



OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

Toward Supervisory Convergence in Europe: A National Perspective

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Agenda

1. **Developments in the EU banking sector in recent years**
2. **Recent financial turmoil**
3. **EU regulatory and supervisory arrangements**
4. **Implications of the recent financial turmoil for the future of financial supervision**
5. **Strengthening the existing EU supervisory framework**
6. **Conclusions**

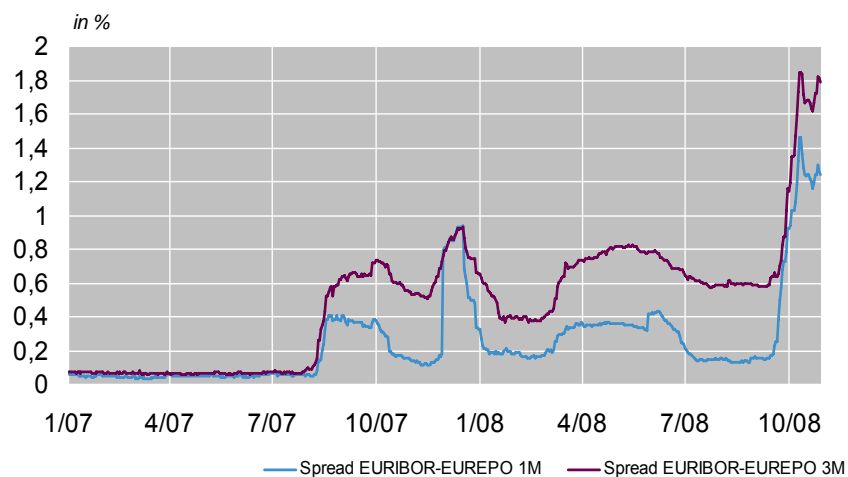
1. Developments in the EU banking sector in recent years

- Increasing financial market integration
- Internationalization of EU banking groups
- Growing market concentration
- Strengthening of intermediation
- Emergence of the “originate-and-distribute” business model

