Governing Banking Union: The Single Supervisory Mechanism in Action

A Research Workshop organized by the Amsterdam Centre for European Studies (ACES)/Amsterdam Centre for European Law and Governance (ACELG)

6 March 2020
Roeterseiland campus, Room A7.23

The Single Supervisory Mechanism (SSM) for European Banking Union is widely recognized as one of the most significant institutional reforms introduced in response to the financial and sovereign debt crises. Aimed at enhancing financial stability by breaking up “cozy relationships” between domestic banks and supervisors, the SSM has final authority to grant and withdraw banking licenses within the Eurozone. The European Central Bank (ECB) directly supervises the largest/most significant Eurozone banks and can take over the supervision of less significant banks from national authorities where it deems this necessary. Yet the SSM is also a complex transnational organization, whose highest decision-making bodies comprise a strong majority of national representatives, while ECB and national officials work closely together in Joint Supervisory Teams (JSTs) for overseeing significant financial institutions. Five years after the SSM’s establishment, this research workshop will explore how the ensuing tensions play out in practice within Eurozone banking supervision. Drawing on expert interviews and participant observation at the ECB and national authorities as well as documentary research, the speakers will illuminate how the SSM works in action using a variety of theoretical lenses, including principal-agent analysis, science and technology studies, and experimentalist governance.

The workshop is open to policy makers and practitioners, as well as to academic researchers and students. Participants are asked to register in advance with aces@uva.nl.
Schedule

09:30  Coffee and Welcome (Jonathan Zeitlin, University of Amsterdam/ACES)

10:00  The Dynamics of Collective Decision-Making in the Single Supervisory Mechanism: The Friction of Sovereign Interests (Alexandre Violle, École des Hautes Études en Sciences Sociales, Paris)

11:00 Explaining the Success of the Joint Supervisory Teams in Keeping European Banks Safe (Jakub Gren, European Banking Institute)

12:00 Lunch (provided)

13:00 Governance Evolution in the Single Supervisory Mechanism: Actors, Processes, and Tools (Cecilia del Barrio Arleo, University of Trento)

14:00 The Single Supervisory Mechanism in Action: Experimentalist Practices Beneath a Hierarchical Veneer? (Jonathan Zeitlin)

15:00 Coffee and Concluding Discussion

Abstracts

Alexandre Violle: The Dynamics of Collective Decision-Making in the Single Supervisory Mechanism: The Friction of Sovereign Interests

Since 4 November 2014, the European Central Bank has become the lead supervisor of banks in the euro area through the establishment of the Single Supervisory Mechanism (SSM). This reform organises what many analysts present as an historic transfer of sovereignty in banking policy from the Member States to the European authorities. This contribution questions the notion of sovereignty transfer by analyzing the dynamics of preparing collective decisions within the Supervisory Board of the SSM. On the basis of an ethnographic study conducted within the Autorité de Contrôle Prudentiel et de Résolution (ACPR), the administrative unit representing France in the SSM and the Supervisory Board, the contribution will show that, far from fading away, national sovereignties are being reconfigured to make possible collective decision-making in this new European negotiating arena.

Jakub Gren: Explaining the Success of the Joint Supervisory Teams in Keeping European Banks Safe

More than five years have passed since the Single Supervisory Mechanism became responsible for prudential supervision of banks headquartered in EU Member States participating in the Banking Union. At the heart of this system lie Joint Supervisory Teams (JSTs), largely responsible for the day-to-day supervision of individual banks deemed as significant. The JSTs can be defined
as transnational two-level administrative structures, consisting of supervisory experts from the central and local institutions (the ECB and National Competent Authorities respectively). A growing number of accounts indicate that uneasy interactions between actors within multi-level regulatory regimes appear to be common in the EU context. From a principal-agent (P-A) perspective, lower-level actors acting as agents may face dilemmas as to whether to comply fully or only partially (or not at all) with policy preferences favoured by higher-level actors. Yet despite those dilemmas, the JSTs have largely succeeded in developing a common supervisory approach and keeping European banks safe. This contribution argues that the relative success of the JSTs, seen through a P-A lens, can be largely explained by the ability of a central supervisor to drive compliance of local supervisors through a mixture of coercive enforcement and cooperative management strategies.

