



Statement

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ESBG's view on the de Larosière report

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Ladies and Gentlemen,

- I am very pleased to have this opportunity of sharing with you the ESBG's view on the de Larosière report.
- First of all, we would like to congratulate the Members of the High Level Group chaired by Jacques de Larosière for the high quality report produced, which now constitutes the backbone of ongoing discussions on the future of financial supervision.
- I'd like to address three topics:
 - 1. General remarks on the report and implementation
 - 2. Macroprudential issues
 - 3. Microprudential issues

1. General remarks on the report and implementation

- In general we welcome the approach followed by the High Level Group, which we consider to be both pragmatic and ambitious. We therefore welcome the Report's endorsement by the European Commission.
- One important aspect to be looked at carefully is the question of timing of implementation; here, although we can understand the Commission's priority on a fast



implementation, we would like to highlight that the proposals of the report will have a substantial impact both on all market participants and on supervisors and policy makers – and that sufficient time is therefore needed to implement them properly and avoid disruption.

- Also, there is for us no doubt that the quality of the proposals made should have absolute priority over the speed of implementation.
- This concern of a perceived rush for implementation is reinforced by developments on the ‘regulatory front’ and the fact that right now, a significant number of different bodies (e.g. Basel Committee, FSF, IOSCO, European Commission) are working on a wide range of possible regulatory changes; the risk of a lack of coherence between all the measures envisaged is therefore real.
- To summarize: yes we need to keep the momentum but at the same time we need to make sure that the changes envisaged are well thought-through and being given sufficient time for proper implementation. In this context, we believe that the attempt to bring a new supervisory architecture into force by the end of 2010 jeopardizes the originally intended goal.



2. Macroprudential issues

- We fully agree with the group's observation that too little has been done so far on the macroprudential side and that there was no adequate overview of the general developments in all financial sectors and markets, and therefore not enough knowledge of common and correlated shocks.
- It has come painfully to light that focussing on the supervision of individual institutions was not sufficient to prevent and even anticipate crises as the view on global interconnectedness was missing.
- For this reason, we particularly welcome the proposals to establish a body explicitly entrusted with the tasks of gathering information on all macroprudential risks in the EU and of issuing risk warnings: putting macro-economic issues at the center of attention is certainly already a very important step in the right direction.
- As regards macro-prudential supervision, as we learned from the panel, an important challenge will be: how to transfer the macro analysis conducted into concrete micro-prudential supervisory action. To this end, a clear framework needs to be designed, capable of successfully transferring the macro-prudential information into action at the micro-prudential level. It is important that such information is incorporated in the decision-making of national supervisory authorities,



which are ultimately the ones in charge of conducting the supervision of individual institutions.

- To sum up: the ESBG very much welcomes the new focus on macro-prudential issues and the setting up of a body to deal with them. Looking ahead, we look forward to an in-depth discussion on how to make the whole mechanism of transmission of macro-analysis into micro-supervision effective.

3. Microprudential issues

- In principle, we agree with the objective of enhancing micro-prudential supervision in the EU via the establishment of an integrated network of European financial supervisors.
- We also appreciate that the High Level Group underlines the vital role of national supervisors, acknowledging that they are in the best position to carry out day-to-day supervision, as they have the best knowledge of domestic markets.
- In line with the Expert Group, we do not believe that a two-tier system of supervision would be an appropriate way forward. A level playing field can be ensured only by submitting all market participants to the same supervisory and regulatory framework, applied proportionately according to the size, complexity, business strategy and riskiness of an institution.



- The idea of a “European System of Financial Supervision” deriving from an enhancement of the level 3-committees is in general welcomed by the ESG, as it is based on building blocks which we have always supported:
A level playing field between all types of financial institutions, colleges of supervisors and an important role for national supervisory authorities.
- This being said, the concrete proposal of transforming the Level 3 Committees into authorities raises a number of questions, notably due to the fact that the competences suggested by the report entail not only ruling on technical issues but also decision-making with far reaching consequences. In this regard I would like to point out two important issues.
- First: the question of when an authority could make use of its power to impose a decision on a national authority, i.e. the conditions under which the new Authorities would make use of the proposed legally binding mediation role and the attached consequences, remains unanswered. In particular, with the proposal as it currently stands, an ‘Authority’, making use of its mediation power, could impose decisions on supervisory authorities responsible for subsidiaries of a cross-border group, while leaving it to such national authorities to intervene (and pay) in case of problems in the group. While we agree that the supervision of cross-border



banking groups requires an efficient decision-making process within the colleges, we believe that the Group's proposal raises the important issue of burden sharing: as long as costs have to be assumed by the local supervisors and national governments, the relationship between home and host supervisors is substantially influenced by the weight of these costs to be carried in case of a failure. A binding mediation from the European level cannot disregard this aspect.

- Second: We are not absolutely convinced that the conversion of level-3 committees into agencies is covered by the EU-Treaty. Therefore we believe that it has to be thoroughly investigated how the indispensable legitimacy of the new system can be ensured.
- As regards the question of whether there should be one, two, or three bodies at EU level, the ESBG would here as well advocate for an evolutionary approach and thus support a sectoral approach capable of reflecting the specificity and complexity of the banking, insurance and respectively securities businesses. Eventually, at a later stage, it could be envisaged to integrate some or all of the supervisory activities in these sectors.
- Now I would like to add something in my capacity as executive board member of the German Savings Banks Association. To my mind, the creation of European authorities will be a first



step towards a full-scale supervisory authority for the system-relevant cross-border banks at EU-level. Although this was explicitly not recommended by de Larosière Group.

- But as we are convinced that the proposed enhancement of supervision is necessary and that a decisive progress is urgent – insofar I fully agree with what has been said by Mrs. Bérès and Mr. Holmquist - we think this could be best achieved by a joint effort of the Member States which have all the means to do so. Therefore, we suggest a “Transnational System of Financial Supervisors in Europe”, based on the responsibility and cooperation of Member States, which could remove some political and EU-legal bottlenecks.
- Summing all up it is agreed that there is undeniably a need for an operational, cross-border system for the supervision of system-relevant cross-border banks. It is also agreed that the supervision must be effective and put in place at short notice.
- The Member States are in the position to react accordingly. They should take the opportunity and be pro-active. They can go even further as no EU-law constraints exist for them. I would like to invite the chairpersons of the 3L3-Committees to comment on this as I know the committees have a lot of questions concerning the absence of a sufficient EU-legal framework for supervision.



4. Regulatory issues

- Even if this is not the main topic of the day, I consider that my intervention would be incomplete without a few words on the debates regarding the appropriate regulatory framework applicable to banks. Due to the short time available, I would like to make just a few general remarks:
 - First, there is a need to differentiate between measures which require immediate action by regulators and measures adopted in order to avoid similar crisis situations in the future; for this second category of measures, we need to take a long term approach and thus stick as much as possible to a ‘better regulation’ approach;
 - Second, I very much believe that the right approach is one that builds on the current framework, as opposed to a complete overhaul of the rules in place. Put simply, this means continuing working with Basel II. Of course, this should not prevent us from amending Basel II, where weaknesses have become apparent in light of the crisis.
 - Third, a few words on a much debated topic: pro-cyclicality. We agree with the Financial Stability Forum’s conclusion that this issue has to be looked at, as it is undeniable that some aspects of the financial system have led to undesirable pro-cyclical effects. At the same



time, there is a need to differentiate between cyclical and procyclical aspects, to the extent that they need some fixing. On this issue as well, we look forward to an in-depth discussion between all parties involved.

Thank you for your attention.