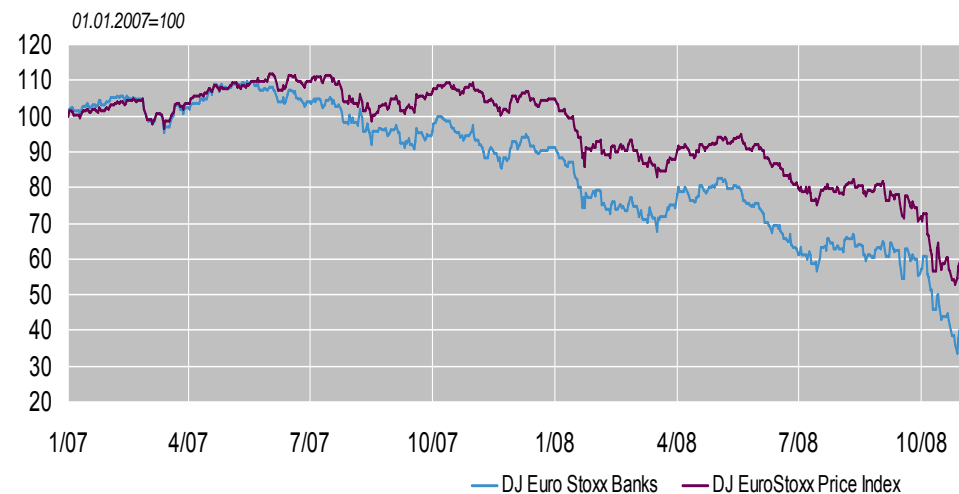


2. Recent financial turmoil

Spread EURIBOR vs. EUREPO - 1M and 3M

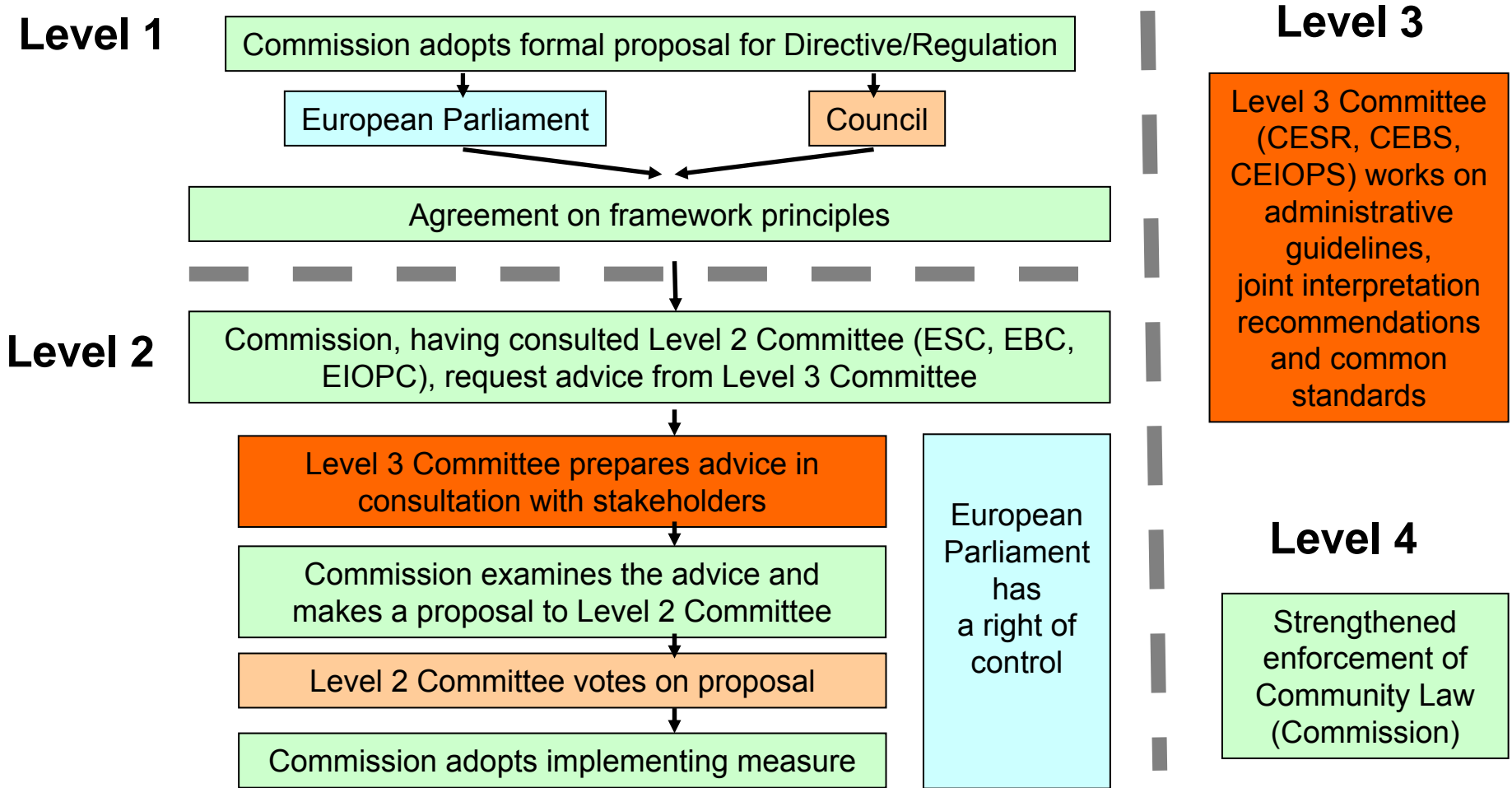


Developments of share prices in the Euro area



Source: Bloomberg.

3. EU regulatory and supervisory arrangements

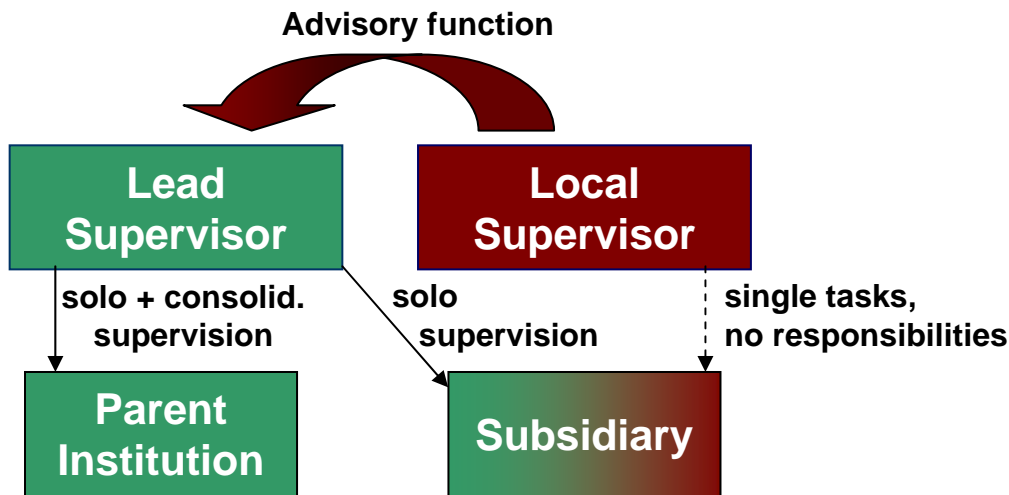


4. Implications of the recent financial turmoil for the future of financial supervision

Three options are discussed among policy makers and market participants:

