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Introductory remarks at the Joint Press Conference on European Financial Supervision

Joint Press Conference on European Financial Supervision

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Speaking points for President Barroso

Good morning ladies and gentlemen.

As you know the Commission has signalled in February our broad acceptance of the Larosière Group's report and this was endorsed by the Spring European Council.

I want once again to thank the Larosière group for this excellent report.

Today we are asking the June European Council to endorse a more detailed approach, so we can bring forward the necessary legislation in the autumn.

Let me be very clear about this. The reason why I established the de Larosière group last November was very simple. We needed to make a break with the past. There were many discussions for many years among finance ministers, among experts, many reports, but no real move forward.

Thanks to this initiative we were able in the de Larosière report to create a large consensus among professionals and political leaders, and I believe also in the European Council.

Now it is time for action. It will be now or never, if we cannot reform the financial sector, financial supervision, when we have a real crisis when will we reform it? I am determined to reform financial supervision in Europe I can only hope the member states will follow us. And today we are making a very important and I believe achievable and realistic, but at the same time ambitious proposals.

The main difference with what the Larosière group proposed is that we want to move faster. We want the new system in place in 2010 rather than 2012.

Today’s proposals are a also key part of the European Economic Recovery Plan. Markets and the public need to know they will be quickly implemented.

The technical aspects are complicated but the fundamental question is simple. Financial markets are European and global, not national. Europe must show the collective political will to tackle future systemic risks before they get out of control.

This oversight will be done at macro level though the European Systemic Risk Council which will assess risks to the stability of the financial system as a whole.

At micro-level, the new European System of Financial Supervisors will enhance supervision of individual cross-border financial institutions. This is not, I insist, a centralising of power. We are not taking away national supervisors’ day to day role. It is a partnership between national supervisors and new European Supervisory Authorities, themselves based on existing committees of Member State supervisors. That is to give this a European approach. They are existing supervisors, but within a real European concept and with a real European interest.

Joaquin Almunia and Charlie McCreevy will give more details, but let me first put this in context.

The measures we have taken to tackle the crisis are starting to work.

But a fiscal stimulus by definition is temporary. The real economy also needs ethical and effective financial markets if it is to prosper.
Removing impaired assets and the recapitalization and restructuring of banks are vital to underpin a supply of new lending. Meanwhile, our measures on, for example, capital requirements, credit ratings agencies, hedge funds and private equity will help re-establish confidence and restore the demand for credit.

But those measures can only work fully if they are complemented by a more effective architecture for financial market supervision that reflects modern reality.

The Commission wants Europe to be the first to implement its G-20 commitments on cross-border supervision. Having first mover advantage will show our G20 partners that we expect them to go ahead with the same speed and determination. It will maximise Europe's influence in developing the global system.

So I will be asking the European Council to endorse the new system and to commit to setting it up in 2010. There is no room for more delays or equivocation. We only have one chance to get this right.

**Speaking points for Commissioner McCreevy**

I have been attending ECOFIN Councils since 1997. Improving supervisory cooperation has been on Ministers agendas even before then. And what has been achieved? Frankly very little. Lots of reports, lots of discussion but no real progress on the ground.

You would think the present crisis would have spurred ministers and supervisors to find better ways of working together. But I am afraid the crisis has had an opposite effect. It has reinforced the tendency for supervisors to think nationally. Many finance ministers have told me that they learned from the newspapers when a foreign owned bank on their territory was in difficulty. The authorities in the home MS had no instinct to inform other supervisors or finance ministers about decisions they were taking which affected the banks operations in those MS.

That is why Jose-Manuel's decision to set up the De Larosiere group was the only way we could hope to move this debate forward. Otherwise we would have continued to turn around in circles. The De Larosiere report has provided the catalyst to try take this discussion onto a new level.

