

Sabine Lautenschläger: Supervisors without borders

Speech by Ms Sabine Lautenschläger Deputy President of the Deutsche Bundesbank, at the evening reception of the ESE (The European Supervisor Education Initiative) Conference 2013 “The future of European financial supervision”, Frankfurt am Main, 26 September 2013.

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1. Introduction

Good evening to you all, ladies and gentlemen, and a warm welcome to the Regional Office in Hesse.

For many of you, this day of the conference has been quite intensive. You have listened to lectures in the rooms of the Goethe University, covering a wide range of topics including European supervisory systems, market and banking structures as well as systemic risks and macroprudential supervision; you may have had intense discussions following these lectures. And now you are back in the world of the famous author Johann Wolfgang Goethe. “What am I talking about?”, you are probably wondering. The unifying theme of the art in this building is “Frankfurt, Goethe, Money”. And I will begin at the core of my remarks this evening with a quote which from my point of view fits perfectly to our situation as banking supervisors. It is a quote from Goethe’s Faust: “In the beginning was the deed”. Under this motto, I would like to take three steps together with you.

2. The preceding five years

Let us first go back a step: to the preceding five years, which were marked by the collapse of Lehman Brothers and the ensuing crisis. A crisis which shook the very foundations of the financial system and the European monetary union. The financial system’s weaknesses were abruptly laid bare. We observed, when push came to shove, how quickly banks’ inadequately small buffers were depleted, with many institutions requiring life support in the form of government assistance. It also became instantly clear that banks’ internal control systems were no match for the complexity and interconnected nature of the risks involved. However, the crisis did not remain confined to the financial system. The focus soon turned to government budgets, which in some cases were already in critical condition, and which then threatened to collapse under the weight of the rescue packages. The distress which many countries were then undergoing made the banking sector’s problems even worse.

However, this was also a time of reforms and change. At the initiative and under the leadership of the G20, policymakers, regulators and supervisors undertook to develop a programme of comprehensive financial sector reforms, which are now gradually being implemented. This time also included the establishment of ESE, the European Supervisor Education initiative in 2009 – a project involving supervisors and central bankers as well as academics. ESE is a joint venture which has set itself the task of ensuring uniform training of supervisors at a high level in Europe and promoting the sharing of knowledge between researchers and practitioners. After all: a stable financial system requires not just good rules but also highly qualified supervisors in order to enforce these standards.

3. The present

Let us now take a step forward – to the present. Where do we stand now, five years since the outset of the crisis? Despite all the criticism about the seemingly sluggish pace of reforms: I believe it is quite fair to say that we have made very tangible progress. The implementation of the revised Basel standards will make banks more resilient. We have tightened the requirements for risk management and expanded our horizon by integrating

macroprudential knowledge. And these are just a very few items from among the many reform projects currently ongoing; I'll spare you the full list.

However, a decision on what is probably the most important innovation was taken just recently. I am referring, of course, to the Single Supervisory Mechanism, or SSM, here in Europe. I have high expectations of the SSM and think it will help us to detect risks in the European banking sector at an earlier stage in future and to tackle them more rigorously. Although I am in favour of a different legal basis, one that could simplify matters a lot given the now very complex SSM governance structure, I am nevertheless convinced of the advantages of the SSM.

One factor will be decisive for the success of the SSM: close and constructive cooperation between all parties involved. The SSM is designed as a system composed of the ECB at the centre and the national competent authorities carrying out decentralised processes and procedures. As members of the supervisory teams and the decision-making bodies, the only way we can meet the high expectations of the SSM is if we all pull together. I am especially looking forward to even closer cooperation in the future with our colleagues from the ECB and the other national supervisory authorities.

Cooperation is also the guiding star of ESE. The initiative has already shown us how cooperation between supervisors can be made to work. As my fellow board member Rudolf Böhmler illustrated this morning, ESE seminars are attended by participants from a multitude of institutions and countries. This spirit of cooperation exemplifies what will be important in the SSM.

Like us supervisors, ESE, too, has recently seen eventful times. Last year, we saw a considerable increase in the number of seminar participants – a noteworthy success and confirmation of the excellent work by those responsible for ESE. These parties include the Programme Council, composed of proven supervisory experts and responsible for keeping the content of the training measures up to date at all times. The Steering Committee and the ESE Secretariat naturally also play a pivotal role. At this juncture, I would like to express my sincere thanks to the representatives of ESE for all that you have done to make ESE one of the leading training initiatives for supervisors in Europe.

4. The future

Let us now take a further step – forward – and venture a look into the future. Now that the European Parliament has approved the draft legislation, the SSM can soon be officially launched. We have a year full of hard work ahead of us. Thankfully, the preparations are in progress – through the High Level Group of ECB and national authorities' representatives and the many affiliated working groups, the basic framework of the SSM has already been laid out. Over the coming months, we will define the further details of the cooperation between the ECB and national supervisors and codify them in a Framework Regulation. We will continue our work on the organisational and operational structure of the new supervisory regime and institute an efficient reporting process. However, in my opinion, it is the balance-sheet assessment which represents the greatest challenge in the months ahead of us. The ECB needs a clear picture of the actual risk faced by the banks it will be supervising. Moreover, light needs to be shed on which balance-sheet burdens arose under the watch of national supervisors. We therefore need a thorough and rigorous review of balance-sheets. This will be the first test of the SSM and of cooperation between the authorities involved. Though we don't have much time at all to accomplish this extremely complex task, I believe that, if we act in unison, we will succeed.

One year from now, the preparations will be completed and the SSM will take the helm. In order for the SSM to exploit its advantages, one thing will be paramount: a consistent supervisory approach incorporating the strengths of individual national approaches and experiences. This common supervisory approach must build on established principles such as risk-orientation, proportionality as well as an integrated micro and macroprudential

supervision. It will be particularly important to strike the right balance between ensuring fair competition by treating the same risks equally and, at the same time, allowing for varying market and banking structures as far as these cater for the heterogeneous needs of the real economy.

However, this supervisory approach must not exist only on paper, but must also be infused with life. I see ESE as playing an important role here. ESE can support us supervisors in conveying the new supervisory standards and thus make a crucial contribution to consistent and high-quality supervisory practice in the SSM. As supervisors in a system currently encompassing 17, and soon 18 countries, however, we need not only technical expertise but also communication and teamworking skills. We need not only specialists but also first-class networkers. This corresponds to ESE's approach, which from the beginning was aimed at creating a joint European supervisory culture. And this is why there has always traditionally been a social event at each ESE seminar. This conference is no exception, and I am already looking forward to an evening of exciting and stimulating conversation.

5. Conclusion

Ladies and gentlemen, ESE can look back upon a successful history, and I am convinced that the SSM will make good use of ESE's expert knowledge and experience. I wish the organisers of the European Supervisors Education initiative and all their helping hands every success for the coming challenges. There are two thoughts I want to leave you with before I invite you to help yourselves at the buffet and look more closely at the works of art under the motto of "Frankfurt, Goethe, Money". The first thought is: the banking union can succeed only if every single one of us, supervisors and supervised alike, is ready to take action and welcome the new. The second thought is – and this is addressed not only to the ESE seminar participants, but to all parties involved in the banking union – we must be willing to keep learning, to open ourselves to new ideas and experiences, and to bring along the "doubting Thomases", the hesitant ones, for the ride. The Bundesbank will make every effort to support this process – with words, and with deeds.

Thank you for your attention.