

Present and future of the European banking regulation and supervision

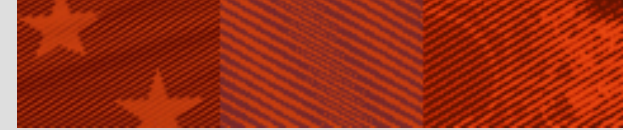
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Outline of the presentation



- European single financial market
 - One of the main goals of the European financial regulators
- Present level of integration in the EU financial markets
 - It is not the same across different market segments
- What has been made until now?
 - Notable efforts improving the legislation and the normative process in the EU ... as well as at the international level
- The road ahead
 - To reinforce present legislative structures...
 - ... while walking towards a more centralised decision making framework

European single financial market (I)



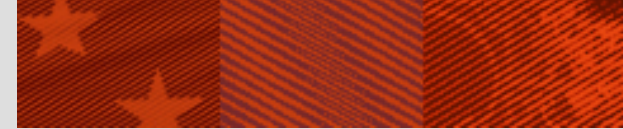
- One of the main goals of European financial regulators is to exploit the benefits of a more integrated financial system. Among these benefits it is possible to mention
 - Better and smoother transmission of the monetary policy
 - More efficient channelling of funds to its most productive uses
 - More opportunities for risk diversification among market participants
 - Deeper and more liquid markets
 - Increasing incentives for competition and innovation



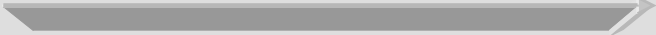
- Parallel to this it is necessary to limit the potential negative effects on the system stability ...
 - Intensified cross-border links could increase contagion
 - *Among different countries*
 - *Among different sectors*

- ... and, all in all, to design a financial system more capable in
 - fostering sustainable economic growth and
 - improving the standards of living of the EU citizens

Present level of integration (I)

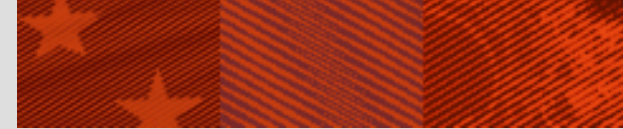


- The speed and scope of financial market integration varies across different business segments

More integrated  Less integrated

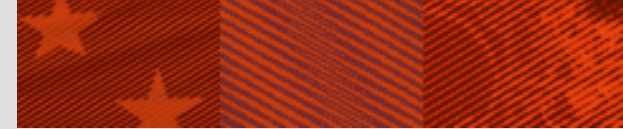


Present level of integration (II)

