

Conference “European Financial Integration: progress and prospects”
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Panel discussion on the report by the expert group on banking

Introduction

- I would like to thank the Commission for inviting me to participate in this very interesting event. The initiative to review progress in European financial integration is both valuable and timely, given that:
 - Firstly, we are approaching the deadline set by Heads of State and Government for implementation of the financial services action plan;
 - And secondly, things change rapidly in the financial services field, and 1999 – when the Commission published the financial services action plan - seems a very long time ago now.
 - There has been a lot of progress in this time period, but we are constantly faced with new challenges to overcome.
- I am very happy to be taking part in this specific session to discuss the report produced by the expert group on banking, and I have listened with great interest to those who have spoken before me.

CEBS

- Before I make any comments on the report itself, I would like to say a few general words about CEBS. We are mentioned in this report quite a few times, which is quite an impressive notoriety for such a young committee. Perhaps everyone here already knows about us, but as the Chairman of CEBS I am bound to take every opportunity to promote understanding of our role, although I will keep this brief.
 - CEBS was formally established on 1 January 2004, and brings together the banking supervisory authorities and central banks of all 25 EU member states.
 - We have three main tasks: advising the Commission on regulatory matters relating to the banking field; promoting the consistent application of directives and convergence of supervisory practices; and enhancing supervisory co-operation.
 - These tasks are analogous to those assigned some three years ago to CESR in the securities field and, more recently, to CEIOPS in the insurance field, under the so-called Lamfalussy approach to financial services regulation. In Lamfalussy terminology, CEBS, CESR and CEIOPS are the so-called “level 3 committees”.
 - There is a lot more I could say about CEBS generally, but I think that in order to save time, I will refer you to our website (www.c-ebs.org), and of course I will be happy to take questions later.

CEBS and the FSAP

- In the context of the FSAP, I see the role of CEBS as promoting increased convergence and co-operation within a prudentially sound framework that respects legal realities and protects depositors.
- CEBS has been following the post-FSAP review with great interest ever since even before our first official meeting.
- One might well ask why bankers and banking supervisors are so interested in the review of progress in the FSAP. After all, reading through the list of measures, one could almost be forgiven for thinking that the FSAP had very little to do with banking at all. Most of the measures relate to other fields of financial services and the one big prudential banking measure on the list has yet to be finalised (I am of course referring to Basel II).
- In some ways, this reading would be correct, although this is for positive rather than negative reasons. When the FSAP was conceived, there were already a number of pieces of EU harmonising legislation in the banking field – on passporting, consolidated supervision directives, solvency ratio, bank accounts, large exposures, deposit guarantee funds... So we were not in need of new legislative measures to create a single market in banking.
- However, just because those pieces of legislation are in place doesn't mean that we have a truly single market in banking.
- And furthermore, although Basel II is not yet finalised, it will be published in only a few days from now and will be quite revolutionary, from the perspective both of the industry and the supervisors. And it is crucial that it is implemented consistently in the EU.
- So, you will not be surprised to hear me say that I very much agree with the conclusion of the report that the key focus for the future should be implementation and enforcement of existing measures, and here I am including Basel II. I can assure you that regulatory fatigue affects supervisors probably as much as it affects the industry. What we need to concentrate on is ensuring effective application of the measures. And this is where CEBS comes in.

Improved supervisory co-operation in the EU

- Let me focus my next remarks on part 3 of the report, and particularly on the section entitled "improved supervisory co-operation in the EU".
- Firstly, I want to stress, even though it might seem obvious, that this is precisely why CEBS has been established – to enhance supervisory co-operation in the EU. This is our *raison-d'être*. So our objectives are the same as those outlined in the report. Where we may – or may not – differ is in how best to achieve this.
- We can all agree that there is a "need to improve and enhance coordination between the supervisors of cross-border banking groups" in the context of the future capital adequacy regime, as is noted in the expert group's report. We should, of course, avoid unnecessary duplication of efforts and share information as much as possible, particularly in the context of approving banking groups' applications to use the advanced approaches to credit risk and operational risk. It

is not in the interests of supervisors, let alone the industry, to have inefficient processes.

