of a bank incorporated in a single Member State, including some of the Brexit banks. Significant benefits emerged in some of these cases, in particular through the elimination of intragroup capital requirements, efficient allocation of capital and liquidity, simplified legal and corporate governance structures, annual accounts savings and centralised risk and control functions. But branchification also comes with sizeable upfront costs, for example for IT integration, as well contributions to deposit guarantee schemes especially for banks with a large deposit base. The latter could be addressed with a second legislative change, and here I am referring to Article 14(3) of the Deposit Guarantee Schemes Directive, which only allows contributions made in the preceding 12 months to be transferred to a new deposit guarantee scheme (DGS).

All contributions made before that period are lost when a subsidiary is transformed into a branch of a credit institution established in another Member State. This provision seems counter-intuitive, at least from an economic point of view, because the transfer of insured deposits also reduces the overall risk of reimbursement of the original DGS. The ECB is in favour of a legislative change proposed by the European Banking Authority (EBA) in 2019, where the EBA will specify the methodology for calculating the contributions to be transferred, without the current limitations. This could lead to a more balanced approach concerning the allocation of resources between the DGS of origin and the receiving DGS.

Adoption of the full banking union is the goal, but smaller legislative changes can support cross-border reorganisation, increase efficiency of euro area cross-border banking groups and contribute to the international competitiveness of the European economy as a whole.

PETER PALUS
Member of the EFC/EWG, Head of the Financial Unit - Permanent Representation of the Slovak Republic to EU

Overcoming fragmentation in the Banking Union

There is no doubt that the internal market offers great potential for EU banks. It is also evident that this potential has so for been largely unused, even though the opportunities for ring-fencing at the national level have been gradually restricted. Contrary to expectations, the EU dimension of the banking sector is not increasing and in some regions we are even witnessing the opposite trend. From the policy-makers' perspective, this begs the question: Will changing the prudential regulation solve this problem?

First and foremost, it is important to understand what role the banking sector plays in individual Member States from a broader economic perspective. A shared characteristic for most of the so-called host states is a persistently high dependence on bank financing, as alternative forms of financing have not yet been adequately developed there and the market is highly concentrated. Naturally, from the perspective of these Member States, it is crucial to maintain the financial stability of the sector and ensure fair burden sharing in cases when the bank fails. A legitimate requirement for cross-border integration is therefore not only the creation of European Deposit Insurance Scheme, including loss coverage within a common EU safety net, strengthening of crisis management and bank insolvency procedure, but also genuine Europeanisation of banks operating in the internal market together with parallel development and deepening of the Capital Markets Union.

Importantly, this cannot be achieved by cosmetic changes, but by fundamental steps like breaking of the bank-sovereign doom loop and harmonisation of insolvency law across the EU. The final piece of the puzzle in this regard is the creation an automatic macro-stabilisation mechanism without stigma effects, which would safeguard the financing in all Member States – this, however, deserves a separate focus.

Diversification of bond holdings in bank balance sheets is needed to address excessive interconnectedness between sovereigns and national banking sector. It is not just a prerequisite for mutualisation of the EU banking sector and creation of fully-fledged EDIS, but also for cross-border integration. It would significantly contribute to Europeanisation of banks and removal of the so-called home bias. The risk of contagion from real economy of one Member State to another through financial sector, as well as other possible cliff effects would be minimised.

Europeanisation of the EU banking groups as a precondition for cross-border integration.

Deepening of the CMU would at the same time increase cross-border financing of banks, reduce market concentration as well as dependence on bank financing. Harmonisation of the insolvency law in the EU would be a real game changer in this regard.

Although ring-fencing is undoubtedly an obstacle for cross-border integration, it is certainly not the main driver of problems of EU banks linked to their competitiveness, valuation, or their current underperformance at the international level. The cause can rather be found in banks' business model, conservative balance structure and NPL management. When it comes to cross-border business of EU banks, removal of national prudential measures would undoubtedly lead to capital savings or loosening of banks' capital, which could have a stimulating effect, particularly when it comes to a more flexible allocation of capital across groups. At the same time, the persistent fragmentation of non-prudential rules, for example in the area of customer protection, deserves attention, as it would significantly boost cross-border business of EU banks.

