The framework of financial supervision in Europe: Developments and prospects

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1. Introduction

The global financial crisis of 2007/2008 and its expansion to the European economy constitutes a cornerstone in Europe's economic integration process. It highlighted the institutional weaknesses of the Economic and Monetary Union (EMU) both in terms of protecting from the crisis (and preventing its diffusion) and in terms of ensuring a sustainable exit –for the whole of the Eurozone economy– from the difficult situation. It was, in fact, a series of institutional weaknesses stemming from the reluctance of the EMU project, which –in the first decade of its life– settled for the integration of the monetary policy, keeping the areas of economic and financial governance at a "loose" level of coordination and cooperation and determining some minimum requirements in specific (important) areas of economic integration. More specifically, the institutional and regulatory framework of the European financial system[1] constituted a particularly "closed" and "protected" sector of the European economy because they were of particular importance for the domestic allocation of resources, the production process and the promotion of policies. Gradually, however, and after recognizing the advantages of the "opening" and consolidation of the financial system markets,[2] the process of the liberalization of these markets started to proceed (Tsoukalis, 1997).

However, the establishment of a corresponding European institutional framework for supervision and regulation did not follow this gradual integration process in order to create the conditions for safeguarding financial stability. On the contrary, until the establishment of the EMU, the rationale that defined all the EU initiatives was aimed at "negative integration". After the foundation of the Eurozone, there was a tentative shift towards "positive integration" that was exhausted in methods of open coordination and cooperation among national institutional actors, away from major institutional interventions (Staikouras and Triantopoulos, 2008). In essence, the European integration project has failed to reach a response to the financial "trilemma" that leaves the European Union (EU) member states, and in particular the members of the Eurozone, unable to attain at the same time the objectives of financial stability, cross-border banking and the maintenance of financial policies at national level (Schoenmaker, 2011). Under these institutional circumstances, however, the financial system of the Eurozone, or, more precisely, its (individual) financial systems, was particularly vulnerable to a major shock, as it became evident during the global financial crisis of 2007/2008. The emergence, therefore, of weaknesses and gaps in the European institutional framework and, more importantly, their negative consequences have been the starting point for a series of revisions in the EU approach and for changes in the architecture, leading (alongside the institutional strengthening of economic governance) initially to the Banking Union and, consequently, to the launching of institutional developments in the other two markets of the financial system, as an integral part of a new architecture of economic governance in Europe.

This article briefly sets out the theoretical background of the debate, analyzes the institutional developments and the financial integration in the Eurozone, and discusses the challenges that arose after the UK referendum on the country's exit from the EU, and the importance of wider institutional developments in Greece.

2. Theoretical background

The promotion of the European integration project proceeded on the basis of intergovernmental negotiations when it came to high-grade policy areas, even though a substantial part of it was based on a process of integration and close cooperation of the member states in lower grade policy areas (according to the neo-functional perspective) (Haas, 1958; Moravcsik, 1998; Tsinisizelis, 2001). However, during the period when the EU project entered the EMU phase, European integration expanded to sensitive aspects of economic and social policies (such as employment, competitiveness, financial supervision, etc.), as the intergovernmental tactics did not seem able to overcome the obstacles that emerged. As a result, the open method

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1. The financial system consists of the banking market, the capital market and the private insurance market.

2. E.g. increase in financial activity, reduction of financing costs, macroeconomic stabilization, etc.

of coordination was developed, where in a non-binding cooperation and coordination environment, both the trends and the orientation of the EU, as well as the "national" positions and the specificities of the member states, co-existed. In parallel, however, with the strengthening of the EMU, the process of the EU enlargement was evolving, highlighting the significant economic and institutional deficiencies of the new member states and the inability to address them directly through the "Community method". This lead to the strengthening of the intergovernmental dimension of the integration process as well as the reinforcement of the "loose" dimension of the open method of co-ordination of national policies and frameworks. Thus, the European project, as it progressed towards both its integration and its enlargement, was enriched by several cases of open coordination and cooperation but, mostly, by forms of "differentiated" and "negative" integration, which added to the already existing ones (Triantopoulos and Staikouras, 2017).

