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Keynote Speech

European Parliament - High Level Conference "Towards a New Supervisory Architecture in Europe"

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Ladies and gentlemen,

First, I would like to thank you for attending this High Level Conference on the future of EU financial supervision.

Today's turnout clearly reflects the timeliness and importance of the debate on how to strengthen the European supervisory arrangements going forward. And I can only agree: I believe that we are on the eve of a quantum leap forward for effective supervision in the EU.

The Heads of State and Governments at the Spring European Council already confirmed that a reform of the European supervisory structure is needed – both on the micro and macro-prudential side. And that the proposals in the de Larosière report should be the basis for these reforms.

We share this view and have committed ourselves to adopt a Communication on supervision on 27 May and to come forward with legislative proposals in the autumn.

But reforms can only be successful if there is consensus on the general objectives as well as broad-based support for the way forward. So your input to this debate is crucial.

Against this background, I am very grateful for the written contributions to the public consultation on the de Larosière report. To which we have received over 115 responses, many from those people represented today. The contributions we have received confirm the general support for the direction of the de Larosière recommendations with many commenting on detailed and important aspects of the package including:

- the precise powers and composition of both micro- and macro-supervisors,
- the type of information that is needed for proper macro-prudential supervision,
- concerns over confidentiality of data that is exchanged between the micro- and macro-bodies,
- the way in which these bodies consult consumers and the industry, and
- issues of subsidiarity.

We welcome these constructive comments and hope to incorporate as many as possible to develop the best approach possible for European Supervision.

Financial sector developments

Changes in both the size and structure of the EU and global financial systems have seriously tested our ability to safeguard financial stability.

For a long time, financial systems grew faster than the real economy. And in many countries, total financial assets represented a multiple of annual economic production. This has brought with it a tremendous responsibility for the industry, supervisors, regulators and other stakeholders. The past 20 months have however painfully shown us what can happen if basic checks and balances fail, if incentives are misaligned, and if 'short-termism' overcomes common sense…

But we also have to acknowledge that financial systems have become more complex, making it much more difficult to assess the financial risks and vulnerabilities of the market.

As a result of the blurring of distinctions between different types of financial intermediaries as well as increasing cross-border integration, financial systems have become more interlinked. As a result, contagion and systemic risks have increased. And in the EU, the emergence of large cross-border groups in particular poses substantial challenges.

Looking at the way in which national authorities have dealt with the failure of a number of relatively small banks, it is evident that the existing supervisory arrangements need to be strengthened. Especially since some 40 to 45 large cross-border groups now account for almost 70% of all banking assets in Europe.

We also need to take account of the interests of host countries. Notably the interests of the new Member States, where banking markets are mostly dominated by foreign banks. Although this has provided significant benefits to these Member States it has also made it increasingly difficult for these countries to genuinely safeguard the stability of their financial system.

As a result we cannot continue to ignore the urgency of establishing a supervisory architecture that takes account of these market developments.

I have been discussing these issues for the past 12 years in different capacities. And this is really the first time that there is a window of opportunity to get our house in order – and to establish a new supervisory standard.

Yes, we are in the process of strengthening our regulatory system. But it would not make much sense to beef up our regulation, while holding on to a supervisory system that has been, to a large extent, ineffective and not very responsive.

Slowly but gradually it has become evident that if Europe is serious about building a stable and truly integrated financial market, we must put in place a supervisory framework that supports this goal.

The de Larosière recommendations

In line with the de Larosière recommendations, we will soon present the details of an enhanced European financial supervisory framework based on two new pillars:

The first pillar is the European Systemic Risk Council (ESRC), which has been discussed this morning. This Council will monitor and assess the risks to the stability of the financial system as a whole. It would provide early warning of systemic risks and, where necessary, present recommendations for action to address these risks.

The creation of this Council would address one of the fundamental weaknesses highlighted by this crisis, which is the exposure of the financial system to interconnected, complex, sectoral and cross-sectoral systemic risks.

The second pillar is the creation of the European System of Financial Supervisors (ESFS) consisting of a network of national supervisors working in tandem with the new European Supervisory Authorities.

The new European network will be built on shared and mutually reinforcing responsibilities, combining nationally based supervision of firms with the centralisation of specific tasks at the European level. The driver behind the network is to foster harmonised rules as well as coherent supervisory practice and enforcement.

Building on the Lamfalussy framework, our proposal will apply the principles of partnership, flexibility and subsidiarity. It will aim at enhancing trust between national supervisors and ensuring that: (i) host supervisors have an appropriate say in the setting of financial stability policies and (ii) cross-border risks are addressed more effectively.

We must be pragmatic and see what is best for the preservation of financial stability and the protection of consumers. However any approach will need to be in line with the principles of conformity, subsidiarity and proportionality.

These two pillars allow for an evolutionary process to be developed for strengthening the European regulatory and supervisory framework. With this initiative, the EU is also responding to the G20 call to take action to build a stronger, more globally consistent, regulatory and supervisory system for the future of financial services.

Flanking measures

These reforms should be flanked by an ambitious effort to equip the EU with a single harmonised rulebook by removing the many national options and discretions from EU-financial regulation.

It is also very important that progress is made concurrently on burden sharing and crisis management arrangements in the cross-border context.

This would reinforce trust between national authorities and further strengthen the functioning of the proposed European financial supervisory framework.

The way forward

So what will happen after this conference? And how should we move forward?

Let me be clear: it was the joint impact of both macro and micro factors that resulted in the market excesses and the emergence of unprecedented systemic risks that we have experienced in recent times. There is, therefore, a fundamental need to strengthen both the micro- and macro-prudential pillars. And we should do this in a way that achieves valuable synergies and has a mutually reinforcing impact on overall financial stability.

Another crucial issue is to ensure that we do not get lost in minute details. Right now, the important thing is to agree on the political objectives. Does Europe need a body to monitor and assess potential risks to the stability of the financial system as a whole? Do we need a supervisory framework that enables us to address the cross-border challenges - taking account of the interest of all Member States? I think the answer to both questions is YES. And in this respect it has been good to see that the Informal ECOFIN meeting in Prague confirmed that there is a large degree of agreement on the main objectives to be achieved. For the coming months, it will be important to retain this sense of urgency.

In order to make rapid progress our Communication will set out the basic architecture for a new European financial supervisory framework. And we will invite the June European Council to endorse this architecture. It is envisaged that the legislative changes to give effect to the proposed framework will follow in the autumn of this year - after further stakeholder consultation. Our objective is to have these reforms adopted in time for the renewed supervisory framework to be up and running in 2010.

So we will have very exiting times ahead of us and I hope I can count on your continued support in building a supervisory system that better protects our citizens and rebuilds trust in the financial system.

Thank you very much for your attention.