Cecilia del Barrio Arleo: *Governance Evolution in the Single Supervisory Mechanism: Actors, Processes, and Tools*

This contribution explores governance changes in Eurozone banking supervision through the evolutionary analysis of one of the main supervisory tools: the Supervisory Review and Evaluation Process (SREP). By focusing on three governance dimensions related to the sphere of authority between public and private actors, decision-making patterns, and the nature of the instruments adopted, this contribution analyses how these governance attributes have been transformed by the SSM’s practices in order to manage the challenges arising from the supranationalisation of prudential oversight, especially the achievement of supervisory consistency in a diversified setting.


On paper, the Single Supervisory Mechanism looks like a highly centralized and hierarchical institution. Yet beneath the surface, the situation appears more complex. SSM oversight of large banks is conducted through Joint Supervisory Teams (JSTs) of European and national officials, using common standards and processes developed by ECB horizontal services, but drawing on best practices from member states, and subject to continuous improvement in light of experience with their application. The SSM also explicitly seeks to accommodate banking diversity by tailoring common rules and methodologies to individual business models and risk profiles, while combining national supervisors’ deep local knowledge with the ECB’s broad experience. Based on a combination of interviews and documentary analysis, this contribution seeks to assess how far experimentalist practices of recursive learning from implementation experience in different local contexts may be flourishing beneath the SSM’s hierarchical veneer.
Speakers

M. Cecilia del Barrio Arleo is an Argentine lawyer and a doctoral researcher at the School of International Studies from the University of Trento. She has recently submitted her PhD thesis entitled Accommodating Diversity in the EU Banking Union: The Single Supervisory Mechanism and the Quest for Supervisory Consistency. Her research lies at the interface of financial regulation, social sciences, and regulatory studies. She coordinates the Institute for New Economic Thinking Young Scholars Initiative (INET YSI) Finance, Law, and Economics Working Group, and is a member of the European Banking Institute’s Young Researchers Group.

Jakub Gren holds a PhD in Political Science from the University of Luxembourg for his 2018 dissertation on The Capacity for Compliance within EU Multilevel Administration: The Case of the Banking Union’s Single Supervisory Mechanism. He is based at the European Central Bank and cooperates closely with the European Banking Institute in Frankfurt. His research interests focus around legal and institutional aspects of central banking and banking supervision. His work has been published by JCMS: The Journal of Common Market Studies, the Journal of Contemporary European Research, and Edward Elgar.

Alexandre Violle joined the Centre d'Etude des Mouvements Sociaux (École des Hautes Etudes en Sciences Sociales) in October 2019 as a post-doctoral fellow after defending his thesis at the École des Mines ParisTech entitled Constituter un territoire de gouvernement pour la finance: enquête sur l’expertise de supervision au sein de l’Union bancaire européenne. At the crossroads of the sociology of science and technology, the sociology of finance, and political sociology, his doctoral work focused on the construction of European expertise in the supervision of financial risks taken by eurozone banks within the framework of the Banking Union. He is currently working on a project on the sociology of financial circuits. This project is part of a research programme funded by the Humboldt Foundation entitled "Financialisation and the Fabrication of Intangible Assets as Responses to the Problems of Contemporary Capitalism".

Jonathan Zeitlin is Distinguished Faculty Professor of Public Policy and Governance in the Department of Political Science at the University of Amsterdam and Academic Director of the Amsterdam Centre for European Studies (ACES). His research interests focus on new forms of experimentalist governance within and beyond the EU, with particular emphasis on market regulation, environmental protection, and social policy. He is currently studying the Single Supervisory Mechanism and EU financial regulation as part of a Horizon 2020 project funded by the European Commission on “Integrating Diversity within the European Union (InDivEU)”, in which he leads a work package. Relevant publications include “EU Experimentalist Governance in Times of Crisis”, West European Politics (2016).