Jean-Claude Trichet: European financial integration

Speech by Mr Jean-Claude Trichet, President of the European Central Bank, at the 10th Symposium on Finance, Banking, and Insurance, University of Karlsruhe, Karlsruhe, 16 December 2005.

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1. Introduction

Ladies and gentlemen,

I am very pleased to speak to you today on the occasion of the 10th Symposium on Finance, Banking, and Insurance. I would like to congratulate the organisers for arranging this internationally esteemed conference at the University of Karlsruhe.

Karlsruhe, the former residence of the Dukes of Baden, is not only beautifully located between the Rhine and the Black Forest, it is also situated right in the middle of Europe. And Europe is at the heart of the topic that I will discuss in my speech today.

This symposium traditionally aims to strengthen the links between theory and practice, addressing the latest developments in a wide range of finance issues. This is the second factor underlying my choice of topic.

Today, I will talk about European financial integration. This subject is of interest to market participants, policy-makers and academics alike, and is of the utmost interest to the European Central Bank (ECB).

In fact, the Governing Council of the ECB has formulated the mission of the Eurosystem (comprising the ECB and the euro area national central banks) as follows: “We in the Eurosystem have as our primary objective the maintenance of price stability for the common good. Acting also as a leading financial authority, we aim to safeguard financial stability and promote European financial integration.”[1]

I will structure my remarks as follows. First, I will explain the link between financial integration and monetary policy and financial stability. I will then present the current state of financial integration in the euro area based on the indicators of financial integration recently published by the ECB. Finally, I will mention some specific activities by which the Eurosystem contributes to fostering financial integration, and I will highlight some topical EU policy issues in the field of European financial integration.

2. The link between financial integration and monetary policy and financial stability

In accordance with the tasks referred to in the Eurosystem’s mission statement, I will first discuss the link between financial integration and monetary policy, before addressing the relationship between financial integration and financial stability.

In line with good academic practice, I will start with a definition. The ECB defines financial integration as follows: we consider the market for a given set of financial instruments or services to be fully integrated when all potential market participants in such market (i) are subject to a single set of rules when they decide

to deal with those financial instruments or services, (ii) have equal access to this set of financial instruments or services, and (iii) are treated equally when they operate in the market.

While this definition describes a state of full, or perfect, integration, we know that in practice we are faced with a process. The two actors striving to foster financial integration are the market participants and the relevant public authorities. More specifically, the Eurosystem is of the view that financial integration first and foremost is a market-driven process. In addition to this, we believe that it is a basic task of the relevant public authorities to create a framework that is conducive to fostering financial integration. If the opportunities this creates are exploited by market forces, true financial integration will have been achieved.

1 See the ECB’s website at http://www.ecb.int/ecb/html/mission.en.html.

Financial integration affects the three major components of the financial system, namely the financial markets, the related market infrastructures, and the financial institutions. In fact, financial integration affects these components simultaneously and alters their functioning and interaction. Financial integration is therefore directly relevant for the ECB's tasks.

With regard to the relationship between financial integration and monetary policy, first, a well-integrated financial system is essential for the implementation of our monetary policy as it enhances the smooth and effective transmission of monetary policy impulses throughout the euro area, which is the process through which monetary policy decisions affect the price level in particular and the economy in general.

In fact, if the financial system were not fully integrated, there is a possibility that the single monetary policy decisions would sometimes be channelled to countries in a not completely uniform manner. The degree of financial integration is therefore important in determining the effectiveness of this transmission: the higher the degree of financial integration, the more effectively this transmission will work in practice.

Second, it is generally accepted that financial integration is a key factor in the development and modernisation of the financial system, which, in turn, leads to a more efficient allocation of capital and an increased potential for economic growth.

The recently renewed Lisbon programme has two main goals: to strengthen growth and increase employment in Europe. The ECB fully supports this programme. The structural reforms that are necessary in this respect, such as improving the flexibility and adaptability of labour markets and increasing competition in the markets for goods and services, will also enhance the effectiveness of monetary policy in maintaining price stability and minimise output volatility in response to adverse price shocks.

The need to proceed with structural reforms fully applies to European financial integration. Financial markets that are not yet fully integrated have a potential to increase economic growth which must be exploited. For example, a study estimates the potential resulting from the integration of European bond and equity markets in terms of additional GDP growth at around 1% over a ten-year period, or approximately EUR 100 billion.[2] Moreover, the 311 million people in the euro area, or, more generally, the 459 million citizens of the European Union, expect Europe to deliver such economic benefits. As a central banker, I am very conscious of the fact that the implementation of structural reforms which increase the economic potential of the euro area also facilitates the conduct of monetary policy. To summarise, enhanced European financial integration increases the potential for greater and more sustained non-inflationary economic growth.

