

Luis M Linde: “The Financial System ahead of the Banking Union”

Opening speech by Mr Luis M Linde, Governor of the Bank of Spain, at the 5th edition of the Expansion – KPMG Financial Forum, Madrid, 23 May 2014.

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Ladies and Gentlemen,

It is for me a pleasure to open this fifth edition of the Expansion – KPMG Financial Forum and to introduce Ms Sabine Lautenschläger, member of the Executive Board of the European Central Bank and Vice-Chair of the Supervisory Board of the Single Supervisory Mechanism.

Sabine Lautenschläger – I hope my German pronunciation is approximately correct – is a very well known and respected European expert in banking supervision and central banking. After graduating in law at the University of Bonn, she joined the German Federal Financial Supervisory Authority, Bafin, in 1995, where she held relevant positions, serving as Chief Executive Director of Banking Supervision. She was also a member of the Basel Committee of Banking Supervision and of the European Banking Authority’s Management Board. In 2011 she joined the Executive Board of the Deutsche Bundesbank as its Deputy President.

Let me turn now very briefly to the topic of this event, namely The Financial System ahead of the Banking Union.

It is indeed a very timely issue as the ECB is currently immersed in the preparatory work to assume its new banking supervision functions, within the framework of the Single Supervisory Mechanism (SSM), on 4th November.

The entry into force of the SSM will really mark a major milestone on the road to the completion of the Economic and Monetary Union and to the construction of Europe. It will contribute to fostering financial integration and to breaking the loop between banking and sovereign risk: In sum, it will strengthen financial stability in Europe.

In the run-up to assuming supervisory functions, the ECB and the National Competent Authorities are conducting together a comprehensive assessment, to check the soundness of the 128 banks that will be under the direct supervision of the ECB. The ultimate aim of this exercise, which began in October 2013, is to build confidence as to the soundness of the banks under the SSM by two means: transparency and, if needed, recapitalisation.

As it is well known, the assessment consists of two pillars: an asset quality review and a stress test.

The first pillar, the Asset Quality Review, began in February and will conclude in August. It examines the asset side of bank balance sheets as of 31 December 2013.

The second pillar, the stress test, began in May and will evaluate the ability to maintain adequate solvency levels under stress, using the methodology agreed by the ECB and the European Banking Authority. This process will conclude in September and the publication of the results of the whole exercise is expected in late October. After this disclosure, those banks facing a capital shortfall will have to submit their recapitalisation plans to the ECB.

I would like to say that, as we all know, the Spanish financial system has undergone intense restructuring and recapitalisation, as well as a significant consolidation process. I am confident that Spanish banks are prepared for this rigorous exercise.

Setting up the Single Supervisory Mechanism and making it operational is not going to be a simple task. Both from the procedural and organisational standpoints, it will be a complex process, requiring great effort, and will be a major responsibility for those who take on the leadership of this new European Union-wide institution.

Ms Sabine Lautenschläger's responsibilities as member of the Executive Board of the European Central Bank and Vice-Chair of the Supervisory Board of the SSM place her in a unique position. I have no doubt that her intervention will be extremely interesting and informative to us all.