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Introductory Remarks

Ladies and Gentlemen,
Good afternoon. I am pleased to open today's afternoon session, and I am particularly pleased to welcome our distinguished speakers, Lorenzo Bini Smaghi and Professor David T. Llewellyn.

This session is entitled *Banking and Financial Architecture in the EU*. In the course of the recent years, the banking and financial architecture worldwide has been changing considerably as a response to the financial crisis. EU Member States decided on a radical overhaul of Europe's system of financial supervision. The establishment of the European System of Financial Supervision (ESFS) comprising the three European Supervisory Authorities (ESAs) for the banking sector (European Banking Authority, EBA), for the securities sector (European Securities and Markets Authority, ESMA) and for the insurance and occupational pensions sector (European Insurance and Occupational Pensions Authority, EIOPA) as well as the newly created European Systemic Risk Board (ESRB), is an important milestone in addressing many of the shortcomings. While the three European Supervisory Authorities continue their work on micro-prudential supervision in a more comprehensive way, the ESRB is responsible for overseeing risks in the European financial system as a whole, thus focusing on macro-prudential supervision. Successful interaction between the ESRB and the ESAs, in particular to ensure a proper meshing of macro-prudential and micro- prudential instruments, will be challenging. The ESFS will foster a coordinated European approach to financial supervision and it will enhance the integration process of financial markets and supervision, thus strengthening economic growth in the EU.

What challenges does the new European System of Financial Supervisors and especially the European Systemic Risk Board face?

Let me briefly address three major issues:

First, the analytical challenge is high with regard to collecting the relevant data and employing the right tools to measure, analyse and prioritise systemic risk in a way that the ESRB can make warnings and recommendations. The main new avenue to explore is improving our understanding of the interconnectedness in the financial system, both via the direct links between financial institutions and the indirect ones created within the financial system itself.

Second, the ESRB needs to develop a macro-prudential policy framework in the medium-term and coordinate instruments on EU level. However, it is necessary that macro-prudential supervisors have sufficient flexibility on a national level and a wide range of macro-prudential instruments at their disposal to address systemic risk. In this

regard, I see a strong role for the ESRB in organising a coordinated EU approach in order to strike the right balance between additional macro-prudential policy and a harmonised Single Rule Book.

Third, as we have so far only limited experience regarding macro-prudential policy measures and their interaction with other policies and the real economy, the major challenge lies in combining early risk identification and counteracting measures with the medium- and longer-term perspective.

Let me conclude by saying that, in my capacity as Vice Chair of the ESRB's Advisory Technical Committee, I am fully committed to assess the risks for EU financial stability and, more importantly, to act upon them in a coordinated and timely manner.

I am very happy that our first speaker Lorenzo Bini Smaghi, Member of the Executive Board of the ECB, will shed more light on the before mentioned issue concerning the interaction of macro-prudential policy with other policies in his speech *Macro-Prudential Supervision and Monetary Policy – Linkages and Demarcation Lines*.

Our second speaker, David T. Llewellyn, Professor at the renowned European Loughborough University, will critically address the issue of *Will the New EU Financial Architecture Prevent Future Crises?*; as the challenges and expectations of the new supervisory framework are high and the costs for society – if we fail – as well.