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Public Hearing on the Supervisory Package

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First of all, I would like to express my gratitude for the invitation to participate in today's event. I should note that I will be giving my personal views on the issues at hand, both from my perspective as the Director General of Banking Regulation at the Spanish central bank (Banco de España) and also from my experience as the first chair of the Committee of European Banking Supervisors (CEBS). My views do not necessarily reflect those of the Banco de España.

As a first comment, I very much welcome the proposals to modify the European supervisory architecture (reflecting the recommendations of the Larosière report). They quite rightly set forth an evolutionary rather than revolutionary approach. But they nevertheless represent an important milestone in the organization of regulation and supervision in the EU.

I should stress here that I do not believe that the changes proposed should be interpreted as an affirmation that the crisis was caused by a failure in supervisory cooperation, although we have certainly learned some important lessons from it and it has helped us to identify areas for improvement. Neither should the proposals be interpreted as indicating that the current level three committees have failed to do their job in some way. On the contrary, I believe that the committees have made incredible progress within the boundaries of the institutional structure that they were set up in. They have been real catalysts for change over a relatively short time period. However, we have to recognise that we have now reached the limits of what we can achieve with an approach which is purely cooperative.

Indeed, it is these "institutional" aspects which I think are actually the most relevant in this whole package. One of the greatest advantages of the new system is that the European Supervisory Authorities will be EU organisations, underpinned by powerful legislation, with full-time Chairs, and strong Secretariats. This contrasts greatly with the current situation of the level three committees. The underpinning legislation is certainly weaker. Indeed, the only option available to us when we established CEBS, for example, was to set up the committee as a charity or not-for-profit organisation under UK law, and I understand that the other committees have faced similar challenges. Furthermore, the Chairpersons are part-time, while the Secretariats are in many cases staffed by experts on relatively short secondments, meaning that it is difficult to take a long-term perspective or to preserve the long-term "corporate memory". So the institutional changes that will be put in place are in themselves extremely powerful, even though day-to-day supervision of financial institutions remains in national hands.

Let me turn now to what it is that these new authorities should do. Here I want to focus on the objective of convergence. And I should stress that I am speaking from the perspective of the banking sector, as I know that the situation may be different in other sectors.

I think it is fair to say that in principle there are no great differences between the national banking supervisory authorities in terms of their supervisory powers, although further harmonisation in this area should of course be encouraged and will be welcomed. The challenge therefore is to achieve greater convergence in regulatory and supervisory practices.

In this sense, I must make a reference to the single rule book. This is a powerful and attractive concept, and it is important to take it forward. But we have a difficult road ahead and one which is not without risks. We need better regulation rather than simply more regulation. But above all, we should avoid confusing the objective with the means to achieve it. In the end, our ultimate goal is the convergence of regulatory and supervisory practices. The single rule book is just an instrument that will help us get there. It is not the end-goal itself. And the single rule book is only one of the instruments that we will need.

In particular, we need to concentrate our efforts on supervisory practices, and on promoting a common supervisory culture (common training, joint inspections etc). Here the crisis has helped us to identify some key issues in this respect, and may help us to speed progress. For example, the crisis has underlined the importance of intensive supervision. It has also highlighted the need to ensure proper and convergent implementation of regulation and guidelines. It has shown us the value of new tools such as supervisory stress tests. And it has demonstrated the need to incorporate macro-prudential aspects into our considerations as supervisors. So we know the challenges ahead. But there can be no shortcuts here. Real convergence takes time. And it takes commitment at the highest level, something that will be promoted by the board structures of the new authorities.

Just a few words on the macro side. It goes without saying that the creation of the European Systemic Risk Board is an extremely important piece of the overall package. And, as it is a package, we have to ensure that the micro and macro sides work well together and complement each other, avoiding duplication of work. Close cooperation and an effective two-way dialogue will be key here.

Let me also take advantage of the occasion to mention the issue of deposit guarantee schemes. This is the missing link in the debate, as I have been saying for many years. Despite the best efforts of the EU institutions to achieve greater harmonisation, we still have a variety of different national schemes in place across the EU. There are differences in many aspects, including levels of coverage; the role of the schemes – for example, whether or not they can get involved in crisis management - as well as in relation to their organisation and financing. Depositor protection is one of the cornerstones of a single financial market and I believe more needs to be done here, even though it may be too early to consider a pan-European system.

My final comments come back to the new European Supervisory Authorities. I have mentioned the importance of the institutional aspects of the package. As part of this, it is crucial that the new authorities are established with a sufficient level of independence to allow them to focus on the job at hand. Of course, this independence must be coupled with accountability responsibilities, which must be strong and taken seriously. The combination of these two aspects will be crucial for success.