I now turn to the links between financial integration and financial stability. The task of contributing to the safeguarding of financial stability is provided for in the Treaty establishing the European Community. The ECB provides the outcome of its monitoring of euro area-wide financial stability in its Financial Stability Review that is made available to the public. Our latest report was published just one week ago.[3]

Let me first make some general remarks about the task to assess the stability of the financial system. Although, like it is the case for monetary policy assessment, there is not yet a widely accepted, rigorous framework that summarises developments in financial stability in a single quantitative measure, many of the financial stability assessments that are undertaken by a growing number of central banks around the world are based on a broad and forward-looking notion of financial stability.[4]

Financial stability is often seen from the perspective of the avoidance of financial crises, but it has a larger dimension. Financial system stability requires the financial system's principal components – financial markets, the related market infrastructures, and financial institutions – to be jointly capable of

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2 London Economics (2002), "Quantification of the macro-economic impact of integration of EU financial markets", Report to the European Commission.

3 The December 2005 ECB Financial Stability Review, published on 8 December 2005, is available from the ECB's website at http://www.ecb.int/pub/pdf/other/financialstabilityreview200512en.pdf.

4 See the special features "Assessing financial stability: conceptual boundaries and challenges", June 2005 ECB Financial Stability Review, and "Measurement challenges in assessing financial stability", December 2005 ECB Financial Stability Review, from the ECB's website at http://www.ecb.int/pub/pdf/other/financialstabilityreview200506en.pdf and http://www.ecb.int/pub/pdf/other/financialstabilityreview200512en.pdf, respectively.

absorbing adverse disturbances. It also requires that the financial system is facilitating a smooth and efficient reallocation of financial resources from savers to investors, that financial risk is being assessed and priced accurately and that risks are being efficiently managed. Financial stability has an important forward-looking dimension: inefficiencies in the reallocation of capital or shortcomings in the pricing of risk can, by laying the foundations for future vulnerabilities, compromise future financial system stability and, therefore, economic stability.

A lack of stability can be directly related to inefficiencies that may arise from a non-integrated financial system. Being aware of the links between financial integration and financial stability is therefore essential.

The links between financial integration and financial stability are twofold. On the one hand, more integrated financial markets offer better opportunities for financing and risk diversification, and thus help to improve the capacity of economies to absorb shocks. Cross-border banking broadens and deepens financial markets and increases liquidity and risk sharing. As the pool of available assets for investment is broadened, potentially enhancing the heterogeneity of financial institutions' portfolios, the ensuing wider spread of portfolio-related risks should reinforce the resilience and shock-absorption capacity of financial intermediaries, thus improving the soundness and robustness of an integrated financial system.

On the other hand, as intermediaries benefit from the greater availability of assets, a parallel convergence of the individual portfolios may result. We therefore need a good degree of understanding of the effects of cross-border linkages in an increasingly integrated financial system.

To summarise, financial integration will progressively strengthen the stability of the financial system over time. But the structural transformation of the financial system through enhanced financial integration, including the creation of intensified cross-border financial links, requires that we closely monitor the financial integration process.

I would finally like to emphasise that financial integration is relevant to both monetary policy and financial stability. This brings me neatly to the second part of my speech, namely to illustrate the current state and the evolution of financial integration in the euro area.

3. The state of European financial integration

In discussions on this topic, the arguments are often of a qualitative nature, stating the general need for enhancing financial integration in view of the related benefits. Notwithstanding this, quantitative measures offer the advantage of being able to assess both the current level of financial integration as well as its evolution over time, i.e. whether integration is progressing, stable, or even regressive. The ECB has therefore sought to devise a way to capture, in quantitative terms, the state of financial integration in the euro area.

About two months ago, for the first time, the ECB published a set of indicators regarding the state of integration of euro area financial and banking markets. With the accompanying explanatory report, which will be published on an annual basis, the ECB aims to measure and monitor financial integration in the euro area over time.[5]

Before turning to the actual assessment of the state of financial integration, let me briefly mention a few conceptual issues.

First, checking the validity of the law of one price is a natural basis for the development of quantitative measures of financial integration. The law of one price states that if assets have identical risks and returns, they should be priced identically regardless of where they are transacted. The law of one price is an implication of our definition of financial integration, which I mentioned earlier. And, in fact, most of our integration measures explicitly depend on it.