All in all, if our goal is to overcome the current fragmentation and deepen cross-border integration, bold steps are needed. Seeing the Banking Union as a single jurisdiction will undoubtedly need to be accompanied by changes in governance arrangements, in order to ensure trust among Member States in such system.

Focusing on low-hanging fruit and shortcuts in form of group support, contractual or statutory, may seem tempting, but it will certainly not bring us the desired results.

KARL-PETER SCHACKMANN-FALLIS

Executive Member of the Board - Deutscher Sparkassen- und Giroverband (DSGV)

There is no need for EDIS in order to address the home-host dilemma

The Banking Union was set up with the core objectives to ensure financial stability, to prevent bank bail-outs by taxpayers and to establish common principles for adequate banking supervision. While Banking Union has been successful in promoting a more resilient banking sector, European banks are still not making full use of the internal market. Cross-border merger activities within the Banking Union remain at a low level, not the least due to significant roadblocks to an integrated management of bank capital and liquidity.

As a remedy, some voices call for banking supervision law to apply exclusively at group level and not at the level of individual institutions in order to mitigate regulatory restrictions. Many of those are related to ring-fencing by competent authorities in smaller Member States which are often hosting foreign subsidiaries of groups domiciled outside the supervisors' remit. Such measures aim at avoiding regulatory arbitrage and ensuring a bank's soundness at the subsidiary level so that national safety mechanisms are not put at risk.

To address this home-host dilemma, there are several different alternatives. An obvious solution would be to organise cross-border banking business in Europe by implementing branches and not subsidiaries, the so-called "branchification" concept. A bank with branches abroad continues to be treated as a single entity and remains under the responsibility of the home-country supervision. This lifts the obligation to fulfil capital and liquidity requirements in the various Member States individually. Some of the most important non-European banks have set up European corporations for exactly this purpose, making use of the internal market through their branches.

However, even in case of group structures with subsidiaries instead of branches, there are feasible solutions to address the concerns of host Member States. First, it has to be noted that Banking Union has already brought considerable improvements when compared to the times of the Global Financial Crisis. The cross-border supervision by the Single Supervisory Mechanism now prevents crisis-induced liquidity and capital movements more effectively. In the case of a banking crisis, the Single Resolution Board will resolve and restructure cross border banking groups including subsidiaries.

Further concentration is not the silver bullet for a better functioning banking industry in the EU.

However, while targeted changes to the EU supervisory law are necessary to address host Member States' concerns and to allow at the same time for the free allocation of capital, liquidity and MREL, a fully-fledged European Deposit Insurance Scheme (EDIS) is not. The risks linked to the question of deposit insurance could be addressed much easier by making the deposit guarantee scheme in the home country responsible for the deposit protection function of the entire group. Doing so, the erroneous assumption that a functioning home-host regime only works in the frame of an EDIS could be separated from the discussion about a European insurance framework. A separate consideration of the issues will foreseeably lead to more timely results, as EDIS is necessarily linked to the various aspects of risk reduction, including the regulatory treatment of sovereign exposures. Similarly, national deposit insurance schemes would not be an obstacle to cross-border consolidation if European legislators would provide for a less restrictive transfer of contributions in case of a merger.

Furthermore, it can be questioned whether measuring the proper functioning of the Banking Union should focus primarily on the existence of so-called "European champions" in the banking sector. This is not the silver bullet to create a better functioning banking industry for Europe, its customers and the real economy. From a financial stability perspective , an increase in concentration is prone to create "too big to fail" scenarios. To name just some of the risks attached: uniformity is increasing the likelihood that banks are hit by a crisis in the same way. Banks can be encouraged to excessive risk-taking due to implicit government guarantees.

Complex group structures can be used to facilitate tax arbitrage and the undue use of other tax advantages. From a consumer perspective, there might also be a negative impact. As soon as regionally operating banks are affected by cross-border mergers, there is a widening operative and functional gap in the banking business. As a result, financing conditions for SMEs will likely deteriorate as they benefit from a regional focus and decentralised responsibility.

