

## HOW TO CONTRIBUTE TO FINANCIAL STABILITY EDUCATING SUPERVISORS AS INTEGRAL PART OF EUROPEAN FINANCIAL SUPERVISION

Ladies and gentlemen,

I am pleased to welcome you today in the House of Finance on the beautiful new campus of Goethe University in Frankfurt. I do this on behalf of a loose “confederation” of financial supervisory institutions on the one hand – Oesterreichische Nationalbank, Bundesbank, and BaFin –, and Goethe Business School on the other.

We have joined our efforts to create a European Supervisor Education initiative (ESE) with the primary objective of combining knowledge and experience of practitioners and researchers to educate European supervisors of banks, insurance companies and other actors in financial markets, notably security houses.

The aim is not only to offer training according to the highest agreed standards and practices, but also to disseminate new scientific knowledge and to foster a common European culture of financial supervision and cross-border cooperation. This is fully in line with the objectives of the report prepared by the High-Level Group on Supervision, chaired by Mr. Jacques de Larosière, and backed by both the European Commission and the Council last month, according to which “financial stability, regulation and supervision in Member States and in the EU must be enhanced in an ambitious way ensuring trust, efficiency, accountability and consistency with the allocation of responsibilities for financial stability”.

As a contribution to achieving these objectives, the ESE initiative has established a course program, which is already in its pilot phase and running. You will find an overview of ESE-seminars and upcoming dates in 2009 in your conference folder. Some of you might already know the so-called “Advanced Seminars on Basel II”, which are jointly provided by Oesterreichische Nationalbank and Bundesbank since 2005. These seminars form part of the foundation for ESE’s pilot seminar program in the area of banking supervision. However, ESE wants to go much further by broadening the focus both in a regional and sectoral perspective.

This conference will launch the initiative more formally although it is still in its infancy and will achieve its “steady state” only over time. You are all invited to take part in this venture and, hopefully, join it, as it will grow. It goes without saying that we warmly invite representatives of the three European committees and national supervisory institutions in Europe to support the initiative, and in particular cooperate within its Council. It is the only way to assure that the training needs of the initiative’s “customers” are represented appropriately.

The program of ESE consists of a set of seminars mainly given by practitioners from supervisory institutions, but also by academics with reputation in the field. The program is in modular form to achieve a high degree of flexibility and adapt it to a changing environment for financial supervision.

It is an open secret that the need for coordinating financial supervision among national supervisory institutions, and more so among supervisors internationally, is wanting. The financial crisis has dramatically exposed the weak points of current European financial supervision, which is certain to change significantly under its impact:

- New bank-capital regimes will be introduced;
- New standards on liquidity, risk profile, and pricing of assets are emerging;
- Regulation of balance sheets are likely to become more prescriptive;

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- Passive supervision focusing on management controls and systems will be complemented by more intrusive controls of individual decisions;
- And so forth.

Moreover there is the intricacy of a “macro-prudential” approach that focuses on systemic risks. In fact: The EU Commission has proposed a new supervisory system, which is explicitly divided into macro-supervision (ESCR) and micro-supervision (ESFS), whereby the latter consists of national financial supervisors plus three new European supervisory authorities that would succeed the existing financial services supervisory committees CEBS, CESR and CEIOPS.

While these proposals are still controversial politically, it is obvious that the ongoing discussion *must* impinge on any training program for financial supervisors. The ESE initiative is well aware of this and will cope with the challenge through flexible modular program development.

The actual program contains cross-sectoral and sectoral elements with courses on pertinent topics of financial supervision such as the transfer of credit risk and securitization, credit derivatives and collateralized debt obligations, risk management for the stability of individual banks, or liquidity management. It also includes a module on assessing IT systems and their application in finance as well as modules on “soft skills”, for instance negotiating proficiency or cross-cultural business behaviour.

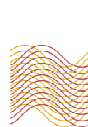
All modules will be subject to rigorous quality controls, i.e. participants are asked to rate the instructor and the content of the course, as is standard practice today. Only courses passing the test will be retained. The actual programs – consisting of a set of modular elements – are still preliminary, but will be tailored toward the basic training needs of the three branches of the emerging ESFS.

Program development will be in the hands of the Advisory Council, which is still in its inception. While the governance structure of the Council is still open for discussion, it would probably be reasonable to gauge it similarly to the European System of Financial Supervision, and to distinguish between “core courses” of a cross-sectoral nature, and “specific courses”, which will then combine into well-structured programs or “products” of the ESE. It is hoped that the European System of Financial Supervision will eventually recommend these “products”, like the “Advanced Seminars on Basel II”, and that passing an ESE program would be career-relevant for participants.

One question the initiators have discussed among themselves was whether training should be confined only to staff members from supervisory institutions or whether they should be also open for representatives of the financial industry, hence the private sector.

- On the one hand it is obvious that it needs “two to dance a tango” and that a better understanding of supervisory actions by market participants is also in the interest of supervisory institutions. Moreover, an organized discussion between supervisors and their “clients” on supervisory issues could be beneficial to both sides.
- On the other hand the actual program contains elements that are “internal” to supervisory institutions, and could even be “sensitive” for external participants. Moreover, the initiative of the European Commission to support enhanced supervisory education is specific to supervisory institutions, which clearly excludes the private sector.

The ESE initiators do not think this question to be relevant at this stage. While it would be desirable to open up the initiative to include market participants eventually, this would clearly require the development of new course



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programs, potentially with common modules for both partners. This can only be realized over time and be subject to decisions by the Advisory Council. And the “internal” character of some of the modules will have to be preserved strictly, i.e. they *cannot* be opened to non-supervisors.

Another remark concerns the interaction of the initiatives with other existing or planned training programs in the realm of financial supervision.

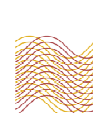
The ESE initiative is aware of a discussion on whether this type of training should be organized and provided “in house” or tendered through a competitive bid. Our preference is for an open, competitive initiative. We believe that only open competition can assure high-quality education over time, especially in a dramatically changing environment such as financial supervision.

Having said that we realize that there is a number of other potential training initiatives in Europe and elsewhere with similar policy objectives. We do not think that these are mutually exclusive. On the contrary: We believe that some of them could be integrated while leaving ownership of the program to the initiating institution, including in-house programs such as those of the 3L3 committees. Our own initiative is to be seen as potentially forming a nucleus, hopefully an important one, within a much wider network of education in financial supervision to the benefit of us all.

In the meantime, the ESE will be an active player and compete with potential alternatives in a friendly and receptive spirit. The doors are wide open for cooperation and collaboration with every initiative sharing our common goal: improving the quality of financial supervision to ensure “trust, efficiency, accountability and consistency with the allocation of responsibilities for financial stability”.

Let me conclude by thanking all those who have contributed to organizing this conference and rendering it successful. Their help is greatly appreciated. Furthermore I wish to thank today’s speakers whose experience and prospective thoughts will enrich our minds. We are particularly proud that the European Commission, two of three financial services supervisory committees, CEIOPS and CEBS, the ECB, and the Financial Stability Institute (FSI) at the BIS are all represented in the program by high-ranking officials, and we warmly welcome our friends from the British Financial Services Authority (FSA), Oesterreichische Nationalbank, Deutsche Bundesbank, BaFin, the Duisenberg School, and Morgan Stanley.

May this be a successful conference and a good start for the initiative! Thank you.



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