Still, there are cases where the law of one price is not directly applicable. For instance, an asset may not be allowed to be listed on another region's exchange. While the law of one price has little to say about this case, we would consider this to be an important obstacle to financial integration.

5 The ECB report is available at http://www.ecb.int/pub/pdf/other/indicatorsfinancialintegration200509en.pdf on the ECB's website. The statistics underlying the financial integration indicators can be accessed at http://www.ecb.int/stats/finint/. The financial integration indicators will be updated semi-annually.

I should like to note here that our first publication of indicators of financial integration will be further expanded. While the first publication contains a total of 20 indicators, covering the main euro financial and banking markets, the coverage of our indicators will be further enhanced, in particular by adding indicators relating to the integration of market infrastructures and financial institutions.

Second, starting from our definition of financial integration, two broad categories of indicators are considered: price-based indicators and quantity-based indicators. Price-based indicators measure discrepancies in asset prices based on their geographic origin. In a perfectly integrated market, prices of assets with similar characteristics should mostly be influenced by common euro area factors. Quantity-based indicators are used to investigate the extent to which investors engage in cross-border asset portfolios.

Finally, it should be noted that the indicators are either computed or model-based. Computed indicators – such as standard deviations and ratios – are summary measures of the underlying data, whereas the model-based indicators are derived from econometric models. Obviously, these estimates depend on the specific set of modelling assumptions.

Now that I have addressed these conceptual issues, I will report some of the results that form our assessment of the state of financial integration in the euro area. Now and then, I will additionally mention some figures for the United States that usefully serve as a comparison for the euro area.

Our first publication covers the money market, the government bond market, the corporate bond market, the equity market and the banking markets. The euro acted as a major catalyst for the integration of the euro financial markets. However, the degree of integration differs between market segments, with integration being more advanced in those market segments that are closer to the single monetary policy, above all the money market.

Our indicators measure the financial integration of the euro money market based on the dispersion of lending rates for actual transactions or rates offered by EONIA, EURIBOR and EUREPO panel banks.[6]

The unsecured interbank deposit market was almost perfectly integrated right at the start of the Monetary Union. This is a *sine qua non* for monetary policy implementation, since only an integrated interbank market ensures an even distribution of central bank liquidity and a homogeneous level of short-term interest rates across the euro area. This rapid integration has been mostly supported by the establishment of the related payment system infrastructure, i.e. our TARGET system that has been operational since the first day of Monetary Union.

In fact, the cross-country standard deviation of the average overnight lending rates among euro area countries was as low as three basis points in early 1999 and has since decreased even further to just one basis point. By comparison, in January 1998, i.e. one year before the start of Monetary Union, this indicator stood higher than 130 basis points.

Our indicators for the one-month and 12-month maturities also consistently show a highly integrated unsecured money market. While the respective cross-country standard deviation of EURIBOR lending rates among euro area countries stood at more than 100 basis points for the one-month maturity, and at around 50 basis points for the 12-month rates in January 1998, since early 1999 both of these indicators have shown values not higher than, and normally below, one basis point.

Finally, our indicators also confirm a relatively high degree of integration for the repo market. The EUREPO index was launched in March 2002, and since then, the euro area cross-country standard deviation of the one-month EUREPO rates has been around, and normally below, one basis point. The indicator for the 12-month maturity shows a standard deviation of around, and normally below, two basis points.

The decisive role of the euro in enhancing financial market integration is also visible in the interest rate derivatives markets. The total of euro interest rate OTC derivatives contracts reaches a daily turnover of around EUR 380 billion, and is thereby larger than the US dollar segment (a daily turnover of around EUR 290 billion). A particularly important segment is the euro interest rate swap market (including, for example, the euro overnight index swap market). This is, in fact, the largest interest rate

6 Data referring to the time before the introduction of EONIA and EURIBOR are average overnight, one-month, 12-month rates, respectively, of euro area countries.

swap market in the world. With a daily turnover of around EUR 250 billion, the euro interest rate swap market is about one third larger than the equivalent US dollar segment (around EUR 160 billion).[7]

The least integrated money market segment is the short-term securities market. Compared with the equivalent US commercial paper market, which has an outstanding amount of around EUR 1.3 trillion, the aggregate size of the commercial paper and certificates of deposit markets in Europe is around EUR 0.8 trillion. In addition, while the US market is integrated, the short-term securities markets in Europe continue to be segmented, with de facto several markets based in several market places. Issuers and investors in the European short-term paper markets therefore face reduced depth and liquidity and less diversification opportunities than in the US.