The more the EU project progressed and the benefits of further integration of a market or an economic field became clearer, the more the characteristics of "negative" integration constituted, ultimately, an obstacle to the integration process. Gradually, therefore, the characteristics of "negative" integration gave way to initiatives based on the "positive" integration approach and, in particular, to maximum regulatory harmonization and strong policy co-ordination. In particular, the "positive" integration approach includes cases such as open mandates to the EU institutions for the formulation of common policies, the convergence and harmonization of national laws, and the coordination of national macroeconomic policies, including significant institutional developments (Stephanou, 2001). Of course, the establishment of EU institutions and the promotion of "positive" integration in a market constitute a particularly time-consuming process of negotiations and legislating, resulting in the development of EU initiatives still being significantly far from developments in the market itself –especially when it is a rapidly growing market. The European financial system is a typical case where a long period of "negative" integration of the institutional framework, coupled with the great financial development of the past decades, has allowed for the development of the financial activity "preceding" the reinforcement of supervision at the European level. The global financial crisis of 2007/2008 and its expansion to the European economies have highlighted the gaps and weaknesses in the institutional framework of the European financial system as a result of the pre-crisis institutional instability of the EU project.

3. Pre-crisis institutional framework and deficiencies

Prior to the global financial crisis of 2007/2008, the consolidation of the institutional framework governing the European financial system was based on the establishment of the EMU, as this major step of economic integration has reinforced the tendency for further institutional integration against the legislative reluctance of the pre-EMU period. In particular, before 1999, European policy on the financial system was based on three basic principles: mutual recognition, minimum legislative harmonization and supervisory control by the member state, while maintaining a wide range of responsibilities and jurisdiction to national regulators and supervisory entities (Lastra, 2003). To this end, the key EU initiatives were the First Banking Directive (1977), the Second Banking Directive (1989), the Capital Adequacy Directive and the Investment Services Directive (Cervellati, 2003).

However, the process of consolidating the institutional framework of the European financial system has been influenced by the new conditions in the banking and (broader) financial environment created by the introduction of the euro. In particular, the introduction of the EMU led (directly) to reducing barriers in financial markets and strengthening macroeconomic stability, enhancing the conditions of competition, protecting against the risk of speculative pressures on European currencies, transnational interbank transactions and the convergence of European financial markets systems. In addition to the new conditions created by the Eurozone, the wider trend of globalization of activity, the dynamics of financial growth and the rapid technological boom and innovation in the financial system have created further pressures to promote financial integration in Europe (Staikouras and Triantopoulos, 2008).

Gradually, the European project began to respond to the new developments. The EU approach regarding the integration of the institutional framework governing the European financial system began to shift (from the sphere of "negative" integration –which now created obstacles– to the sphere of "positive" integration) emphasizing on maximum (possible) regulatory harmonization and intense supervisory coordination. In particular, the basic (initial) EU Initiatives were (a) the 'Financial Services Action Plan 1999-2005' (1999); (b) the introduction of the "Lamfalussy" process (in four levels) for the issue of the relevant rules, the strengthening of cooperation of national supervisory authorities and the establishment of the European Securities Regulators Committee; and (c) extending the "Lam-

falussy" process to the other two markets (2002) with the creation of the Committee of European Banking Supervisors and the Committee of European Insurance and Occupational Pensions Supervisors. Thus, with the introduction of the "Lamfalussy" process in all three markets of the financial system, a new regulatory and supervisory architecture emerged, which followed the unifying logic of "loose" coordination between national actors, frameworks and policies. In parallel with the changes in the architecture of the institutional framework, legislative initiatives were promoted, the most significant of which are the Capital Adequacy Directive II, which incorporated the Basel II capital framework into Community law, and the Financial Markets Directive, which largely updated the institutional framework on investment services (Staikouras and Triantopoulos, 2008).

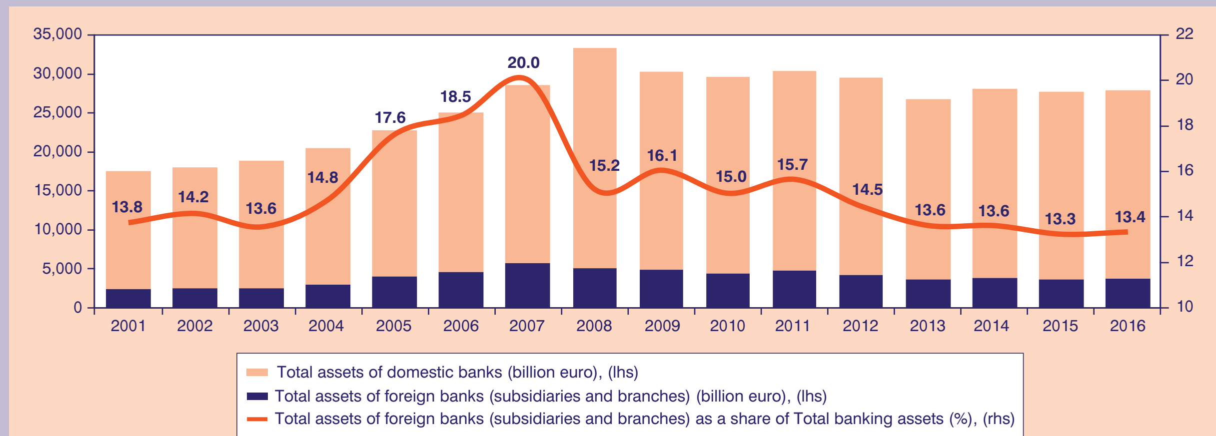
During the period that preceded the global financial crisis of 2007/2008, the process of consolidating the institutional framework began –after the introduction of the euro– to move away from the approach of "negative" integration, with the key features of new EU initiatives being regulatory harmonization and coordination at the supervisory level. This was, of course, a limited-in-range shift, as the new architecture included the introduction of platforms of coordination and cooperation among national authorities, staying away from the establishment of strong EU institutions with specific competences and powers. Thus, instead of a substantial shift towards "positive" integration, the EU reluctance and the great intergovernmental reservations towards the introduction of more significant institutional interventions and changes led to the prevalence of the logic of coordination as a process of promotion –or better preparation– of integration, while the markets of the European financial system were increasingly integrating into the Eurozone environment (Triantopoulos and Staikouras, 2017).