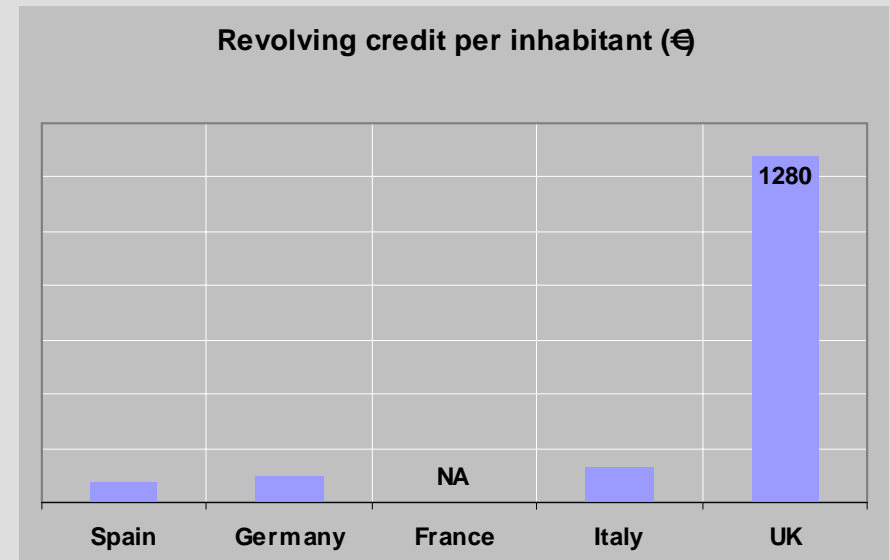
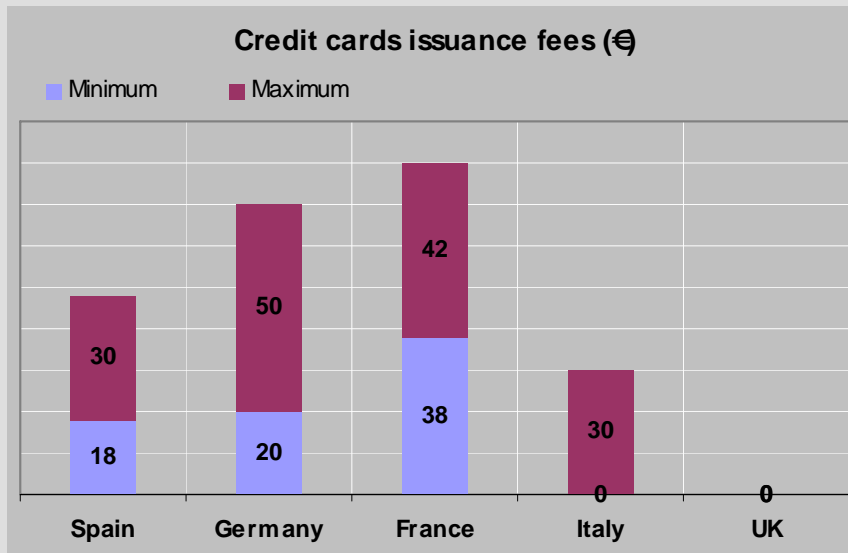


- The present level of integration in the European financial markets merits, among others, two reflections
- **First**, a word of caution is needed regarding the level of integration that it should be expected in retail markets:
 - In recent years there are certain signs of increasing integration in the retail markets. For instance, it is possible to observe some relevant mergers and acquisitions at the EU level
 - But, at the same time, it is relevant to take into account the intrinsic characteristics of each country's retail market

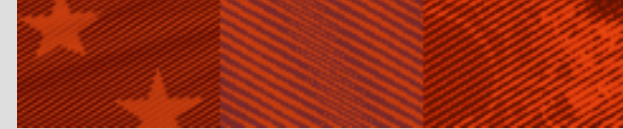
Present level of integration (III)



- Credit cards business is a good example of how structural differences and the particular characteristics of the business must be taken into account

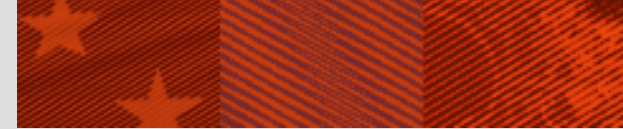


Present level of integration (IV)



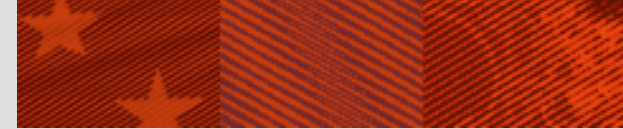
- These specific characteristics of retail markets in different countries are related to:
 - The relative importance of relationship banking that, among other things, implies proximity and long term relationships with clients. That is, local banks can have certain advantages in comparison with international (even national) banks
 - At the same time, higher competition at the national level can discourage foreign entry

What has been made until now? (I)

