Jean-Claude Trichet: Enhancing the EU regulatory and supervisory framework – the Eurosystem's perspective

Speech by Mr Jean-Claude Trichet, President of the European Central Bank, at the 2007 Eurofi Conference "Achieving the Integration of European Financial Markets in a Global Context", European Parliament, Brussels, 3 December 2007.

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Ladies and gentlemen,

It is a great pleasure for me to introduce the discussion on the EU regulatory and supervisory framework at this year's EUROFI conference. The issue is particularly topical at the present juncture for two reasons. First, a wide range of EU institutions and fora are contributing to the first full review of the functioning of the Lamfalussy approach across financial sectors in view of a discussion on the matter by the ECOFIN Council. Second, the recent financial market turbulence has underscored, among other things, the importance of effective cross-border cooperation and information-sharing among the competent authorities. The Eurosystem which has strongly supported the Lamfalussy approach from its inception and has actively contributed to its development during the past years also intends to contribute to the review process. It will publish its formal assessment – focusing on the banking sector – within the coming days and therefore I would like to take today the opportunity to share with you a number of issues which I judge important.

Basic premises underlying the Eurosystem's assessment

Let me start with the two basic premises underlying the Eurosystem's assessment. The first premise relates to the main challenges for the EU regulatory and supervisory framework, namely the need to promote further progress in the single market and, at the same time, safeguard financial stability in an increasingly interdependent financial system at EU and international level. The Eurosystem is convinced that the EU framework will effectively meet these challenges only if divergences in supervisory requirements and practices are reduced to a minimum. At the same time, there is a need to ensure effective and timely information-sharing and cooperation among the competent authorities. While in recent years we have undoubtedly seen very good progress in these areas, it is also clear that the level of cross-border cooperation and convergence attained is not yet sufficient. Moreover, structural developments – notably the increasing prominence of cross-border activities and institutions in the EU banking markets and the growing level of functional integration of cross-border groups – highlight that there is no room for complacency, and that further progress in cross-border convergence and cooperation is of the essence.

The second premise underlying the Eurosystem's position relates to the choice of an adequate institutional vehicle to foster the heightened degree of supervisory convergence and cooperation. The Eurosystem remains convinced that the Lamfalussy framework provides an appropriate setting in this respect. One of the key advantages of the Lamfalussy approach is the combination of a decentralised set-up with cross-border coordination at EU level. A decentralised approach is in line with the national responsibilities for safeguarding financial stability – relating not only to prudential supervision, but also to financial stability monitoring and assessment, crisis management, and deposit insurance – while also allowing to reap the benefits of geographical proximity and of the established experience and knowledge of local supervisors. However, the accompanying coordinating mechanisms need to be sufficiently strong so as to achieve the required high level of cross-border convergence and cooperation and to ensure a level playing field. We consider that the EU regulatory and supervisory policy process has not yet been sufficiently strengthened in this respect. To this avail, further measures will be necessary at all levels of the policy process, pertaining to (i) the overall institutional setting and political guidance for the pursuit of cross-border convergence and cooperation; (ii) the EU regulatory framework, as laid down at levels 1 and 2 of the Lamfalussy process, (iii) closely convergent supervisory requirements, as developed at level 3 of the Lamfalussy process and (iv) streamlined and consistent supervisory processes, as implemented by national supervisors on a day-to-day basis with the support of the level 3 committees.

Three key issues for enhancement

The Eurosystem's views on the required measures within these four broad areas are broadly in line with the respective recommendations of other EU institutions and fora, such as the European Commission, the Inter-Institutional Monitoring Group, the Financial Services Committee, and the Committee of European Banking Supervisors (CEBS).

I would like now to briefly highlight three key issues on which we place particular importance.

First, one priority in the coming period will be to reinforce the role and operating mechanisms of the CEBS. The current status of the CEBS – a private network of national supervisors with a limited formal recognition at either EU or national level – is simply not commensurate with the important tasks entrusted to this committee. The institutional standing of the CEBS should therefore be enhanced significantly.

Against this background we very much support the Commission's plans to assess possible options for strengthening the EU legal status of the Level 3 committees as well as to underscore the responsibility of national supervisors to contribute to EU cross-border convergence and cooperation by introducing a respective reference in their national mission statements. We also believe that a framework could be envisaged to allow EU institutions to provide enhanced political impetus to the work of the CEBS, and the other level 3 committees, by giving strategic guidance and comments on their work programme. Furthermore, an enhanced recourse of the CEBS to majority voting could facilitate decision-making in those areas where no sufficient progress can be attained on the basis of a consensual approach. In order to integrate majority voting effectively within CEBS's voluntary mode of cooperation, the respective decisions should be observed by supervisors on a comply-or-explain basis and implementation should be carefully monitored via CEBS' peer review mechanism.

