

François Villeroy de Galhau: Financial supervision and the role of national authorities in Europe

Opening address by Mr François Villeroy de Galhau, Governor of the Bank of France, at the Autorité de contrôle prudentiel et de résolution (ACPR) Conference on Financial Supervision, Paris, 18 September 2018.

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Mr. President [M. Draghi], Ms. Chair [D. Nouy],

Mesdames, Messieurs,

Bonjour et bienvenue à Paris,

It is a particular pleasure to welcome you to this conference on financial supervision and the role of national authorities in Europe. What better way to inaugurate the new headquarters of the ACPR – France’s supervision authority – than to bring in colleagues and experts from across the continent. I urge you to look at a few street names in the neighbourhood: this borough is called in Paris “quartier de l’Europe” – very much in the spirit of what we are doing together at the SSM.

I warmly thank President Mario Draghi for being here. Before giving him the floor, let me stress that we all have reasons to be proud of what has been achieved for Banking Union in the past few years. But we must not be complacent. There are two priorities: one in substance, and one in method.

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I. Our priority in substance: strengthening the second pillar on resolution

Now that we’ve had the **Single Supervisory Mechanism** up and running for four years, it’s easy to forget that **there were many sceptics** who were sure that such a union could not be achieved. But, as Mark Twain would have said, “[we] didn’t know it was impossible so [we] did it.” **Today it is a tangible reality.** In fact our supervisory practices have been harmonised upwards. Our legal framework is stronger thanks to the single rulebook. And European banks are sounder – the CET1 solvency ratio for major institutions has increased by more than 3 points since 2014 (from 11.3% to 14.6% at the end of last year). Danièle [Nouy], you deserve our congratulations on this achievement!

Yet Banking Union’s second pillar, the Single Resolution Mechanism (SRM), is still incomplete. Yes we have already managed our first cases, substantially improving the health of a number of banks, notably in Spain and Italy. But **making the SRM fully operational should be our top priority.**

In my opinion, it is the **common backstop to the Single Resolution Fund** that is really the key. Experience from abroad is instructive: in most large jurisdictions, in particular the United States and the United Kingdom, the intervention capabilities of resolution funds are backstopped by the fiscal authorities. And they are not a burden on public finances, since any public outlays are generally reimbursed by the private sector. The euro area agreement on the backstop reached on the 29th of June is a crucial first step. It is now urgent to deliver on it by the end of 2018. **Two key issues remain:** how to **fund the backstop at a sufficiently high level to be credible**, and how to create a **swift decision-making process to deal with emergencies** – if we need

weeks, it is useless. The euro area also needs a **system for providing liquidity** to financially sound banks after resolution – one that is provided by the Eurosystem and secured by a high-quality public guarantee.

I'm fully convinced that once we have a credible and efficient mechanism for resolution, it will be much easier to reach a pragmatic compromise on **deposit insurance**, probably with a focus on liquidity sharing between national guarantee schemes.

Let me add two thoughts on substance:

- ♦ First, on anti-money laundering. In this area, I am convinced that we need to enhance our approach by building on a network of national authorities and EBA that should ensure an effective single anti-money laundering supervision. This means that EBA should have the legal and human capacities to foster convergence of practices on the best standards, based on clear European mandates. It should go as far as including effective breach of law reviews and a capacity to directly intervene in some cases with European-wide impact.
- ♦ Second, what we have managed to achieve for banks can serve as an example for financial markets. If we truly want to enhance financial integration for the purpose of better private risk sharing and convergence across Europe, we need to advance the Capital Markets Union agenda: we should in particular strengthen ESMA's role as a supervisory authority, at least with regard to wholesale market oversight – while duly involving national authorities when appropriate. The Chairman of the AMF is a talented advocate of this.

II. Our priority in method: developing synergies within the SSM as a whole

Let me come back to the SSM. After only four years of existence, it is now fully operational, with more than 2,300 supervisory decisions in 2017 alone. Those of you who work within the SSM are the living breathing reality of European integration. Every day you prove that closer cooperation, closer union is not a dream of the past but something we are still capable of today.

Part of the SSM's success stems from its design: the mechanism constitutes an **original model of federalism**, based on a close and continuous collaboration between the ECB and national authorities at all levels: from the composition of the Supervisory Board to the Joint Supervisory Teams (JSTs), the on-site teams and staff secondments.

This does not mean that all is rosy and that culture and practices have fully converged within the SSM. Success allows us to consider now how the day-to-day functioning of the SSM can still be improved. In my view, there are **three main strategic priorities**:

- ♦ The first one is to further **simplify processes**. I welcome the current initiatives, including the creation of the Simplification Group chaired by Petra Senkovic from the ECB and Edouard Fernandez-Bollo from the ACPR. Various measures are under development, like the growing use of delegation, the streamlining of SREP or JST functioning. However, an essential challenge will be to make sure that all processes will remain optimised over time and that simplification becomes a full and permanent part of decision-making, from conception to execution. To do so, simplification has to become one of the values that guide the SSM.
- ♦ The second priority is to **promote mobility**, thanks in particular to staff secondments and more on-site supervisors working on banks outside their home country. Other initiatives could include very short staff exchanges or swaps within JSTs, between the ECB and national authorities, to allow members to better understand the culture and practices of their

counterparts.

- ♦ The third and final priority is to **develop synergies**. Just as with the Eurosystem, the Banking Union constitutes a system with a strong center and strong national components, which ultimately have to act as one team. The goal is to make the best use of national resources by fostering their participation in all key tasks of the SSM. National authorities should not hesitate to step up their involvement in the SSM. In return, the ECB should further empower national authorities, especially in the framework of day-to-day supervision and in the field of on-site inspections in branches or subsidiaries of significant institutions. Speaking for France, the ECB can obviously rely upon the ACPR: its well-trained employees and inspectors are fully committed to serve the SSM common good alongside their ECB colleagues. As regards on-site inspections and cross-border missions, further efforts should be made in order to tackle administrative hurdles. But I can already say that the ACPR will aim to double its target of cross-border missions in 2019.

Strong cooperation between national authorities and the ECB is needed in banking supervision, but not exclusively. Let's not forget that a majority of national authorities are competent in **other fields of supervision**, which matter for the SSM, such as insurance – which is the case for the ACPR. These competences are valuable not only for the supervision of financial conglomerates but also for the development of a more unified single market for insurance. In cooperation with EIOPA, we are committed to preserving it after Brexit.

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Let me conclude. Ten years after the collapse of Lehman Brothers, we have learnt three main lessons. First, we need competent, strong and independent supervision. Second, we need a level playing field, at least in Europe, and if possible at the international level, for the implementation of the strengthened rules: without demanding supervision, regulation and the single rulebook could largely remain a paper exercise. Last but not least, we must never let our guard down when it comes to financial stability. Anniversaries have to be a bastion against the temptation to forget and fall asleep. The SSM is the fruit of all these lessons... and, under your responsibility, the best guarantee for the future. Thank you for your attention.