The first decade of the Eurozone (up to the crisis) was characterized by the promotion of the integration of European financial markets, creating a favorable environment for increasing both credit expansion and private debt in the EMU member states. In particular, the European financial system followed a steady integration path, which marked a significant diversification between the markets, as the level of integration was significant in the money market, derivatives and government securities markets, but was just satisfactory in corporate debt markets. In parallel, the level of integration was lower in the stock exchange market and, more importantly, in the banking market, where long-term and medium-term cross-border investment banking and business lending were more integrated. The (extreme) lower levels of integration were evident in retail (consumer) cross-border banking activity, highlighting the critical importance of the banking market in the process of promoting financial integration (Kiehlborn and Mietzner, 2005; Staikouras and Triantopoulos, 2008). With regard, in particular, to the banking market, since the introduction of the euro, cross-border banking activity has shown a steady expansion and integration trend, as at the Eurozone level the share of foreign banks (either branches or subsidiaries) in the domestic market has increased from 13.8% of the total banking market assets in 2001 to 20% in 2007, followed from a downward trend in this cross-border share (Figure 1). At the same time, the branches of foreign banks in the Eurozone member states (in the 19 member states) increased from 563 in 2004 to 706 in 2008, marking an increase of approximately 25% (Figure 2).

The aforementioned signs of expansion of cross-border banking in Europe are also complemented by the European Central Bank (ECB) index for financial integration in the Eurozone and, in particular, the indicator based on the volume of financial activity, which has been steadily increasing up to 2007. Thus, this indicator, from 0.03 in the first quarter of 1999, increased to 0.40 in 2007-2009 (Figure 3). However, the integration was greater in terms of convergence in financial system prices, as this composite index of 0.05 in the first quarter of 1995 reached 0.55 in the first quarter of 1999 and more than 0.80 in the first half of 2007, including the convergence of returns and interest rates on the money and capital markets following the introduction of the euro, which in many cases deviated from the real credit ratings of the member states (see government bonds). This course of financial integration, as evidenced both by the banking activity and by the ECB indicators, has been interrupted by the global financial crisis and has entered a downward trend, while at the same time leading to a convergence of the two composite indicators (price and quantity) which, until the crisis, showed a significant degree of divergence in terms of integration –since consolidation was more visible in terms of prices and not so much in terms of quantity.

Despite the development and (gradual) integration of the European financial markets, the architecture of the European institutional framework maintained some gaps in the field of financial supervision as well as in other dimensions of the economic governance of the Eurozone. The global financial crisis, therefore, demonstrated the institutional defects of the Eurozone, afflicting it in three ways. The first way of transmitting the global crisis to the European economy was the most immediate one, as it concerned the large losses incurred by European financial and

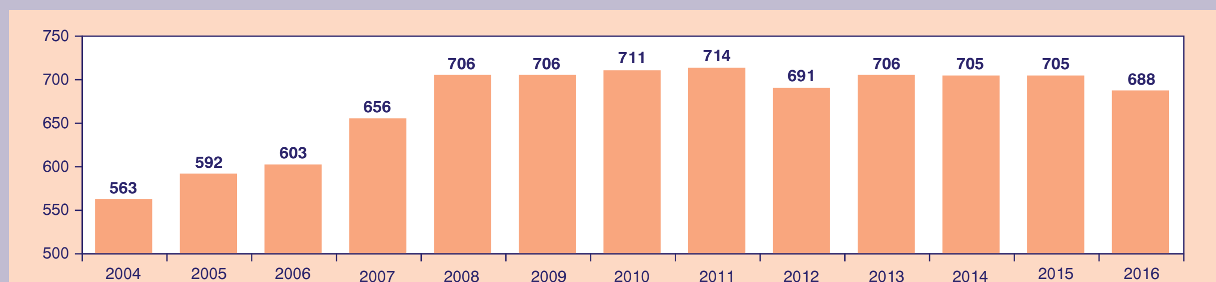
FIGURE 1
Foreign banks activity in the Eurozone banking markets (2001-2016)



Source: ECB (2006), ECB (2007), ECB (2008), ECB (2010a), ECB (2010b), ECB (2015) and ECB (2017).