- **A lead supervisor model in which a single national supervisory body would be responsible for the supervision of all parts of a banking group and would act as one-stop-shop;**
- **The evolution of the current European architecture from which a decentralized European System of Banking Supervisors might emerge;**
- **European Financial Supervisor who would be responsible for the supervision of all banks or at least all cross-border banks in the EU.**

The “lead supervisor” is NOT the right answer, neither short-term nor long-term

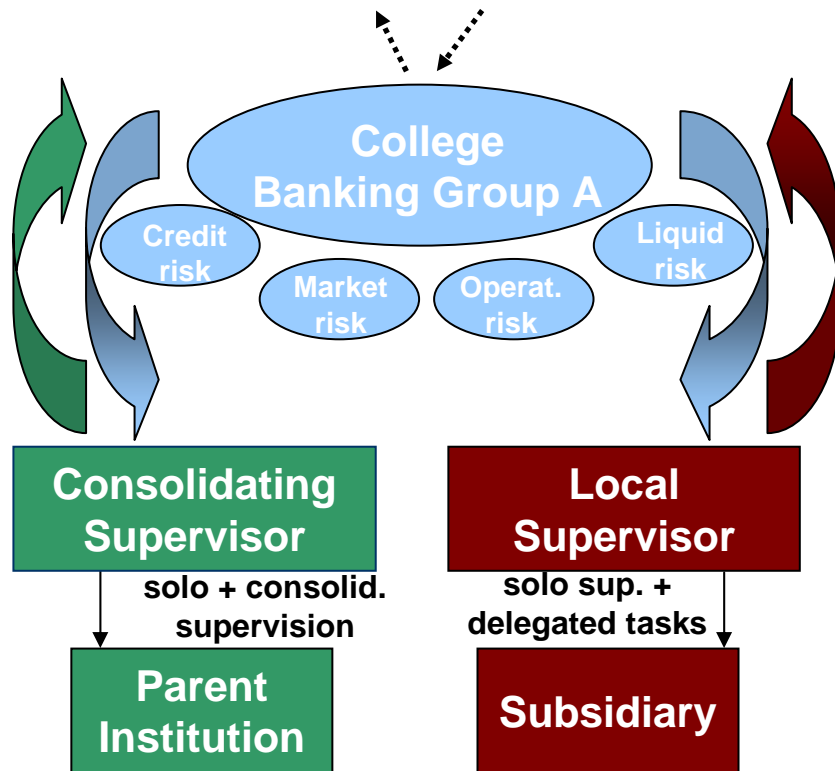


- Level playing field problems: group-specific rules versus internal market concept
- Local supervisors’ interests not appropriately reflected
- Split btw supervisory and financial stability/bailing-out responsibility → renders crisis management more difficult (who pays?)
- No incentives for enhanced two-way information exchange
- Legal issues