I now turn to the government bond market. Our indicators of the integration in government bond markets encompass the standard deviation of government bond yield spreads, measures based on regressions, such as the evolution of beta coefficients, and variance ratios. Government bond markets have achieved a very high degree of integration, mainly due to the disappearance of intra-euro area exchange rate risk. Since then, government bond yields in different euro area countries have been driven mainly by euro area-wide factors and news. Naturally, one should not expect common factors to fully explain changes in bond yields, as different assessments concerning credit and liquidity risk will continue to have an impact on bond yields in different countries.

The euro corporate bond market has grown considerably since 1999. While this market had been predominantly open to the highest quality credits, it has since broadened to facilitate the funding needs of riskier issuers. However, the gap with the US market is still large in terms of absolute size, with the outstanding volume of bonds issued by non-financial corporations of around EUR 2.5 trillion in the United States being around three times larger than in the euro area.

The degree of integration of the euro corporate bond market is reasonably high. The yield on a corporate bond depends typically on a number of factors, such as the credit rating, time-to-maturity, liquidity and cash flow structure. Our indicators for the state of integration of the euro corporate bond market are based on (econometric) models, investigating whether or not risk-adjusted yield spreads have a systematic country component. Our studies suggest that this market segment is fairly integrated in the sense that the country of issuance is only of marginal importance in explaining yield differentials.

Other market segments have even more potential for greater integration. In fact, the euro area equity markets are still quite fragmented, but a gradual integration process is ongoing. For example, our indicators show that stock prices across the euro area increasingly react to euro area-wide factors and news. Another indicator to measure the degree of integration in euro area equity markets is the relative importance of sector versus country-based investment strategies. The indicator is derived by calculating and comparing the cross-sector dispersion with the cross-country dispersion of equity returns. The more integrated the euro area equity market, the greater the benefits of spreading investments across sectors as opposed to country-based equity investment strategies. Our statistics show that the elimination of intra-euro area currency risk has encouraged integration in the sense that the “home bias” in the equity holdings of institutional investors has been significantly reduced. Nevertheless, the country effect is still too important for it to be concluded that the euro area equity market is satisfactorily integrated.

As regards banking markets, integration is generally lagging behind, and the degree of integration is different for the types of banking activities, i.e. capital market-related activities, interbank (or wholesale) activities, and retail banking.

Cross-border interbank loans and holdings of securities have, in relative terms, experienced substantial growth. While securities issued by non-monetary financial institutions of another euro area country accounted for only 16% of the securities held by euro area monetary financial institutions (MFIs) at the end of 1997, this share has now reached almost 40%, pointing to a higher degree of capital market integration in the euro area. In addition, although loans granted between domestic MFIs still account for more than 50% of the total EU MFI loans, the respective euro area cross-border activity has increased from just 15% at the end of 1997 to around 23% at present.

7 See BIS Triennial Central Bank Survey - Foreign exchange and derivatives market activity in 2004 (March 2005).

Last but not least, integration in retail banking has, by contrast, not progressed to any great extent, as shown by both price and quantity-based indicators. For example, while the share of euro area cross-border MFI loans granted to non-MFIs stood at 2% at the end of 1997, this figure has risen to no more than 3.5% today. Also, taking a price-based indicator, the cross-country standard deviation of interest rates on consumer credit has been rather high and constant, on average 0.9% over the past three years. To give a final indicator for the level of retail banking integration, the cross-country dispersion of interest rates on lending for house purchase amounts to, on average, 0.5% over the past three years, with no clear declining trend visible as yet, thereby confirming the not very benign picture of euro area credit market integration.

4. Eurosystem contribution to fostering financial integration and topical issues relating to the EU policy framework for financial integration

An analysis of the state of financial integration and the monitoring of its progress over time are prerequisites for possible action in those fields where the analysis has identified gaps and shortcomings. Let me provide you with a few examples of how the Eurosystem contributes to fostering financial integration. I will list them using the same sequence of financial and banking markets that I used when describing the state of financial integration.

Starting with the money market, the obvious example for a central banking service that is conducive to fostering financial integration is the large-value payment system, "TARGET", that we run. In addition, the launch of the single shared platform, "TARGET2", is planned for November 2007. This will enhance financial integration even further, given that it will provide a harmonised service level, ensuring a level playing field for banks across Europe, which will be supported by a single price structure for domestic and cross-border payments.