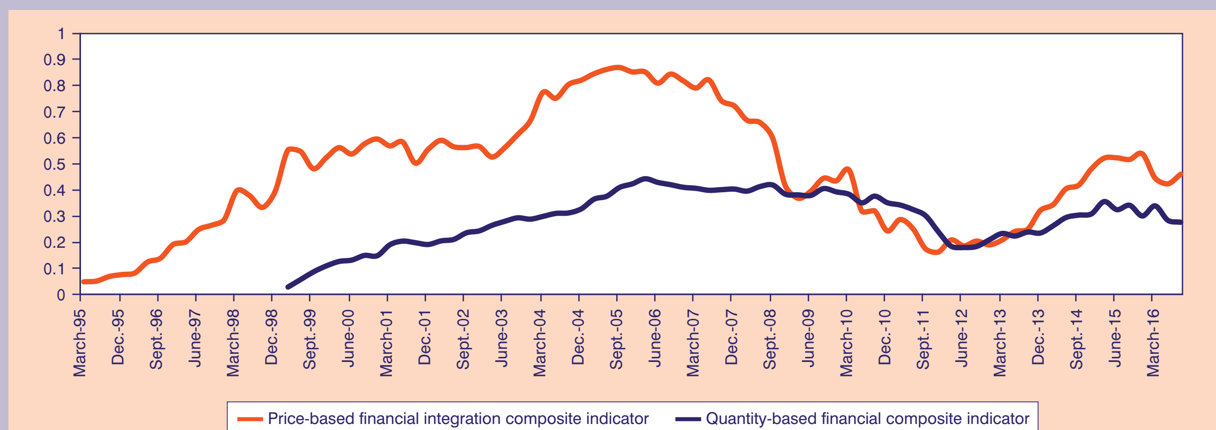
Note: Data for 2008-2016 (ONE-19), 2005-2007 (ONE-16), 2004 (ONE-15), 2003 (ONE-13), 2001-2002 (ONE-12).

FIGURE 2
Branches of foreign banks in the Eurozone banking markets (2004-2016)



Source: ECB (2010a), ECB (2010b) and ECB (2017).

FIGURE 3
Financial integration in the Eurozone (1995-2016)



Source: ECB.

Note: 0 equals to full fragmentation and 1 to full integration.

banking institutions from their exposure to so-called "toxic" products. The burden of dealing with this difficult situation was taken over by the member states, although the possibility of collapse was not just about one economy. This was due to the financial "trilemma" remaining (Schoenmaker, 2011), resulting in the member states –and not the whole of the Eurozone– having to deal with the cost of the financial rescue due to the absence of a relevant institutional framework, and giving rise to great concern in the international markets in terms of the capacity of individual member states to withstand the burden of rescue. The second way of transmission of the global crisis is related to the recessionary pressures that have arisen due to the intense shock in international markets and in which the Eurozone has failed to respond adequately and effectively due to the institutional defects of the EMU and the inability to create an environment of economic competitiveness and fiscal robustness for the entire Eurozone in the pre-crisis period. Finally, the third way of transmission of the global crisis was related to the significant shrinkage of international cash flow after the period of 2007/2008, when the international investment environment tightened its credit-rating approach regarding the weaker and most vulnerable Eurozone members, thus ending the period of euphoria that followed the introduction of the common currency (Triantopoulos and Staikouras, 2017).

Along with the lags in the context of the economic governance in the Eurozone, the institutional framework of the European financial system also included gaps and weaknesses that were made evident during the crisis, which concerned: (a) the absence of supervising attention on emerging financial risks; (b) the inadequate assessment (when an assessment actually took place) of emerging risks in financial activity, as they were not reflected in official estimates of both macro-financial stability and financial innovation; (c) the official ignorance to the 'warning' analyses, as the attention of policy makers was more focused on short-term interests; (d) the lack of supervisory cooperation between national supervisory authorities; (e) the lack of supervisory coordination between national supervisors; (f) the limited scope of action at the European level, as the European institutions were only able –after lengthy debates– to reach decisions in terms of a minimum common ground; (g) the inability of national supervisory authorities to adequately control the domestic market due to the internationalized activity of several financial institutions; and (h) the lack of an effective institutional framework (or institution) capable of implementing a macro-prudential policy and of achieving a coordinated response to limit the expansion of the crisis (Group of Thirty, 2008; Tabellini, 2008; FSA, 2009; De Larosière, 2009; OECD, 2010; Verhelst, 2011; Veron, 2012). Identifying these institutional gaps and weaknesses has led to a wider debate on changing and improving the institutional framework regarding rules and supervision of the European financial system.