Second, further efforts are warranted to improve the level of regulatory convergence. Progress in this field is a key issue especially in the banking sector, where most EU rules – with the exception of the Capital Requirements Directive (CRD) – had been adopted before the Lamfalussy approach became available. Even in the case of the CRD, the Lamfalussy approach was implemented only to some extent. Furthermore, the CRD entails a large number of national options and discretions which hamper consistent implementation. Given that the lack of regulatory convergence represents a serious obstacle to enhancing supervisory convergence, progress towards more consistent EU banking rules is absolutely critical.

In the short-term, a main priority should be to achieve a significant reduction of the national options and discretions enshrined in the CRD. Enhanced action by the Commission to ensure consistent transposition of the CRD into Member States' national laws is also warranted. Furthermore, a requirement for Member States to disclose any regulatory additions adopted could help address unnecessary further "goldplating" of EU rules. In addition, we welcome the suggestion of the CEBS to provide own-initiative advice on areas in which regulatory convergence should be further enhanced with a view to broadening the scope for supervisory convergence. As to future new regulatory initiatives, it would be helpful if EU bodies would specify more clearly the level of harmonisation to be achieved in level 1 and 2 measures and follow-up closely the respective progress. In the medium-term, a gradual restructuring of EU banking legislation more in line with the Lamfalussy framework should be pursued.

Third, the arrangements for cross-border cooperation and information-sharing with respect to the major cross-border banking groups in the EU should be further enhanced. In particular, we consider that the cross-border arrangements between supervisors and central banks for the major EU banking groups can be further strengthened also with a view to enhancing preparedness for crisis situations. Indeed, the recent financial market turbulence, whilst being correctly weathered until now, has confirmed the need for effective information sharing not only between supervisors, but also between supervisors and central banks (without supervisory responsibilities). This is important given the key role of central banks in ensuring the orderly functioning of money markets, promoting the smooth operation of payment systems, and contributing to safeguarding financial stability.

Against this background, the Eurosystem strongly supports the ECOFIN conclusions on the EU financial stability arrangements adopted in October 2007, whereby the Council invites the Commission to assess possible clarifications in the legal framework for the exchange of information between supervisory authorities, central banks and finance ministries. In this respect, it is also useful to enhance the cooperation between supervisors and central banks at the operational level. In particular, the involvement of central banks in the supervisory colleges for the major EU banking groups, whenever stress situations so require, is an important aspect.

Another important strand of work to improve cross-border supervision relates to the further extension of the scope and depth of CEBS's project on "operational networking" in order to establish a sufficiently integrated, practical framework for day-to-day supervisory cooperation and to identify and address possible obstacles in this respect.

Finally, the supervisory colleges for the major EU groups should be committed to playing a pioneering role in developing enhanced processes for cross-border supervision, for example by pursuing with particular intensity measures to foster the enhanced cross-border delegation of tasks and efforts to build up a common supervisory culture.

Conclusions

Let me conclude. I share the thrust of the EUROFI's assessment – as expressed in the title to this session – that simply maintaining the status quo in EU regulation and supervision is not a suitable option for the way forward. Instead, cross-border convergence and cooperation will need to continue to be stepped up significantly to safeguard financial stability and foster further integration and competitiveness of the European financial market. The Lamfalussy framework provides the right institutional setting in this respect. The present review of the institutional framework provides a unique opportunity for introducing measures to enhance its effectiveness, from the provision of strategic guidance and impetus for the pursuit of enhanced cross-border cooperation and convergence of supervisory practices to the actual delivery of consistent supervisory processes on a day-to-day level. As regards the banking sector, the Eurosystem considers that priority should be given to reinforcing the role and operating mechanisms of the CEBS, improving the level of regulatory convergence, and enhancing the arrangements for cross-border cooperation and information-sharing for the major EU banking groups, also ensuring when necessary the adequate involvement of central banks, given their role in contributing to the maintenance of financial stability.

As you see I remain personally fully convinced that the Lamfalussy approach is at present the good one and that we must continue to give it all its chances. But this implies reinforcing tirelessly its functioning and fostering the close cooperation and coordination amongst all authorities concerned. The Eurosystem will continue to do all it can to enhance these cooperation and coordination within the present decentralised framework.

One last remark. If there is a provisional lesson we can draw from the present significant market correction, with episodes of turbulences, it is neither that the surveillance authorities have not been up to their tasks, nor that central banks have not been up to their responsibilities but that a very close connection between central banks and surveillance authorities appear to be extremely important when dealing with acute and pressing issues in real time. It was the conviction of the Eurosystem, expressed repeatedly and publicly long before the present turmoil. We feel deeply reinforced in this conviction and encouraged to do all what we can to reinforce the link between Central Banks and banking surveillance.

I thank you for your attention.