Another example is the short-term paper market. Here, I expect that its current fragmentation will be reduced with the help of the so-called Short-Term European Paper (STEP) initiative, which was set up and is being led by ACI – The Financial Markets Association. This initiative aims to promote the convergence of standards and practices prevailing in the European short-term securities markets through market players' voluntary compliance with the standards set out in the STEP Market Convention, which covers aspects such as information disclosure, documentation, settlement, and the provision of data for the production of STEP statistics. The STEP initiative is expected to provide an impulse towards integration, thereby increasing the depth and liquidity of this market in Europe. The promoters of this initiative expect the first STEP-labelled programme in early 2006. The Eurosystem acts as a catalyst to support this market-led initiative. Specifically, the Eurosystem will provide technical support for the labelling process for some time and will produce and publish STEP statistics on yields and volumes on an ongoing basis.

Furthermore, the European Master Agreement (EMA) is another example of integration relating to the legal infrastructure. The EMA, a major European legal documentation initiative, contributes to financial integration by permitting cross-border trading on the basis of a master agreement which is both a domestic and a pan-European standard. It is the first project undertaken at European level to develop a pan-European market standard for trading operations. The EMA is a multi-lingual, multi-jurisdictional, multi-product master agreement which may be used, in particular, to document repurchase agreements, foreign exchange, derivatives and securities loans. The ECB participated in the drafting of the EMA and has been using it since 2001 for all its European foreign reserve management and own funds repo counterparties. Since June 2005, the ECB has also been using the EMA for its derivatives operations in 15 European jurisdictions, thereby maximising cross-product netting, cross-product margining possibilities and reducing documentation basis risk.

As regards the further integration of securities (bonds and equity) markets, a prominent role should be attached to the securities clearing and settlement infrastructure. The Eurosystem strongly supports further integration in the securities infrastructure, the lack of which has, among others, also been identified by the Giovannini Group as a barrier to integration that should be removed. To this end, the ECB participates in the Clearing and Settlement Advisory and Monitoring Experts Group and in the Legal Certainty Group, set up by the European Commission. Furthermore, and also in the central bank's capacity to act as a catalyst for collective private-sector activities, meetings are held with the Contact Group on Euro Securities Infrastructures, bringing together representatives from the banking and securities settlement industry of the euro area to discuss the further integration of the euro securities settlement industry. Furthermore, I would like to highlight the work that we have been carrying out since 2001 in cooperation with the Committee of European Securities Regulators (CESR), where we published in October last year 19 standards for securities clearing and settlement systems in the European Union.[8] These ESCB-CESR standards aim to adapt international recommendations to the European context. They promote a harmonised approach and are conducive to the integration of EU capital markets, placing emphasis on common solutions and interoperability between systems.

Last but not least, I come to the banking and retail markets. I will use the mortgage market as an example. The importance of this retail market segment is evident from its size, where an outstanding volume of more than EUR 4 trillion in residential mortgage debt in the EU corresponds to around 40% of EU GDP. I mentioned earlier that the cross-country dispersion of euro area interest rates on lending for house purchase did not show a clear declining trend over the past years. Furthermore, if one compares the euro area mortgage market with its US counterpart, it is revealed that, over the past three years, the cross-country dispersion of rates in the euro area was higher than the cross-regional dispersion of mortgage rates in the United States. All this suggests that the euro area mortgage market is not yet fully integrated.

In this respect, I highlight a recent initiative by the European Commission that led to a Green Paper on Mortgage Credit in the EU. With its public consultation, the Commission launched a broad discussion about the possible benefits and ways of further integrating European mortgage markets. The Eurosystem is of the view that this kind of investigation into the possible benefits of and obstacles to the further integration of European mortgage markets is very much warranted. The Eurosystem therefore explained its view on this in detail in a recently published contribution to this consultation on the Commission's Green Paper.[9] More generally, this contribution can also be seen as an example of the Eurosystem's role in providing advice on shaping the legislative and regulatory framework for the financial system to be conducive to financial integration.

And, as with securities markets, retail markets also need an integrated infrastructure in order to reap in full the benefits of financial integration. The European citizens' possible cross-border banking activities also depend on the possibilities and costs of cross-border payments. This brings me to the last example of Eurosystem activities that I would like to highlight today, namely the Eurosystem's support, together with that of the European Commission, for the banking industry's initiative to create the Single Euro Payments Area (SEPA).