4. New institutional framework

Consequently, following the global financial crisis and despite the need for "brave" institutional changes in the institutional framework of the financial system, the initiatives of the first period were still burdened by the institutional reluctance of the pre-crisis period. After all, since the consolidation of procedures and the introduction of rules of economic governance in the Eurozone were delayed, which would create the conditions for some –albeit "reluctant"– financial risk sharing, it was difficult to promote a unified architecture regarding the supervision of the financial system (Triantopoulos and Staikouras, 2017). In this context, following the logic of supervisory cooperation, the European System of Financial Supervision (ESFS) (2010) was established, including: (a) the newly established European Systemic Risk Board with the managerial and administrative involvement of the ECB and competences regarding macro-prudential supervision as well as the evaluation and formulation of proposals for systemic risk limitation tactics (Schoenmaker, 2011), and (b) the three European Supervisory Authorities –the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA)– replacing the previous three "Lamfalussy" Coordination Committees and concentrating their activities on the harmonization of financial supervision in the EU through the development of a single framework of rules and prudential procedures for financial institutions, while also being responsible for risk assessments and financial system soundness evaluations. However, under the new institutional environment, European financial institutions have continued to be under the supervision of national supervisory authorities, as the reluctance for a "brave" step of "positive" integration through the creation of a strong common European authority –with a corresponding transfer of national supervision competences– prevailed due to the uncertainty among member states as to the distribution of the cost of such a concentration of financial supervision powers at the European level (De Larosière, 2009; Schoenmaker, 2011; Hennessy, 2014; De Rynck, 2014; Chang, 2015).

The prolonged instability in the European economy, its key elements being the very difficult financial position of several member states and the stagnation of

real economic activity, has contributed to putting more pressure towards a "brave" approach in the field of economic integration. Thus, in the context of European economic governance, especially during the years that followed the outbreak of the crisis, the following were established: a) the Treaty on Stability, Coordination and Governance in the Eurozone; (b) the strengthened Stability and Growth Pact, including a package of five Regulations and a six-pack Directive; (c) strengthened centralized supervision of the national budgets of the Eurozone member states through the two-pack; d) the European Semester; and e) the support mechanisms of the member states, such as the European Financial Stability Facility (EFSF), the European Stability Mechanism (ESM) and the European Financial Stabilization Mechanism (EFSM). Thus, with the ESM –which replaced the 'temporary' EFSF in 2013– after a long delay, the institutional conditions regarding not only managing an economic and financial crisis, but also sharing the cost of overcoming it, began to take shape. At the same time, however, with economic governance integration initiatives, special attention was also –finally– given to the integration of the macro-prudential supervision of the European financial system in an attempt to break the close link between public debt and the banking market and to prevent future banking crises (see the report of "Four Presidents"[3]).

In particular, the disconnection of the close link between the public finances and the robustness of the banking market would be accomplished by giving ESM, in parallel with the operation of the Single Supervisory Mechanism (SSM), the ability to recapitalize European banks directly without incorporating that amount into the public debt of each member state. Thus, the institutional response to the "trilemma" of the financial integration had begun. This was since –in the framework of a (new) architecture in the Eurozone– a European mechanism for assuming and sharing the rescue burden was shaped, it was also possible to move supervisory responsibilities at the European level (Goodhart and Schoenmaker, 2009). Thus, a decisive step was taken towards a "positive" integration of the institutional framework of the European financial system, reflected in the Banking Union project, including the establishment of a common supervisory institution and the establishment of an institutional environment (private and financial) of risk and cost sharing (Buch *et al.,* 2013).

The Banking Union constitutes a major step towards a (broader) European economic integration that has been developed and supersedes the previous institutional framework and consists of three pillars. The first pillar concerns the establishment of the Single Supervisory Mechanism (SSM) for systemically important (or "systemic") credit institutions under the ECB, focusing on safeguarding the robustness of the European banking market and the continuation of financial integration and allowing conditional recapitalization of banks from the ESM, while the other (less important) systemic banks remain under the supervision of the national authorities; the ECB still has the power to intervene immediately if necessary. The Single Supervisory Mechanism is also working with the EBA to assess the assets of European banks (Wymeersch, 2014).

