A bird eye (re)view of key readings

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This section of the journal indicates a few and briefly commented references that a non-expert reader may want to cover to obtain a first informed and broad view of the theme discussed in the current issue. These references are meant to possibly provide an extensive, though not exhaustive, insight into the main issues of the debate. More detailed and specific references are available in each article published in the current issue.

On Banking Union

An extensive stream of research investigates the spillovers associated with the establishment of a Banking Union. Berglöf et al. (2012), Goyal et al. (2013) and Goodhart (2011) provide a general account of the issues and the details of an European banking union also considering the intricacies related to macro and micro prudential supervision.

As stressed by Ferrarini (2016) in this issue, Constâncio (2014) and Véron (2015), among others, describe the positive externalities that could emerge in Europe following the implementation of the Banking Union. Among these, the authors report that improved capital and liquidity management, together with a greater and reciprocal trust among banks, may lead to a better functioning of cross-border banking activities. Also, the efficiency gains resulting from the implementation of the Banking Union may lead to a potential consolidation phase of the European banking sector. Last but not least, a Banking Union may also enhance the role played by capital markets as providers of alternative financing instruments.

As stressed by Dell'Ariccia (2016) in this issue recalling the contribution of Fahri and Tirole (2014) and Goyal et al. (2013), other externalities may emerge. For instance, a Banking Union may contribute to the stability of the financial system as a whole, by managing more efficiently financial and banking crisis, by avoiding sovereign bank spirals, and by improving cross border resolution. Banking Unions could also lead to a more efficient cross-border banking by limiting inefficient risk-fencing.

Still, some obstacles may interfere with the capitalization of all the above mentioned positive externalities, as reported by Ferrarini (2016) in this issue. Among other issues, Ferrarini and Chiodini (2012), Ferrarini (2015) and Ferrarini and Recine (2015) identify in the separation of regulation from supervision, resulting from the SSM implementation, a major threat since decentralized, though harmonized, regulation and national law provisions may limit the single supervisory discretion and powers.

The benefits resulting from a deeper cross border market integration may be offset by the consequently rising governance issues. Hence, this trade-off, that will be discussed below in economic terms, is worth considering also from a juridical point of view, as it emerges in Ferrarini (2016) in this issue: first of all, the coordination between the ECB and supervisors not belonging to the Euro Area may give rise to agency problems, and the above mentioned separation of regulation from supervision may further hinder the effectiveness and efficiency of the Banking Union (see Hüttl and Schoenmaker in this issue).

On the regulatory and governance challenges

Schoenmaker (2011) and Obstfled (2011) investigate the financial trilemma that accounts for the impossibility to balance financial stability, free capital flows, and fragmented regulation and supervision. See also Rodrik (2000) for an early account of related issues in managing financial stability.

Dell'Ariccia and Marquez (2006) consider an international banking system with national regulators and supervisors that also take into account the externalities, abroad, stemming from a higher regulation at home. This framework allows the authors to investigate under which circumstances a Banking Union is more likely to emerge, and they observe that countries with a greater degree of financial integration and similar regulation should have greater incentives to join, since a centralized agency, not interested in the banking system of a specific country, will take into account the above mentioned joint externalities and will pose higher regulatory standards, enhancing the stability of the union financial system, but at the cost of reducing banks' competitiveness against the countries outside the union.

A second challenge is related to the choice of the governance model. Carletti et al. (2015) observe that, under the realistic assumption of different utility functions, central and local supervisors may be subject to a principal agent problem, which could ultimately result in laxer local regulations (see Agarwal et al., 2014, Acharya et al., 2013, and Bolton and Jeanne, 2011). In Colliard (2015), central and local supervisors internalize to different degrees the externalities generated from a given regulation level: if, on one side, central regulation may more properly take into account the spillovers abroad, on the other side, this takes place at the cost of losing the comparative advantage of local supervisors, that may in fact more closely monitor the behaviour of their banking system. Calzolari et al. (2015) show that centralization of supervision does not come with only pros even in very simple and realistic environments.

On the regulation and supervision of Multinational Banks

The previous section stressed how different governance supervisory structures, with local and central supervisors having more or less diverging interests that institutions fail to coordinate, may give rise to the principle-agent problem. Hence, this challenge is also at the core of the rising literature of Multinational Banks and their regulation and supervision. See Calzolari and Loranth (2003) for an early view of these issues and Houpt (1999) Buch and Golder (2011) and Federal Reserve Board (2002) for first investigations on the relevance of multinational banking.

The role of regulation in determining the shape and representation structure of multinational banks has been investigated by Calzolari and Loranth (2011), and by Focarelli and Pozzolo (2006) which study the choice between foreign subsidiary and branch representation respectively from a theoretical and empirical viewpoint. Loranth and Morrison (2007) investigate the additional issue of deposit insurance and, finally, the risk and consequences of ring fencing are discussed in De Haas et al. (2015).

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