Sabine Lautenschläger: Harmonisation paves the way for a European banking market

Statement by 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, at the Federal Financial Supervisory Authority 15th anniversary event, Bonn, 28 June 2017.

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There are two questions on the future of European regulation that we have to answer.

First, will regulation continue to be shaped by global standards?

Second, how “European” must regulation in Europe be?

Regarding the first question, I am still a firm supporter of global regulation. The financial crisis of 2008 showed us the interconnections of the global banking system. If a bank fails, it can destabilise markets worldwide and nationally. The stability of the system can only be ensured by global rules, and that’s exactly what the Basel Committee is working on. So once the Committee has concluded its work on Basel III this year, all the major financial markets should implement the new standards – in Europe and elsewhere.

And in that context I find the most recent proposals by the US Department of the Treasury worrying. It looks as if elements of the global reform might be postponed or not even implemented. This involves important areas such as the new rules on the trading book. In my view, purely national initiatives will not improve the stability of the financial system, quite the opposite.

It is all the more important that the EU implements the Basel standards. The rules should be harmonised as far as possible for Europe’s banking market.

And this brings us to the second question: how “European” must regulation in Europe be?

The single market is a key element of a united Europe, and we also need a single European market for banks. This involves harmonising the rules for banks – wherever it makes sense. But we should not forget that the European banking sector is characterised by diversity, not least as a result of national specificities, because this diversity contributes to the stability of the financial system. What we need, then, is a balance between harmonisation and diversity.

There are some areas that require greater harmonisation and other areas that require less. For example, small banks in the euro area need somewhat less harmonisation. Taken in isolation, a small bank poses a limited risk to the financial system. It only becomes problematic if many small banks run into trouble at the same time, and for this eventuality we need sound institutional protection schemes that are ready to be activated.

Overall, though, the rules for small banks can be less strict than for big banks. And this is already the case: in many respects smaller banks have an easier life than the large ones – for example, in financial reporting and supervision. Should a further easing of the rules be discussed, this would however throw up a difficult question: how big, or rather how small, should a bank be to be considered for this easing? What are the right thresholds?

In other areas, we need greater harmonisation. That becomes apparent when you take a closer look at the European rules – they are neither uniform nor complete. Certain areas of supervision which would benefit from a single European rule continue to be determined by national regulations.

Let’s take the example of a British bank. In the event of a “hard Brexit” the bank could lose its EU passport, which gives it access to the internal market. In order to continue to do business in the internal market, it would need to establish a base in the EU. Ideally, the country in which it sets up its business should be an unimportant factor. But it is not. Despite the banking union, location still plays an important role in a bank’s life.

If a British bank conducts its business via a branch in the euro area, then it is subject to national supervision and national rules. This results in the bank having different capital and liquidity requirements, depending on the country where the bank has set up its branch.

Of course, the bank will also look closely at the different national recovery and resolution conditions. And they have only been marginally harmonised, so there is no uniform toolset for crises. For instance, I have sorely missed the opportunity to declare a moratorium recently.

The examples I have mentioned show how many national barriers are still blocking the way to a European banking market. In Europe too the principle for banks should be: same business, same risks, same rules. This ensures fair competition and prevents banks from exploiting regulatory differences. Ultimately, harmonised rules pave the way for a stable banking market.

Thank you for your attention.