The second pillar –based on an intergovernmental agreement[4] – consists of the Single Resolution Mechanism for credit institutions and the parallel introduction of the Single Resolution Fund (SRF),[5] thus completing the Single Supervisory Mechanism and ensuring that if a systemic bank faces serious difficulties, its resolution will take place in the most effective way and at the lowest possible cost for taxpayers. National competent authorities maintain responsibility for the process of the reorganization of smaller banks. In parallel, the European Commission, in 2017, recognizing the "concern" regarding the ability of the Single Resolution Fund to "cover" a possible widespread crisis requiring greater financial assistance than that foreseen to be covered by private resources by 2024, proposed initially the granting of a credit limit by the ESM to the Single Resolution Fund[6]. Thereafter, the ESM could transform into a European Monetary Fund –under EU law– so that sufficient resources (credit line and guarantees) would be available to deal with an extraordinary situation of a large bank resolution or the successive resolutions of more banks.[7]

3. The report by the President of the European Council in close cooperation with the President of the European Commission, the President of the Eurogroup and the President of the ECB entitled "Towards a Genuine Economic and Monetary Union".

4. See more on the Intergovernmental Agreement on the Transfer and Mutualisation of Contributions to the Single Resolution Fund here: <http://www.consilium.europa.eu/en/press/press-releases/2015/11/30/banking-union-single-resolution-fund-for-1-january-2016/>.

5. The funds of the Single Resolution Mechanism amount to €55 billion that will come from private funds (of banks) gradually up to (at least) 2024.

6. See more: <https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-emu_el.pdf>.

7. See more: <http://ec.europa.eu/finance/docs/law/171011-communication-banking-union_en.pdf>.

The third pillar –which is also the one that remained incomplete during the planning of the institutional project– concerns the European Deposit Insurance Scheme (EDIS). In the framework of the Banking Union, the establishment of a European framework for the (basic) harmonization of Deposit Insurance Schemes of all member states was promoted in 2014, leaving the possibility open for further initiatives towards a common deposit insurance scheme at the European level. To this end, the European Commission has formed a proposal to establish a European Deposit Insurance Scheme through a three-stage phasing-in process, which in 2017 has been reduced to two phases (see insurance and co-insurance[8]). This will result in national schemes being (increasingly) "co-insured" by the European Deposit Insurance Scheme, which will include the European Deposit Insurance Fund and will be managed by the Single Resolution Board (SRB) of the aforementioned Single Resolution Mechanism (SRM).[9, 10]

The Banking Union project followed the Capital Markets Union, which, according to the relevant European Commission proposal, concerns the promotion of a series of regulations and interventions, emphasizing –as part of the implementation of the "Juncker" investment package– the need to improve access to finance for all businesses, to strengthen and diversify sources of funding, and to enhance the efficiency of the functioning of markets. In this context, the European Commission (from 2015) is moving towards implementing a relevant action plan with key principles in order to create more opportunities for investors, mobilize capital for businesses, build a strong financial system, and deepen financial integration. To this end, the European Commission's initial orientation focused on the securitization, modernization and harmonization of the (relevant) information bulletin on risk capital and covered bonds, the investment treatment of infrastructure projects by insurance entities in the framework of the Solvency II Directive, and the gradual harmonization of audit, regulatory and tax conditions. Also, there is no degree of mobility within the architecture of the institutional framework of the Capital Markets Union.[11] Lastly, it is worth noting that this project concerns the EU and not just the Eurozone, so as to include the UK's financial market system, which is key in capital market terms.

5. Institutional developments and prospects

The institutional framework of the European financial system, after a period of considerable institutional delay and reluctance, was introduced through the promotion of the Banking Union project into a new phase of integration, which was characterized by two main trends. The first trend relates to the strong institutional strengthening of the ECB in the new institutional environment of the Eurozone. With the delegation of the Single Supervisory Mechanism (SSM), the ECB, together with its involvement in the European Systemic Risk Board, is emerging as the key supervisory institution of the EU, acquiring responsibilities regarding: (a) the micro-prudential supervision of systemically important banks, (b) the assessment of consolidated balance sheets and also (c) macro-prudential supervision. At the same time, of course, the ECB extended its activities to a series of interventions related to both monetary policy and financial activity. The second trend concerns the shift in the philosophy of integration from the logic of "negative" integration, "loose" coordination and cautiously "positive" integration that prevailed during the first years of the global crisis, towards a logic of "positive" integration that puts forward the centralized architecture of supervision at the European level. This is a change that involves the consolidation of the institutional framework into common European institutions, thus "responding" to the financial "trilemma" of achieving simultaneously the objectives of financial stability, and cross-border financial activity while maintaining the management of financial policies at the national level, without "retreating" in one of them.

