CORTE DEI CONTI

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Summary on the Organization of Financial Sector Supervision and Modernization efforts in Italy

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AGENDA

- European and national regulatory context
- Supervisory architecture in Italy
- Banking recovery and resolution
- Next steps
- Major challenges

European and national regulatory context/1

- Italy takes part in the EU-wide effort at modernizing and strengthening the financial and banking sector regulation, which is going on since the 2008 financial crisis and the 2011 Eurozone Debt crisis.
- In the EU as a whole, this effort has resulted in the redefinition of prudential requirements for credit institutions (CRD IV and CRR) and in the strengthening of financial markets' discipline (MiFID II and MiFIR).
- In the Eurozone, further cooperation has led to the birth of the Banking Union, with the creation of SSM (Single Supervisory Mechanism).

European and national regulatory context/2

- Also at a national level, Parliament and Government(s) have steadily aimed, in recent years, at modernizing the Italian financial and banking regulation, tackling some issues deriving from historical peculiarities of the national system and fostering the dissemination of "alternative" financial intermediation (micro-credit, "ethical banking").
- Co-operative banks have been the object of much legislative attention over the past few years, aimed at reinforcing their ability to face internationalization challenges and to enable them to raise fresh capitals. In 2015, Popular Banks were reformed: governance arrangements were revised; large, listed PBs were forced to transform into ordinary public companies limited by shares. In 2016, changes were introduced also for the co-operative credit banks (BCCs): a legislative provision mandating each and every BCC to enter a so-called "co-operative group" has been set up.

European and national regulatory context/3

Apart from the co-op banks' reform, various national legislative initiatives in recent years have been carried out in the financial and banking sector:

- National supervisory authorities' supervisory powers have been reinforced and stricter sanctions have been introduced. E.g., the Bank of Italy has been conferred the power to remove banks' board members and to impose a temporary ban on individuals, preventing them to exercise directorships in credit institutions.
- Micro-credit and "ethical banking" have also received attention, with the aim of promoting these "alternative" financial intermediation channels.
- A new legislative framework for State intervention in banking recapitalization processes has been set up, in accordance with EU competition and resolution rules.

Supervisory architecture in Italy/1

- In Italy, the Bank of Italy and CONSOB (National Standing Committee on Listed Companies and Stock Markets) traditionally share the overall responsibility for supervising the banking and financial sector. Their respective competences and tasks are set out by the Consolidated Law on Banking and the Consolidated Financial Law.
- Banking supervision is entrusted to the Bank of Italy, with the main goal of ensuring safe and prudent management of credit institutions. Since the 2000s, the Bank of Italy has been given also significant powers and competences regarding transparency and consumer protection in the banking sector.
- The CONSOB is entrusted with financial markets' supervision, with the aim of ensuring transparency and efficiency. Financial institutions, such as investments firms, are supervised both by CONSOB (transparency) and the Bank of Italy (prudential aspects, e.g. capital requirements).

Supervisory architecture in Italy/2

- Since 2014, banking supervision in Italy underwent major changes with the kick-off of SSM (Single Supervisory Mechanism).
- Supervision on credit institutions is now shared between the Bank of Italy as National Supervisory Authority for Italy within the Banking Union and the ECB.
- The ECB directly supervises "significant" institutions; the Bank of Italy supervises "less significant" institutions and retains its competences on transparency and consumer protection (which are not part of the "relevant Union law" encompassed by the SSM).

Banking recovery and resolution

- In 2013-2014, a new European framework on banking recovery and resolution was introduced, with the adoption of BRRD Directive and SRM Regulation.
- In Italy, as part of the Eurozone and the Banking Union, SRMR is applicable. Thus, the National Resolution Authority (which is established within the Bank of Italy) shares competences with the Single Resolution Board.
- When a credit institution is deemed "failing or likely to fail," resolution is triggered involving the SRB and/or the NRA.
- When the bank crisis does not entail a "public interest," the institution may be wound up according to national procedures.

Next steps

- Basel III rules are fully implemented in Italy.
- Current debate at EU-level is focusing on the necessity of updating the existing legislative framework.
- Projects for a "CRD V" Directive are being discussed.
- A draft package on Investment Firms (Ifs) is well underway. It will consist of a Directive (IFD) and a Regulation (IFR).
- Discussion on the opportunity of speeding the set-up of a single European guarantee deposit scheme, which is bound to complete the Banking Union, is still very lively.

Major challenges

Some of the main issues facing the Italian financial and banking issues concern:

- Low growth.
- High national debt-to-GDP ratio.
- High amount of NPLs.

Such weaknesses are, and probably will still be in the near future, countered with a high level of attention, on the part of supervisors, on credit institutions' regulatory capital soundness and composition; on their governance arrangements and industrial policies; on their ability to withstand the challenges of internationalization and of raising fresh capital.

Thank you for your attention

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