

Ivan Iskrov: Strengthening the regulatory and supervisory capacity of the financial regulators

Opening remarks by Mr Ivan Iskrov, Governor of the Bulgarian National Bank, at the official opening ceremony of the Twinning Project “Strengthening the Regulatory and Supervisory Capacity of the Financial Regulators”, Podgorica, Montenegro, 15 December 2009.

* * *

Dear Twinning Partners,

Your Excellencies,

Ladies and Gentlemen,

We have gathered here to start the Twinning Project “Strengthening the Regulatory and Supervisory Capacity of the Financial Regulators” funded by the European Union. It is my pleasure and privilege as the Governor of the Bulgarian National Bank, which is the lead institution managing this project, to express on behalf of the management of the BNB our strong commitment to work with the twinning partners during the next 18 months to achieve the targeted results. In times of trouble when all financial supervisors are under severe pressure and when many projects in the financial sector tendered by the European Commission failed to find interest among EU member states, we are committing our resources, our best experts, expertise and knowledge to this project. The Republic of Bulgaria supports the European prospects for the Western Balkans, and Montenegro in particular. We strongly believe that our joint work will contribute to the country’s progress on the path of European integration.

It is by all means a very ambitious project that includes more than 55 activities and benchmarks, more than 10 directives to be transposed, several legal acts to be prepared, and many internal procedures to be created for a better supervision that complies with the international best practices.

This project comes at a very specific moment for the global financial sector. It aims to create conditions for long term economic stability and growth by strengthening the regulatory and supervisory frameworks of the capital and financial markets and by improving the institutional and regulatory capacities of the financial sector regulators to supervise financial markets and institutions in line with the EU *acquis*. Therefore, the objectives of the Twinning Project are fully in line with the main lesson from the crisis – that stability and growth cannot be maintained without a stable and well functioning financial sector.

First, let me present our consortium and the project team. The consortium unites the experience of a Eurosystem central bank (De Nederlandsche Bank) – with a proven track record of successful technical assistance projects for accession country institutions – together with the expertise of the Bulgarian National Bank and the Financial Supervision Commission, both having the most recent and relevant experience in EU harmonization in a new Member State. This combination of experience is further strengthened by the long-standing and successful cooperation between the consortium members. The advantage of having a consortium is that it offers larger experience and a broader pull of experts from the twinning partner institutions. The three consortium members have completed many successful twinning projects in the financial sector and have gained a sound project management capacity.

We have strongly committed ourselves to this project for various reasons. We are encouraged by the progress achieved by the financial supervision authorities in Montenegro in bringing financial sector regulation closer to the EU requirements. Also, there are many signs of already built cooperation with the Montenegrin authorities that need further strengthening. Bulgaria, the Netherlands and Montenegro are in the same IMF constituency

which has created good mutual knowledge of their economies and fostered long-term cooperation on financial issues.

We consider our experience relevant to Montenegro not only because of the scale of the economy, but also because of the similarities of the supervisory structures. In the accession process we have learnt several major lessons. Bulgaria did not ask for any transitional periods or derogations concerning the banking sector *acquis communautaire*. Furthermore, all EU directives in this sector were transposed in time and most of them long before the deadlines. This approach has turned to be a success since the early adoption of the EU rules in financial supervision contributed to the smooth functioning of the financial market and fostered the stability of the financial system. One of the main keys to the smooth transition in the accession process is the cooperation between the institutions involved in financial regulation and supervision. The respect for the independence of financial supervision authorities and the cooperation between them is an important indicator for the preparedness for EU accession. I would like to emphasise in particular the requirement for institutional financial and personal independence of the central bank as stipulated in article 130 of the Lisbon Treaty.

Let me now turn to the challenges ahead of our project.

First of all, the EU response to the crisis envisages fundamental changes in both the legal and institutional frameworks of financial regulation. Most of the EU directives and regulations are currently being changed. (Mr. Simeonov will talk about these later) This is a challenge for our project, and I would like to suggest that we take into consideration the latest EU *acquis communautaire* in our joint work. That is why we included in our team the experts who are members of the EU committees and working groups in the area of financial supervision, including the Committee of European Banking Supervisors, Economic and Financial Committee, Financial Services Committee, Committee of European Securities Regulators, where all these novelties are constructed. This will help the project to benefit from the most recent developments in the EU financial supervision policies and legal framework.

The other challenge is related with the ongoing crisis which calls for an immediate response from the national authorities and is of utmost importance. Therefore, I believe we have to focus our activities as much as possible on helping the Montenegrin authorities in addressing the challenges of the crisis.

Last but not least, our Project will be implemented by 7 authorities – three of them from EU member states and four from the beneficiary country. The strong commitment and cooperation between the partners is a prerequisite for our success. I would like to thank our twinning partners for the cooperation we have already established, owing to which this project came to its successful start and will further develop to its ultimate success. I would also like to thank in particular the Central Bank of Montenegro, for providing the facilities and hosting our resident twinning advisor for the next 18 months.

I wish success to all of you and to our joint project.