The upcoming UK exit from the EU is an important development to further promote the "positive" inte-

8. The previous (third) phase of full insurance by the European system is not included in the new proposal. See more: <http://ec.europa.eu/finance/docs/law/171011-communication-banking-union_en.pdf>.

9. See more: <http://europa.eu/rapid/press-release_IP-15-6152_el.htm>.

10. Along with the further integration regarding the institutional framework of the European financial system, a series of relevant European legislative acts were put in place concerning alternative investment fund managers, short selling, CDS, over-the-counter derivatives, market abuse, credit rating agencies, capital requirements, markets for financial instruments, insurance and reinsurance and the resolution of credit institutions (Triantopoulos and Staikouras, 2017).

11. According to the Interim Report of 2017, satisfactory progress has been made so far in the implementation of the 2015 Action Plan, with about two-thirds of the 33 actions having been delivered. See more: <https://ec.europa.eu/info/publications/mid-term-review-capital-markets-union-action-plan_en>.

gration of the institutional framework of the European financial area and, in particular, the concentration of competences on common European institutions, as it is the EU Member State, which –although it is a global financial "player" with a critical share in the international market– was (as in other dimensions) wary of promoting the consolidation process, often staying on the side of pursuing "negative" integration. In addition, the forthcoming UK exit from the EU will lead to a significant shift in financial activity –both in the banking market and, most importantly, in the capital market– from the United Kingdom (aka London) to EU financial centers of the Eurozone, further reinforcing the need to promote financial integration in Europe. Thus, the new developments –both in terms of widening European financial activity and in terms of less "intolerance" towards European integration– point to a favorable environment to further promote the "positive" integration of the institutional framework governing the European financial system. These new developments focus, on the one hand, on integrating and strengthening the Banking Union, and, on the other hand, on expanding the integration process across the financial system.

To that end, therefore, there are a number of issues that will relate to the process of the integration of the institutional framework of the European financial system in the coming period, which are:

(a) The fine-tuning of the European supervisory architecture with regard to the architecture of the institutions involved and the allocation of their responsibilities so that there is no overlapping of competences, delays in response or "controversies" on responsibility issues (Wymeersch, 2014). Focusing on the "repositioning" of the three authorities –starting with the European Banking Authority (Chang, 2015)– within the new institutional architecture and on the possibility of creating a high-level structure with a specific organizational and functional status, this could contribute to the coordination and effectiveness of the institutional framework (Triantopoulos and Staikouras, 2017).

(b) The institutional strengthening of the third pillar, at supranational level, with the establishment of a European Deposit Insurance Scheme (EDIS), following the harmonization of the relevant regimes and the European Commission's efforts. Such institutional development could, in accordance with the European Commission's proposal, arise by integrating deposit guarantee into the Single Resolution Mechanism, turning it into a Single Resolution and Deposit Insurance Mechanism, including, alongside the Single Resolution Fund, the Single European Deposit Insurance Fund (Schoenmaker, 2015).

(c) The transformation of the ESM into a European Monetary Fund (EMF), the latter being able to (fully) function as a fiscal protection mechanism of the Banking Union and as the fiscal partner of the ECB in the effort of establishing and maintaining financial stability either in the event of a banking crisis or crisis debt in the Eurozone, or in the case of a threat of such a crisis emerging. In particular, such a strong EU institution could include in its Board the Eurogroup ministers as well as (some) other Eurozone representatives, thus constituting the "Eurosystem of Fiscal Policy". Consequently, the Eurosystem of Fiscal Policy could become the EU institution that would replace the informal Eurogroup as the body responsible for fiscal policy decisions in the Eurozone and would be the political and institutional counterpart of the independent ECB (Sapir and Schoenmaker, 2017).

(d) The promotion and acceleration of the Capital Markets Union project, also focusing on the architectural dimension of its institutional framework. The approach that appears to be followed is the formation of a common market through the removal of obstacles and the harmonization of regulations and procedures, without, however, providing for the establishment of a common (powerful) authority (or authorities) closely monitoring the integration process and overseeing the functioning of the capital market in order to ensure its stability and robustness (Veron, 2015; Lannoo, 2015). The fact that there is limited attention regarding the need to establish a common supervisory mechanism may be related to the fact that this project does not only concern the Eurozone,[12] but all EU member states, including (originally) member states such as the United Kingdom due to its large capital market (House of Lords, 2015). The forthcoming UK exit from the EU, however, allows for the prospect of creating a common European supervisory institution or mechanism within the framework of the

12. The project of the Capital Markets Union is related to the promotion of the Juncker investment package because of the high financial leverage it expects also in non-euro area member states, especially those that are of great significance in terms of growth, development and size of the capital market, such as the United Kingdom.

