

Guy Quaden: Assessment of the Lamfalussy architecture

Welcome address by Mr Guy Quaden, Governor of the National Bank of Belgium, at a 3L3 Meeting of the European Financial Regulators, Brussels, 26 November 2007.

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Ladies and Gentlemen,
Colleagues and Friends,

It is both an honour and a great pleasure for me to welcome you to Brussels for the third meeting of the 3 level 3 Committees. Belgium is well suited to host a meeting on the selected topic, not so much because its capital inspired a fantastic architectural revolution, as it is a cradle of *Art Nouveau*, but rather because, besides being one of the countries hosting the European Parliament, the Council of the European Union and the European Commission, Belgium is also the country of Baron Alexandre Lamfalussy, who lent his name to the now famous Lamfalussy architecture.

The theme of today's meeting is a very good choice and is also highly topical. As key stakeholders in the ever-increasing cross-border integration of financial systems, market participants quite legitimately demand an institutional framework that can sustain integration on this scale. Therefore, as authorities, it is essential to constantly ensure that our institutional architecture remains adapted to a world in which financial institutions operate across different countries, across different sectors, and integrate and centralise some of their key functions.

This institutional framework should lay the foundations for a competitive and dynamic financial sector, make sure it is secure and efficient, while at the same time limiting the cost of integration that comes with potential duplication of controls, divergent laws or inconsistent application of rules and regulations. The whole Lamfalussy architecture has been specifically devised to meet market participants' demand for more consistency. At each level, considerable and commendable progress has been made towards faster, more efficient and more consistent rule-making as well as closer convergence of supervisory practices. In addition, the Lamfalussy architecture has nurtured a culture of cooperation, fostering greater transparency and strengthening dialogue between rule-makers and with the private sector.

Participation of all stakeholders in the review of the Lamfalussy architecture

It is precisely because the Lamfalussy architecture is a key component of the rule-making process in Europe that it is crucial to assess it regularly. Although most of the benefits associated with the Lamfalussy architecture and the contribution of each level are obvious to many of us, it is still essential to evaluate whether and how its functioning could be facilitated and how its high-quality output could be improved or delivered more rapidly, if need be. Since any such assessment requires the cooperation of all stakeholders involved, I am particularly glad that each level of the Lamfalussy architecture could be represented here today. Indeed, the European Parliament, the Council and the European Commission have agreed to share their assessment, in what seems to be a very promising programme for this 3 level 3 meeting. In addition, the simultaneous presence of members of CEBS, CEIOPS and CESR gives some leverage to our discussions by enabling us to share experience that is specific to each committee but nevertheless of common interest. This exchange between committees is all the more beneficial because they have worked at a different pace in the past so there is real potential for what I could call cross-fertilisation.

A full review of the Lamfalussy architecture should also necessarily involve market participants. Therefore, they, too, will get a chance today to voice their concerns on the architecture and share their own assessment of the process. The report of the Inter-

institutional Monitoring Group, composed of 6 independent experts, has already unveiled part of this assessment. The recently-issued report is a major contribution that provides much food for thought. Today's 3 level 3 meeting will give us a chance to launch a fruitful discussion on its recommendations and will constitute a unique opportunity for each of the stakeholders to respond to it and to exchange opinions about the challenges facing the current financial supervisory architecture.

Link between supervision and crisis management

To be complete, the assessment of the Lamfalussy architecture should also take into account the special link between the supervisory framework and the crisis management framework. This link is especially important in the banking industry but it is also crucial for the insurance and securities sectors for at least two reasons. Firstly, a banking crisis can potentially destabilise the whole financial sector. Secondly, banking, securities and insurance businesses are in some cases combined within financial conglomerates, creating potential channels for intra-group contagion.

In the present period of turbulence and uncertainty, it is very important to look closely at this link. Although we may have to wait until the dust settles before we can identify all the causes and consequences of the crisis, I think we can already pinpoint some areas where level 3 committees have succeeded and where potential shortcomings have been observed. I personally believe that the trust and mutual knowledge built up over the years through regular contacts in each committee have helped foster multilateral exchanges of information and smooth cooperation between supervisory authorities during the crisis. However, we may want to examine today if there is a need to further intensify this multilateral cooperation, both in normal circumstances and in times of crisis.

First, several ways to strengthen the links between authorities in normal times have already been explored and sometimes tried out in practice. Future priorities for further developing financial supervision in the European Union have been set out and several instruments to reinforce cooperation between authorities have been identified. At present, we need to further work on the implementation of these measures and to monitor their efficiency.

Secondly, with regard to potential improvements in the crisis management framework, let me first note that several observers had predicted that the shortcomings in our system would be striking in a crisis situation. Similarly, the functioning of our crisis management framework has been tested in crisis simulation exercises on several occasions over the last years and many suggestions have been made to improve it. The crisis that we have been dealing with over the last few months, together with the generally satisfactory functioning of our crisis management framework up to now, obviously force us to take a fresh look at the various suggestions that were made to improve the framework before the crisis arose. However, they do not excuse us from keeping a critical eye on our framework.

All suggestions relating to improvements in the supervisory and crisis management framework may at the end of the day call for consideration to be given to making some legal changes and re-distributing responsibilities. Whatever changes might be needed, they should always ensure that we have a flexible enough crisis management framework to deal with any kind of crisis, especially as each one is different and has elements that can never be anticipated. And it is essential for authorities to keep the right balance between the allocation of responsibilities in the supervisory and the crisis management frameworks. These two key concerns should obviously remain in the back of our minds when we review the Lamfalussy process today.

Concluding remarks

To conclude, and before we start assessing the Lamfalussy architecture, I would like to remind you what architecture is all about. In an early essay in the first century AD, the Roman architect Vitruvius defined the essence of his art as being the design of buildings meeting three different criteria. They first need to be durable and so should be strong, solid and based on sound foundations. Secondly, buildings need to be functional and convenient for the people using them. Thirdly, buildings need to be beautiful, and should raise the spirits of those who are living or working in them. So, as you can see, architects need a mix of different abilities, a magic combination of art and science. Thanks to this combination, architectural works of art have become a cultural symbol of Europe over the years, as demonstrated for instance by the illustrations on our bank notes.

Similarly, a complex, but nonetheless useful, institutional architecture has characterised European integration. Assessing this institutional architecture will require the same architectural skills as those originally needed to set it up. Therefore, I would like to wish you today an open and constructive discussion combining both scientific method and the visionary perception that characterised some of the most influential European artists.