The Communication before you today outlines concrete proposals to equip the Single Market with a new and comprehensive system to preserve financial stability. This system will rest on two pillars: micro-prudential supervision and macro-prudential supervision. I will concentrate on the micro prudential aspects.

The new System would be composed of 3 new European Supervisory Authorities: the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities Authority (ESA). These would replace the current EU Committees of Supervisors (CEBS, CEIOPS and CESR). The new Authorities would be working in a network with national supervisors. This network would develop common supervisory approaches to the supervision of all financial firms, to protect consumers of financial services and to contribute to the development of a single set of harmonised rules. The new European Supervisory Authorities should draw up technical standards, help ensure the consistent application of Community law and resolve disputes between supervisors.
I was concerned that in maintaining 3 authorities there was no under laps or overlaps that could occur. Going beyond what M De Larosiere had envisaged we are now proposing in this communication the creation of a coordinating or steering group among the three Authorities. This over arching committee would have as its function ensuring consistent supervisory approaches, strengthening cooperation as well as addressing cross sectoral challenges including financial conglomerates.

A critical issue is the proposed 'dispute settlement' mechanism, which aims to balance home and host interest and come to more effective supervision. It is important to stress that decisions under this mechanism should not directly impinge on the fiscal responsibilities of the Member States. It would relate to issues concerning the organisation of supervision, the technical implementation of prudential rules and issues like balanced information sharing between home and host authorities.

In crisis situations such as the one that we experienced last autumn the new Authorities would have a strong coordinating role: they should facilitate cooperation and exchange of information between competent authorities, act as a mediator when that is needed, verify the reliability of the information that should be available to all parties and help the relevant authorities to define and implement the right decisions.

The competences of the new Authorities would also include full supervisory powers for some specific entities such as Credit Rating Agencies; the aggregation of all relevant micro-prudential information emanating from national supervisors; and a certain role in the EU activities at the global level, mainly with regard to technical aspects.

In formulating his recommendations Jacque Delarosiere decided to put forward proposals that would not need Treaty changes. This was a pragmatic approach.

The proposals before us today are designed to work in the context of current Treaty provisions and Court of Justice jurisdiction.

Within this framework we have devised I believe a workable system that would bring real value added if enacted.

If the European Council gives a fair wind to our suggested approach then I would envisage that I should be able to come back in early Autumn with the legislative proposals to give effect to the architecture set out in today's communication.
Speaking points Commissioner Almunia

The financial sector, as we know, was one of the main drivers of growth since the creation of the single market in the early 90s, but it also nearly caused the economy to collapse at the turn of the year. The reforms proposed today would for the first time equip the EU with a pan-European macro-prudential supervision system. This is a major breakthrough.

Concretely, for what concerns macro-prudential supervision, the Commission proposes the establishment of a new body, the European Systemic Risk Council that would be entrusted with the role of ensuring macro financial stability in the EU.

Based on appropriate analysis, the Council would be able to detect potential threats to the stability of the entire financial system and, if needed, to issue early warnings about these threats and make recommendations to avoid that they materialise.

In doing so, we will be able to ensure that we escape from the boom-bust dynamic that is at the origin of the systemic failures that have characterised the functioning of our financial systems recently.

We are proposing that this Systemic Risk Council is chaired by the President of the European Central Bank and that the ECB plays a key role in its functioning. Its members would include all the central bank governors of the 27 Member States, the Vice-President of the ECB, the chairpersons of the three new European Supervisory Authorities and a member of the European Commission. This composition reflects the links between micro- and macro supervision and the necessary consistency between those and the role of the Commission.

I would like to add, that it is paramount that the judgements made by the Council are based on information of the utmost quality. Access to information is therefore key. And it is crucial that the warnings and recommendations are followed by action. If this is not the case, the addressees of the warnings, generally the Member States, should have to explain why according to the "act or explain" mechanism.

I will finish by saying that this new body would, obviously, liaise closely with the IMF, the Financial Stability Board and other international systemic-risk counterparts.