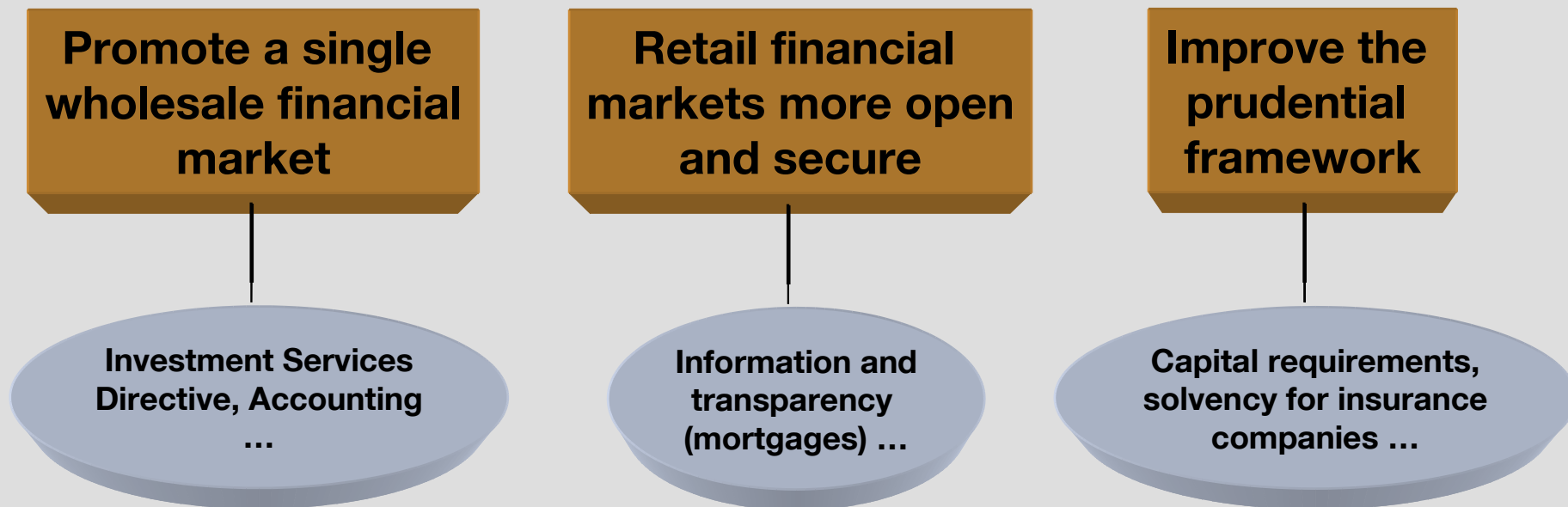


- The **second reflection** regarding the European financial integration is related to the Euro, that has been a crucial step forward in the direction of greater financial integration ...
- ... although not enough
- Changes in the legislative framework of the EU were needed in two directions:
 - **New legislation: Financial Services Action Plan (FSAP)**
 - **New structure and design of the framework: Lamfalussy approach**

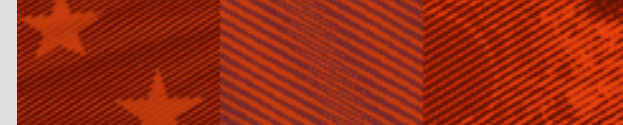
What has been made until now? _ The FSAP (II)



- What is the main goal of the FSAP?
 - To promote the integration of financial markets in Europe
- How to attain this ambitious objective?

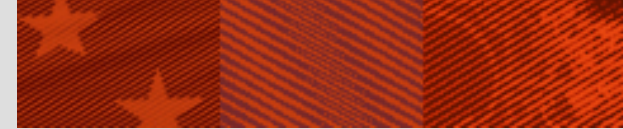


What has been made until now? _ The FSAP (III)



- These three strategic objectives have been expressed in 42 initiatives and 23 Directives
- The Capital Requirements Directive (CRD) and the MiFID, both to be implemented in the near future, are good examples of the notable changes that FSAP is introducing
 - CRD: it is a major step towards better risk measurement and management, and, all in all, towards greater financial stability
 - MiFID: it will increase market integration and, most importantly, it will spread the benefits of financial integration to consumers

What has been made until now? _ The Lamfalussy approach (IV)



- New Directives are powerful, and sizable changes should be expected ...
- ... but structural changes were also needed in order to increase the flexibility of the regulatory framework and to reduce the long lags in the implementation process of the Directives
- The Lamfalussy approach is a major step in that direction
 - Level 1: basic regulation and high level principles
 - Level 2: technical elements that need legislative force
 - Level 3: transposition and execution – committees of supervisors
 - Level 4: enforcement