A major challenge in the Banking Union is to achieve the goals of an unrestricted single market and simultaneously allow for competitive national subsystems. Steps towards further integration should always be balanced with the entirety of the EU's diversified banking sector in mind.

GILLES BRIATTA

Group General Secretary - Société Générale

Concrete steps towards progress in the Banking Union

The Banking Union has achieved indisputable progress since its inception. The EU has notably a strong Pan-European bank supervisor, and a single resolution authority and fund. These initiatives have clearly enabled EU banks to operate better and stronger in the COVID-19 crisis compared to 2008 crisis.

However, since the creation of the SSM and the mutualization of resources for resolution from the SRM, only minor improvements have been made. In practice, the Banking Union remains largely unfinished, which lends truth to those that claim that the present situation is in some way a regression compared to the previous situation. Quoting Jacques Delarosière in a recent piece *"subsidiaries of major banks are governed by national rules, known as "host country" rules. This prevents large banking groups from benefiting from the effects of scale that, paradoxically, they had a decade ago. We have therefore taken a step backwards. There was a common banking area, but there was no talk of it; today, there is talk of a Banking Union, but it does not exist."* The paradox of the Banking Union is that it did not enable cross-border banking groups to emerge.

Pan-European banking groups face cross-border restrictions on capital and liquidity, limiting their efficiency and agility, at a cost to the financing of the economy. This ring-fencing, motivated by the protection of domestic interests, could perversely make Pan-European groups less agile in a crisis.

The Banking Union has also come at a cost, which is unevenly spread in the EU. Today, French banks contribute 33% of the cost of the Single Resolution Fund (SRF) while they only represent 21% of deposits and 30% of assets of the euro area. And the total cost of the SRF has now significantly exceeded initial projections.

Progress has now come to a standstill, and the complexity of the issue is such that there are few actionable options.
We welcome the SSM's call to make greater use of the freedom of establishment by setting-up branches rather than subsidiaries, but it is more complex to meet than it seems. The use of branching is already widespread in the wholesale market (and this explains in part why many incoming banks post-Brexit are organized this way). However, there are many practical obstacles: notably for retail and SME banking (where national specificities remain important), for the management of certain risks (AML-TF, operational and IT) and for resolution issues (as "host states" may not agree with mutualization in a context of cross border insolvency / resolution).

With progress at a standstill, every small step forward is important.

The other solution proposed by the SSM, a system of intragroup guarantees between the parent company and its subsidiaries, is also presently not actionable. The current legislative framework grants waivers only at a domestic level and requires demanding conditions which so far have not enabled us to benefit from this clause.

In this context, further advances such as cross border mutualization of deposit insurance seem difficult to achieve, and although Europe suffers from overcapacity in banking, it is likely that consolidation will continue primarily along national lines or around specialized financial services. Société Générale fully takes part in this movement by delivering its Vision 2025 plan, which will lead to the merging of the French retail activities of Société Générale and Crédit du Nord. It is also worth noting that Société Générale has launched an ambitious project of cross border merger concerning a fast-growing category of financial services by entering into an exclusive negotiation for the acquisition of Leaseplan by ALD.

To go further in the creation of a functioning Banking Union, concrete progress is necessary.

First, we need to correct the uneven distribution of costs of the SRF within the EU. The present system is strongly viewed as unjust and unsustainable by some of the biggest banks in the EU, and the matter has been sent to EU Courts. This is not a sound basis for ensuring minimal support from the industry in favor of the development of a real Banking Union.

In addition, we need clarification on the liquidity provision mechanism in resolution. Ring-fencing practices could reduce the efficiency of the framework, if, for example, they prevent the transfer of collateral from subsidiaries to the resolution entity. Banks could also be associated to the governance of this framework to ensure that such a fund meets its objectives (for example, via a stakeholders' group of the SRB).

In parallel, the EU should progress on the CMU, which will help overcome the current deadlock on the Banking Union. With stronger Pan-European financing provided by capital markets, hence more risk sharing outside of the banks' balance sheets -as it is the case in the US, ring-fencing measures on banking will become less crucial for host authorities. Progress on the CMU will therefore not only help to finance the funding gap for the EU recovery and its transitions, but also relax national ring-fencing measures as a bonus.