

Professor Axel A Weber
President
of the Deutsche Bundesbank

Introductory Statement Eurofi 2009 Panel
**“How to implement efficiently the EU regulatory and
supervisory package proposed by the de Larosière group in
the EU and global context?”**

in Gothenburg
on 30 September 2009

– Check against delivery –

Contents

1	Introduction	2
2	How to ensure appropriate cooperation between national central banks and supervisors in the EU countries where these functions are segregated?	2
3	Success factors for Level 3 committees evolving towards 3 EU Authorities?5	

1 Introduction

Ladies and gentlemen, Mr Solbès

Thank you for allowing me the opportunity to elaborate on some aspects of the implementation of the de Larosière recommendations.

Coming from Germany, where the Bundesbank is not the supervisory authority but is involved in the supervisory process, I would first like to focus on cooperation between national central banks and supervisors before turning to the role of the new EU authorities.

2 How to ensure appropriate cooperation between national central banks and supervisors in the EU countries where these functions are segregated?

The question correctly implies that close cooperation between central banks and supervisors is essential. Central banks have an undisputed responsibility in the field of financial stability. They can benefit from their traditional focus on systemic risk and, especially,

from their knowledge of area-wide developments in the money and securities markets and in payment and market infrastructures.

Establishing close cooperation with supervisors ensures that synergies between these central bank and supervisory activities can be exploited. In addition, close cooperation enhances the efficiency of the supervisory system by reducing overlaps of work. In fact, one lesson from the current crisis is the need for a close interaction between micro- and macro-prudential analysis.

Practical cooperation can be organised fairly informally with regular high-level discussions on how to deal with strategic issues and problems as well as by the creation of working groups to deal with specific topics.

On a more formal basis, cooperation between central banks and supervisors could be organised via “Domestic Standing Groups” in which the Ministry of Finance may also take part, ensuring the participation of all parties with a role in safeguarding or restoring stability. In Germany, BaFin, the Bundesbank and the Ministry of Finance have held regular meetings in such a format since 2002.

As is the case in Germany, cooperation between national central banks and supervisory authorities could be even more formalised. The central banks could be substantially involved in the supervisory process. In Germany, the Bundesbank – in close cooperation with the supervisory authority BaFin – is entrusted with the ongoing supervision of institutions, whereas the sovereign functions rest with the supervisor.

Needless to say, the division of labour has to be clearly defined to avoid overlaps. Naturally, this requires statutory definitions of tasks and responsibilities. For one thing, we have sovereign measures issued by the financial supervisor: regulatory measures concerning institutions, especially general decrees and administrative acts, including auditing orders. For another, the central bank is responsible for the ongoing monitoring of institutions, including the evaluation of documents submitted by institutions and external auditors' reports, as well as performing and evaluating audits of banking operations.

But an efficient division of labour also needs additional guidelines or cooperation agreements which describe supervisory instruments in more detail and lay down procedures. Such guidelines or agreements relate to, for example, supervisory planning, meetings with senior management, drawing up banks' risk profiles but also further details of reporting and notification systems.

I think it is fair to say that this model of a formalised close cooperation worked pretty well in the crisis.

Still, there is a lingering debate in Germany on a more far-reaching reform of banking supervision. As you may be aware, this will probably also be a topic for the new coalition government that is about to be formed.

The Bundesbank stands ready to assume greater responsibilities in supervision. Therefore, the debate should be on how to design the supervisory framework for the future.

I expect that the Bundesbank would be closely involved in any reform initiative right from the outset and that we would be given the opportunity to provide our own input in designing a revised supervisory structure in Germany.

We are convinced that the independence of monetary policy and a more prominent role in the supervision of banks and insurance companies can be reconciled.

Any such reform must contribute to aligning further the national and European supervisory structures as they evolve.

3 Success factors for Level 3 committees evolving towards 3 EU Authorities?

First, I would like to say that I explicitly welcome the Commission proposals on the design of the new supervisory architecture in the EU. Given the complexity of the whole matter, the proposals are a very helpful and crucial milestone. They now have to be analysed and discussed thoroughly. We have a unique opportunity to reshape the supervision of the financial system in order to make it more resilient. Therefore, we have to be very careful to avoid blind spots as well as inefficient overlaps in the competencies and the practical work of the various institutions involved in the supervisory process, at the national as well as at the EU level.

According to the ECOFIN conclusions, the “European System of Financial Supervisors” should be established as an operational network with shared and mutually reinforcing

responsibilities. At the EU level, we shall have the three new “authorities” and a cross-sectoral committee with specific tasks in fostering convergence of supervisory rules and practices in Europe, whereas the national supervisors are to remain responsible for ongoing supervision.

Experience of the crisis indicates that strengthening supervisory coordination is crucial in dealing with the current problems and helping to restore confidence.

The objectives of the new framework, according to the ECOFIN/European Council, are to upgrade the quality and consistency of national supervisors; to strengthen supervision of cross-border groups, in particular, by setting up supervisory colleges for all major EU financial groups and by moving towards a single rule book.

The ECOFIN and the European Council also stipulate that the activities or decisions of the new authorities should not impinge on the fiscal responsibilities of the Member States and that any binding decision by the new authorities or the Commission must be subject to Community courts.

These key messages from the ECOFIN conclusions match perfectly with what might be considered to be the “success factors” of the new framework. Due account should be taken of these when discussing and deciding the details: continuation of a cooperative working style within what should be an operational network rather than a centralised supervisory system.

The envisaged binding powers of the new authorities in relation to the national supervisors should be interpreted as a means of speeding up the process of convergence and of strengthening the supervisory system, not as a sign of a hierarchy. It should not be forgotten that the decision-making bodies of the new authorities comprise the national supervisors.

In this context, I do not agree with the proposed possibility of decisions taken by the new authorities being communicated directly to financial institutions. I do not want to get into a discussion on fundamental legal issues. However, even from a political perspective or with regard to a possible response on the part of the general public, it is important that one should refrain from direct intervention vis-à-vis financial institutions. Communication with the institutions in such matters is solely the responsibility of the competent supervisors.

There was a political consensus to upgrade the three committees to authorities with specific powers, including some binding powers over the national supervisors. However, the current Commission proposal goes further, giving the three authorities direct powers to take decisions that affect the industry. Apart from the legal issues this raises, this approach risks establishing a parallel system of national responsibility – which, incidentally, ECOFIN is in favour of maintaining –, and decisions from a supra-national authority. Taking due account of the fundamental principles of subsidiarity and proportionality, it would be more appropriate to address recommendations to the national supervisory authorities only under the terms of the earlier consensus.

As concerns the appropriate institutional settings, the structure of the new authorities should ensure a balance of full involvement and efficiency. With regard to the composition of the “Board of Supervisors” at the EBA, it is important that supervisors and central banks are

represented, fully reflecting their responsibilities at the national level. This is also important in order to create a close link between macroprudential and microprudential analysis.

Last but not least, even though strengthening supervisory powers at the EU level is important, these reforms absolutely must be aligned with global initiatives, given that major European banks are also acting globally. In this regard, it is essential to establish global supervisory colleges which can adapt their composition and procedures to the individual supervisory needs of each specific financial group.

Thank you for your attention. I am looking forward to your comments.

* * *