What has been made until now? _ CEBS (V)

- Under this new framework, more flexible and rapid, the degree of cooperation among supervisors has increased
- In this sense, level 3 committees are playing a key role. CEBS is a very good example:
 - CEBS commenced its duties on 1 January 2004
 - It is comprised of high level representatives from banking supervisory authorities and central banks of the EU, including the ECB. Note that only supervisory authorities are voting members

What has been made until now? _ CEBS (VI)

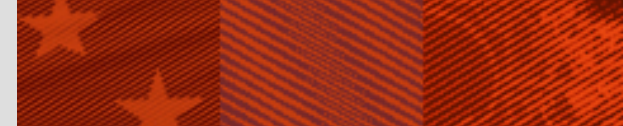
- The main tasks of CEBS can be grouped into three basic categories:
 - Give advise to the Commission on banking policy issues, in particular for the preparation of draft measures for the implementation of the EU legislation
 - Produce guidelines, recommendations and standards in order to contribute to the consistent implementation of EU Directives
 - Enhance supervisory co-operation and information exchange
- Obviously, these are not simple tasks, even more taking into account that the EU is composed by 27 different countries that need to reach consensus

What has been made until now? _ CRD (VII)



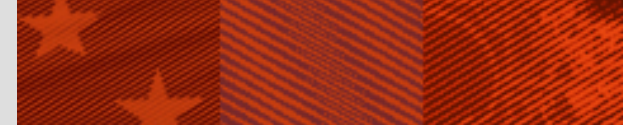
- In the field of increasing co-operation among supervisors, other initiatives such as the CRD provides a powerful framework for its consistent implementation
 - Additional tasks for the consolidating supervisor, for instance
 - *Coordination responsibilities for the gathering and dissemination of relevant information*
 - *Planning the supervisory activities*
 - *Responsibilities in relation to the validation of group wide approaches for the advanced measurement of credit and operational risks*
 - ... while ensuring the involvement and proper access to information to all the supervisors involved in the process

What has been made until now? _ global dimension (VIII)



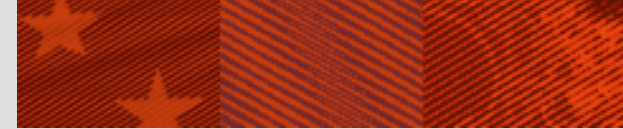
- In any case, when talking about the need of co-operation among supervisors it should be remembered that co-operation overcomes the EU level
- The reason is that an important number EU of banks (and other regions) are global players
 - 12 out of the 25 largest banks in terms of market capitalization belong to the EU
- In that sense, the work of the Basel Committee of Banking Supervision, as well as the efforts made by the Accord Implementation Group (AIG) regarding the implementation of Basel II, are of major importance

What has been made until now? _ global dimension (IX)

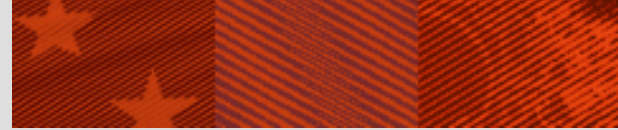


- The Accord Implementation Group was established to share information and to promote consistency in the implementation of Basel II. The main tasks of the AIG are related with:
 - Sharing supervisory experiences and methodologies in the implementation of Basel II
 - *Best practices and effective implementation*
 - Providing information on implementation approaches
 - *Identify issues that may require discussion*
- The AIG provides a forum for discussion, but it is not intended to mandate uniformity in the application of Basel II

What has been made until now? (X)



- To sum up:
 - Supervisors are the first to recognized and understand that co-operation is key
 - *Due to the intrinsic characteristics of today's financial systems, much more interlinked*
 - *And particularly in the EU, where there is an unavoidable objective of promoting a more integrated and efficient financial market*
 - In the EU, today's co-operation framework is based on the well functioning of the three committees of level 3
 - *This system implies a huge step forward*
 - *and clearly promotes a higher level of co-operation and information exchange, establishing a first step towards a common supervisory culture in the EU*



Thank you for your attention