

## **Lucas Papademos: Eurosystem and Bank of Russia cooperation programme**

Introductory statement by Mr Lucas Papademos, Vice President of the European Central Bank, on the occasion of launching the Eurosystem and Bank of Russia cooperation programme on banking supervision and internal audit, Moscow, 20 March 2008.

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It is a pleasure for me to be here in Moscow today, together with my esteemed colleague First Deputy Chairman Melikyan of the Central Bank of the Russian Federation and His Excellency Ambassador Marc Franco, Head of the Delegation of the European Commission to Russia.

I would first like to thank First Deputy Chairman Melikyan for his kind opening remarks and all those who have contributed to the organisation of this ceremony. I would also like to greet the representatives of the eight national central banks of the Eurosystem who accompany me here today, marking their strong institutional commitment to and support for this cooperation programme: the Deutsche Bundesbank, the Bank of Greece, the Banco de España, the Banca d'Italia, the Banque de France, De Nederlandsche Bank, the Oesterreichische Nationalbank and the Suomen Pankki-Finlands Bank.

Today, we are taking a further step that advances the increasingly close cooperation between the Bank of Russia and the Eurosystem, by signing a protocol which accompanies the contract for the Eurosystem cooperation programme with the Bank of Russia that was signed by Ambassador Franco earlier today. Over the past few months, the staff of our institutions have been in very close contact, preparing together the terms of the contract and finding appropriate solutions to a rather diverse set of challenges. I would like to ask you, Mr Chairman, to extend our warmest thanks to the staff of the Bank of Russia for their efforts to address all pertinent issues.

The new three-year cooperation programme will start on 1 April and will focus on banking supervision and internal audit. In the area of banking supervision, the Eurosystem will support the Bank of Russia in its gradual implementation of the internationally accepted principles of the Basel Committee on Banking Supervision that are commonly known as the Basel II framework. The financial market turmoil that emanated from the US subprime mortgage crisis has highlighted, among other things, the importance of transparency and of sophisticated and effective risk management standards and practices in banks. The Basel II framework provides an advanced approach to capital measurement and capital standards. It represents the regulatory response to the increasingly complex and globally integrated financial markets, where credit risks are often passed from the originators of bank loans to a wide range of investors, instead of remaining on the books of the originating banks. Indeed, the Basel II framework was conceived to support banks in the implementation of advanced risk management standards with the overall aim of improving the stability and soundness of the financial system in all the economies around the world. Within the European Union, we have gathered extensive experience with the implementation of Basel II which we are happy to share. As part of this cooperation programme, experts on banking supervision from the Eurosystem will travel to Moscow and support the Bank of Russia's internal work on implementing Basel II.

With regard to the internal audit component of the cooperation programme, the Eurosystem will offer its expertise and advice on risk-based internal audit methods and best practices. The objective of this cooperation with the Bank of Russia is to enhance the capacity of the Chief Auditor's Service to carry out risk-based internal audits. In today's world, central banks also need modern and sophisticated internal audit procedures. Risk-based internal audits provide, on the basis of a risk analysis, assurance on the proper functioning of central bank

activities, especially on those aspects where the risks are highest, rather than performing a less differentiated, simple compliance audit. Such a risk-based approach represents, in our view, the appropriate response to the challenges faced by the internal audit services and we are pleased to share our experience in this field. During this part of the project, Eurosystem experts will train about 350 Bank of Russia experts on internal audit.

In the implementation of this cooperation programme, we will employ a coordinated "Eurosystem approach" which involves the ECB and a number of national central banks of the euro area. This formula, which was conceived for the first Eurosystem cooperation programme with the Bank of Russia on banking supervision, was successfully implemented between 2003 and 2005. Over the coming 33 months, the ECB and the national central banks that I mentioned earlier will be working closely with the Bank of Russia on the programme. The project will be coordinated by a team consisting of Ms Gulsana Barpiyeva, from the Deutsche Bundesbank, who will be the Eurosystem project coordinator in Moscow, Mr Christian Fehlker, the Eurosystem team leader for banking supervision, and Mr Lukasz Kubicki, the Eurosystem team leader for internal audit. The project will be managed by an ECB team in Frankfurt. The expertise on the implementation of the Basel II framework and the risk-based internal audit practices will be provided by the national central banks and the ECB's Internal Audit Department. In the context of this programme, Bank of Russia experts will have the opportunity to visit their colleagues in EU countries.

Russia and the European Union are important partners. One key aspect of the partnership is the overall objective of the European Union and the Russian Federation to enhance the regulation, supervision and governance of financial markets in Russia. This should contribute to improving the investment climate and supporting closer economic relations between the EU and Russia. We very much appreciate the assistance of the European Commission in giving substance to this aim, as this cooperation programme is supported by the Delegation of the European Commission to Russia with a budget of €3 million. I can assure you, Ambassador Franco, that we look forward to continuing the successful cooperation with you and your staff that we had during the previous project. I would also like to thank you and your collaborators for having supported the preparations and for your help in handling a number of technical, administrative and legal issues.

Sound practices in the fields of banking supervision and internal audit are important not only for the effective performance of the tasks of a central bank, but also because they contribute to the efficient and stable functioning of the financial system that benefits the economy as a whole. We have noted with great interest the reform efforts of Chairman Ignatiev and his team in the Bank of Russia over the past years. With this programme, the Eurosystem hopes to contribute to further strengthening the Bank of Russia's banking supervision and internal audit functions. Allow me to conclude by expressing my confidence that the implementation of this programme will be characterised by the close and constructive cooperation between the Eurosystem and the Bank of Russia, as well as with the Delegation of the European Commission to Moscow. Za nashe sotrudnichestvo!

Thank you very much for your attention.