Course Outline

The first part of the course (four lessons by Mario Nava and two by André Sapir) is organised around the relationship between market integration and policy integration for European financial markets and services. The course has the main focus on banking regulation, and in particular the Banking union (BU), but it also looks at capital markets, and in particular the Capital markets union (CMU). The course looks at markets and at authorities’ roles and interaction and in particular at the interaction between national, European and global authorities or standard setters.

The crisis has been a catalyst for change, with new European policies and institutions to improve financial stability. The course opens with an overview of today’s regulatory and institutional landscape, how it has evolved since the crisis and what are still some of the challenges it currently faces.

The Banking Union of the Euro Area has been made possible because of the development of the European Single Rulebook, which precedes and underpins the Euro Area Banking Union. This Banking Union in turn is construed around three pillars: the Single Supervisory Mechanism, the Single Resolution Mechanism and the European Deposit Insurance Scheme. The course looks in length both at the European Single Rule Book and at each of the three pillars of the Euro Area Banking Union both from a micro- and a macro-prudential angle. Continuously the course compares the EU and Euro Area situation with the US and some Asian countries.

In the Single Rule Book part, the course looks at the evolution and the current state of the risk-based single rules for financial institutions (Basel 3 and Solvency 2), and at the way resolution rules have developed in Europe and of why this European construction constituted the best basis for the Euro Area Banking Union.

As for the three pillars of the Euro Area Banking Union, the Single Supervision Mechanism is described both for its microeconomic efficiency and for its macroeconomic importance to stabilise the financial sector of the Euro area. Equally, the Single Resolution Mechanism is examined across both micro- and macro-lines, using also concrete examples of resolution and liquidation, including preventive measures (possibly differentiated per type of institution) and early intervention measures. Finally, the road eventually leading to the third (currently missing) pillar of the European Deposit Insurance Scheme, is put in the larger context of the risk-reduction vs.
risk-sharing debate. The willingness of entering into any risk-sharing agreement is evaluated by looking at the link between the macroeconomic situation of a country (including its public debt health or sustainability) and its banking sector.

The course also reviews other initiatives being pursued alongside the Banking Union aiming at pursuing the overall EU objectives of growth and jobs: namely the Capital Markets Union, the European Fund for Strategic Investments (EFSI) initiatives and the strategy to rid banks’ balance sheets of non-performing loans (NPLs). The first part of the course will conclude by looking at what are the main costs and benefits of the financial markets and banking reform made, whether it was worth all the efforts and also whether more efforts are still needed.

The second part of the course (two lessons by Tommy de Temmerman) will be more practical and show how bank capital requirements are designed and applied. Students will for instance be taught to calculate banks risk weighted assets. Finally, previous years exams will be done with students in preparation of this year exams.

At the end of the course, participants will be able to:

• understand the basis of market and policy integration in the EU;
• grasp policy issues of financial markets regulation and integration;
• understand the creation and the main elements of the Banking Union, both for its micro- and macro-consequences;
• dissect trends of financial market integration;
• and critically understand necessary future steps and challenges.
Course Structure

I. Structural Problems of EU financial integration and Special features of the Euro Area (AS)
   a. Fragility of sovereign debt
   b. The euro sovereign debt crisis
   c. Too many players?
   d. Debt overhang

II. Financial liberalisation – Crisis and policy challenges in the EU (MN)
   a. Liberalisation of the EU financial sector
   b. The EU financial crisis

III&IV. Reform of the EU banking regulatory environment (MN)
   a. Players (National, European and Global)
   b. Instruments: the Single Rule Book, incl. CRR and BRRD
   c. The Banking Union, incl. SSSM, SRM and EDIS
   d. Summing up some policy outcomes: are banks safer? Are Bail-ins? Are bail-outs really out?

V. What is also done to finance EU growth? (MN)
   a. European Fund for Strategic Investments
   b. Capital Market Union, incl. Securitisation Revival
   c. European Deposit Insurance Scheme (EDIS)

VI summing up (AS):
   a. was it worth it?
   b. does it work? will it work?

VII. Practical exercises to calculate bank capital requirements and to understand the constraints of bank resolution (TDT)

VIII. The exams of the previous years. (TDT)