- However, I'm afraid that using legislation at this stage to establish a formal "lead supervisor" with wide-ranging, decision-taking powers, as proposed in this report, would not be the most appropriate approach. I know that this view will not be popular with some of the attendees here today, but as a supervisor I am used to being unpopular. Just allow me to explain this position:
 - There is a whole debate which has not yet taken place about how such a wide-ranging approach would impact on jurisdictional responsibilities for crisis management and resolution in Member States, on administration and winding-up procedures, on the statutory obligations of supervisors and their accountability to national parliaments and depositors, on the treatment of subsidiaries which are significant to the banking system in the country in which they are located but less significant to the group as a whole, on deposit insurance and consumer redress arrangements, to name but a few matters. These issues cannot be swept under the carpet, or delayed for discussion afterwards.
 - A lead supervisor approach also seems in some ways to be putting the cart before the horse. The extension of the Lamfalussy approach was broadly supported by the industry, and the CEBS has been recently created within this framework to promote supervisory co-operation and convergence within the current model of supervisory responsibilities. This is a necessary step towards enhancing confidence and trust among all parties, and to ensuring a level playing field both for cross-border banking groups and for local entities. It seems to me that allowing CEBS to do its job, and to create a more consistent and efficient approach to the supervision of EU entities is the most sensible and proportionate way forward at present.
 - Apart from all this, as far as I understand, there is no consensus on the best way forward among the different parties who would be affected by such a move – finance ministries, industry, supervisors, consumers, end-users. This makes a move to a lead supervisor approach at best premature.
- Now this is not to say that we do not have to make changes, but we do have to be cautious (which is, of course, another trait that sometimes makes supervisors unpopular). There are no easy solutions and we have to make a careful and thorough analysis of the problems and issues, in order to make a plan for the way ahead.
- From the perspective of European banking supervisors, we think that the best way of enhancing supervisory co-operation in the context of Basel II would be through a strengthening of consolidated supervision in certain areas. This is a well-tested and understood concept in EU banking supervision.
- CEBS has already presented to the Commission its views on this matter in the context of discussions about the future directive, as well as communicating its firm intention to play a key role in enhancing co-operation in this context.
- So what it is that CEBS actually intends to do in this field? We think that stronger supervisory co-operation should go hand-in-hand with increased convergence of practices, and with clearly defined and concrete principles for co-operation

processes. Our approach therefore can be categorised as a mixture of substance and process:

- On substance, it is clear that convergence of approaches is essential to promote a more consistent framework of supervision and to promote confidence.
 - You may have seen that CEBS recently published a set of draft principles of the application of pillar 2 of Basel (so-called “supervisory review”) – one of the main areas in which the industry has expressed concerns about the potential for inconsistency of approach. These principles represent the result of considerable work and discussions in a predecessor group to CEBS – the Groupe de Contact – which has now become our main working group. They will go a long way towards ensuring a level playing field in the EU, and towards a consistent approach for EU banking groups, and we look forward to receiving comments from all interested parties during the open consultation process that is currently underway.
 - We are also taking forward convergence work on the validation of advanced approaches under Basel II as a matter of priority, and have other issues on our more medium-term agenda.
 - Let me also mention that CEBS has been asked by the Commission to explore the possibility for reducing the number of national discretions and options in the new capital framework, and we are making good progress in this challenging task.
- On process, we intend to play a key role in designing and agreeing the procedures for co-operation.
 - Unless there is an overarching mechanism for ensuring consistency, a large number of colleges of supervisors looking at different groups could, in fact, lead to a good deal of diversity in process and distortion on local markets. CEBS is an obvious candidate to perform the role of this overarching mechanism, developing guidelines for the process, receiving feedback from the colleges on how the process is working, and reviewing the guidelines as necessary.
 - CEBS could also develop common principles to facilitate the elaboration of written co-operation and co-ordination arrangements for the supervision of groups, in order to ensure balanced and consistent approaches.
- I think that the combination of these two types of approach can be effective, and that this is a positive, flexible and proportionate way of contributing to the issues which concern us all at present.

Other points in the report

- Turning to a less controversial issue, I would like support the report’s references to CEBS as playing a key role in **convergence**, and the need to consider non-

legislative measures to address issues where this would help to achieve the same objective.

- I also agree with the calls for **transparency** in the policy-making process. CEBS has set up a website to ensure open access to information about its work, and we have already published three consultation papers, including one on our own consultation practices. We fully intend to be open and transparent, and we have tried to design a framework to meet this objective, which is also flexible and proportionate. The consultation period on our consultation practices will close at the end of July and it will be very important for us to have a wide range of views on our proposed framework, so we are very much looking forward to receiving comments.
- We will also soon be setting up a **consultative panel** to act as a sounding board for high-level strategic issues. We want this panel to include industry representatives (banks and investment firms) as well as consumer and end-user interests. We are currently putting the final details together and we should be able to make an announcement soon. Of course, the panel will not in any way replace the normal consultation processes.
- Another area mentioned in the report is **reporting requirements**. We are investigating in CEBS the possibilities to rationalise and streamline reporting requirements in the areas where Basel II and IAS will require changes. We see this as covering two aspects: (i) convergence of reporting formats, and (ii) convergence of supervisory reporting requirements.
- I also think that CEBS could have an important role to play in co-ordinating **supervisory disclosures**, in order to promote their comparability. This is something that we will discuss at our next meeting.
- In my opinion, the proposal, mentioned in the body of the report, for CEBS to act as some kind of **complaints handler** for institutions that feel they are subject to unfair treatment with respect to the level playing field would have to be considered in more detail, if it were felt by others to be something that should be pursued.
- Let me also comment that I think the report makes some sensible comments about integration in **retail banking** markets. We should not assume that by introducing new harmonising measures, we will suddenly create a single market. We all know that there are numerous reasons why retail consumers still prefer to deal with locally established entities. Consumer protection and consumer confidence are extremely important.

Final comments

- In closing, I would like to congratulate the expert group again on their report.
- I believe that CEBS has a key role to play in efforts to achieve greater integration in the EU banking sector. We are committed to making CEBS work, and to playing our full role in the Lamfalussy process.
- Thank you for your attention.