Capital Markets Union, which the report of the "five Presidents" supports.[13]

(e) The strengthening of regulatory conditions so that the Capital Markets Union project can be –in a European banking system that is bank-centered– a credible alternative to bank financing for small and medium-sized enterprises, focusing on actions both in the stock market and in the bond market. In particular, with regard to entry and the financing of small and medium-sized enterprises by the capital market, a more flexible regulatory environment for small and medium-sized enterprises should be at the top of the list of interventions, reducing barriers to entry and reducing the cost of equities. In terms of the bond market, despite the significant increase in the number of corporate bond issues in the European Union (after the crisis), the European bond market should strengthen secondary liquidity (Thomadakis, 2017).

(f) The strengthening of cooperation between national supervisory authorities in the insurance market by establishing supervision of the insurance market at the European level, with the European Insurance and Occupational Pensions Authority taking up a central role in a European Insurance Union that can overcome the fragmentation of supervision and ensure the monitoring of large cross-border insurance groups (see monitoring of international standards and models), reinforcing the effectiveness of supervision (Schoenmaker, 2016).

(g) The creation of a European pension scheme, which will be provided alongside the products of national pension schemes and can become a "quality label" that will attract and drive European savings into more efficient assets. This product will be under the responsibility of the European Insurance and Occupational Pensions Authority but prudential supervision will remain in the responsibility of the national authorities (Lannoo, 2017).

(h) The elaboration of the twin-peaks architecture scenario in the supervisory framework of the financial system of Europe, where the objectives of systemic supervision and prudential supervision are the responsibility of one authority and the supervision of the business activity of financial institutions is the responsibility of another (distinct) authority. In particular, one of the two "peaks" could have at its center the ECB's Single Supervisory Mechanism, which could take over the current responsibilities of the European Banking Authority (after the UK's exit from the EU), including preparing the technical specifications and prudential supervision as well as developing a close cooperation with the European Insurance and Occupational Pensions Authority, as it can not be merged with the ECB. The other "peak" can relate to strengthening and enriching the role of the European Securities and Markets Authority (after the UK exit) by expanding its responsibilities (to supervision of the functioning of markets and business activity), strengthening its empowerment and strengthening its independence (Schoenmaker and Veron, 2017).

In essence, the institutional interventions referred to above constitute the challenges of the integration of the European financial system, which can be integrated into the wider target regarding the creation of the European Union's Financial Union, complementing the Banking Union project with the Union of the other two pillars of the financial system, and allowing the conditions for a safe and well-founded financial development that will make a decisive contribution to the growth the European economy.

Expanding and deepening the integration of the European financial system is expected to have a positive impact on the Greek financial system and the Greek economy, contributing to the wider effort to create sustainable development conditions in the long run. In particular, deepening integration in all three markets of the European financial system –moving towards the direction of a financial Union of Europe– will contribute to: (a) strengthening confidence (regarding deposits) in the domestic banking market by integrating the deposit insurance scheme; (b) developing conditions for alternative financing of small and medium-sized enterprises from the capital market; and (c) creating a reliable and dynamic private and professional insurance market. These are institutional and structural developments that will contribute significantly to the modernization of the Greek financial system.

6. Concluding remarks

The global financial crisis of 2007/2008 and its direct and indirect effects on the economies and financial

13. This is the report of the President of the European Commission in close cooperation with the President of the European Council, the President of the European Parliament, the President of the Eurogroup and the President of the ECB entitled "Completing Europe's Economic and Monetary Union".

systems in Europe, coupled with the lack of adequate support from the Eurozone, put pressure on shifting the orientation of the institutional integration of the European financial system from a "negative" to a "positive" integration approach as well as towards the "centralization" of the banking market supervision, integrating dynamically the field of financial activity into the EU architecture. It was, of course, a major institutional development, the conditions for the promotion of which were created by shaping the new framework of economic governance in the Eurozone, which includes European mechanisms for taking on and sharing the burden of rescue and more generally the management of a crisis, in response to the (known) financial "trilemma".

In the context of the new rationale of the integration of the institutional framework of the European financial system and in the wake of the Banking Union project, there are a number of institutional interventions which –following the upcoming UK exit from the EU– could, on the one hand, complete the Banking Union and, on the other hand, create corresponding "Unions" in the other two pillars of the financial system (capital market and private insurance market), aiming at the formation of a Financial Union in Europe. Expanding and deepening the integration of the European financial system is expected to have a positive impact on the Greek financial system and the Greek economy, contributing to the wider effort to create sustainable development conditions in the long run.

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