The first SEPA milestone is that, by 2008, European citizens should be able to make payments throughout the euro area from a single bank account, using a single set of payment instruments, as easily and safely as in the national context today. This means that, in parallel to national instruments, banks should provide to customers also SEPA instruments. A second milestone involves that national infrastructures migrate to a pan-European payments infrastructure by the end of 2010, so that full competition applies to all euro area infrastructures. The way to achieve this would be to demand complete interoperability between SEPA compliant infrastructures.

Acting as a catalyst for private-sector activities, the ECB actively supports the European Payments Council (EPC), and high-level coordination between the Eurosystem and the banking industry takes place on a regular basis. Furthermore, the ECB has arranged a number of meetings to involve SEPA end-users, including consumer organisations, small and medium-sized enterprises, retailers and corporate treasurers.

The ECB recognises as a major achievement the EPC's work on defining standards and business rules for SEPA cards, credit transfers and direct debits. At the same time, we note the large amount of work that is still ahead. For this, we count on the industry's commitment to undertake the necessary SEPA investments and to deliver the results of the SEPA project as foreseen.

My references to the slower pace of integration of banking and retail markets leads me to the last theme I would like to address today, namely the EU policy framework for financial integration.

As you know, the European Commission has recently issued a White Paper on Financial Services Policy (2005-2010).[10] Among others, the further integration of retail markets has been targeted by ongoing or future projects, such as a White Paper on mortgage credit, to be released in 2006, and a

8 See the ECB's website at http://www.ecb.int/pub/pdf/other/escb-cesr-standardssecurities2004en.pdf.

9 See the ECB's website at http://www.ecb.int/pub/pdf/other/eumortgagecreditconsultationen.pdf, dated 1 December 2005.

10 See the European Commission's website at http://europa.eu.int/comm/internal_market/finances/policy/index_en.htm, dated 5 December 2005.

proposal for a Payments Services Directive. In some ways, this also complements the Financial Services Action Plan (FSAP) of the past five years that focused mainly on the wholesale markets.

In line with its provision of advice on shaping the legislative and regulatory framework for the financial system to be conducive to financial integration, in summer 2005, the Eurosystem provided its response to the European Commission's consultation on the priorities for financial services policies over the next five years.[11] As we explained in our contribution, the Eurosystem supports the key policy orientations of the financial services policy over the next years.

With regard to the regulatory framework of the financial system, there is a need to proceed with the adoption of the remaining measures envisaged in the FSAP and hence with the effective implementation and enforcement of such measures at national level. Also, we agree with the Commission's proposal for "better regulation" based on open, transparent and evidence-based policy-making, including an ex ante evaluation of possible costs and benefits.

As far as the supervisory framework is concerned, in order to realise the economies of scale and scope offered by financial integration, the framework should facilitate the development of cross-border consolidation of financial institutions and the cross-border exchange of services and products, while maintaining the effectiveness of supervisory standards and action in a more integrated financial system. It is our view that the current institutional set-up, and in particular the Lamfalussy framework, provides the appropriate structure for achieving these broad policy objectives, if it is used to the maximum extent possible.

To this end, the work of the Level 3 Committees, i.e. the Committee of European Banking Supervisors (CEBS), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the Committee of European Securities Regulators (CESR), is expected to strongly promote supervisory convergence and cooperation. Furthermore, in a more and more integrated financial system, increased supervisory cooperation across financial sectors is required. In this respect, the Level 3 Committees recently signed a joint protocol that aims to foster cooperation and coordination on tasks of common interest.[12] Overall, the review of the Lamfalussy approach that is due by the end of 2007 will provide an opportunity to form a comprehensive judgement about the progress made.

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In conclusion, Ladies and Gentlemen, let me tell you how I appreciate today's Symposium on Finance, Banking and Insurance. As I have pointed out, financial integration is at the heart of the European construction and the ECB and the Eurosystem are strongly attached to foster this historical process of financial integration through all the means that are in our domain of responsibility. Equally we trust that research in this field is of extreme importance. We must understand better the very complex transformations that are at stake. And that is the reason why our permanent dialogue with the academic world is for me of fundamental importance.

11 See at http://www.ecb.int/pub/pdf/other/ecgreenpaperfinancialservicespolicy2005en.pdf, dated 1 August 2005.

12 See "Banking, insurance and securities supervisors enhance EU-wide cooperation", press release dated 24 November 2005, at www.c-ebs.org, www.ceiops.org, www.cesr-eu.org.