Evolutionary approach (1): Short term – further step up supervisory cooperation

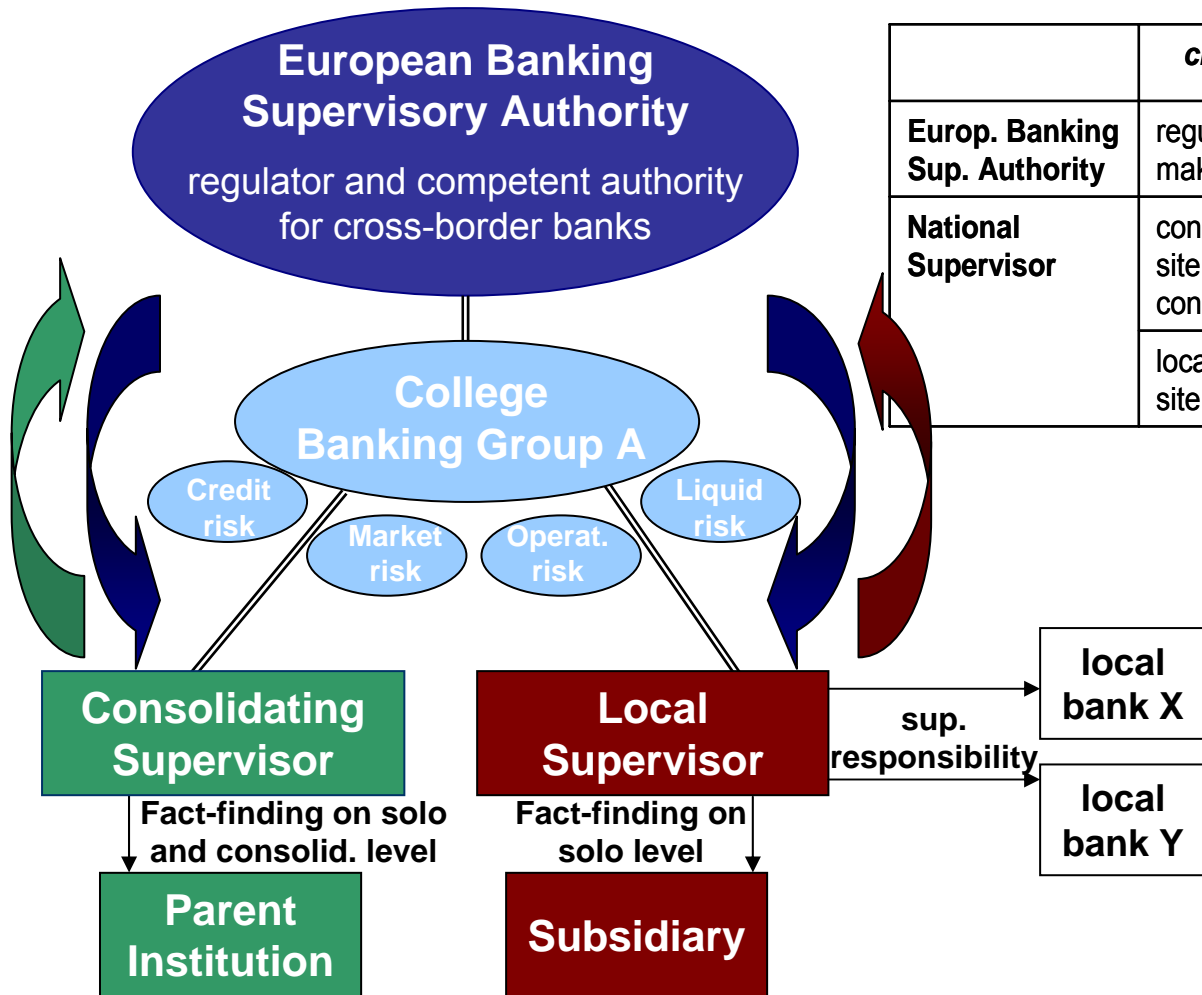
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Fostering consistent developments across colleges by means of discussions, info exchange, guidelines



- Further intensification of colleges work
- Expert teams within colleges
- Delegation of tasks
- Linking participation to the commitment to contribute in crisis resolution?
- In parallel: work on further regulatory harmonization

Evolutionary approach (2): long term – emergence of decentralized European System of Banking Supervisors



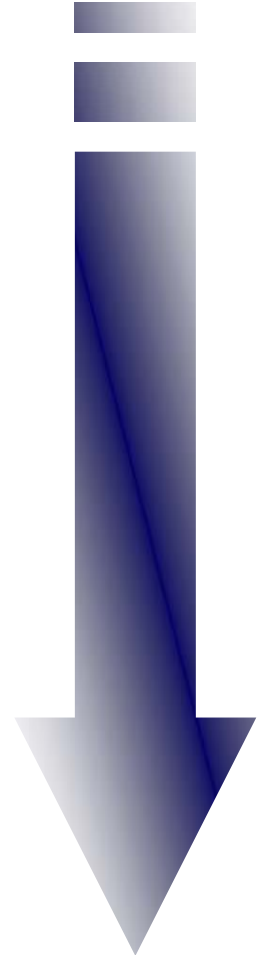
	<i>cross-border banking group</i>	<i>local bank</i>
Europ. Banking Sup. Authority	regulatory + authority (= decision-making) function; coordination	n.a.
National Supervisor	consolidating sup: fact-finding (on-site, off-site) on solo (parent) and consolidated level	authority and fact-finding function, regulatory function depending on national law
	local sup: fact-finding (on-site, off-site) on solo level (subsidiary)	

Clear political commitment, more political integration and an appropriate framework as a precondition!

Procedural way forward: Masterplan

Agreement on a **roadmap with milestones and timelines**

- **Harmonization or (if not sufficiently possible) 28th regime of supervisory requirements**
 - **licensing, requirements for banks, reporting scheme, supervisory powers and approaches, etc.**
- **Administrative procedures**
- **Winding-up and deposit guarantee**
- **Adequate provisions for crisis resolution incl. bailing-out**
- **Legitimacy, transparency and accountability**



5. Strengthening the existing EU supervisory framework

- **Financial crisis cell**
- **European dimension in supervisory decisions**
- **Promote exchange of information and cooperation**
- **Home-host arrangements**
 - **Specific tasks for committees**
 - **Qualified majority decision making**
 - **Colleges of supervisors**
- **Reporting requirements**

6. Conclusions

- **Evolutionary approach effective**
 - **Potential challenges and requirements addressed at each stage of the process as they emerge and in the appropriate manner**
- **In the long-term, a decentralized European System of Banking Supervisors might emerge from an evolutionary approach**
- **Supervisory convergence is still incomplete, but a great deal of progress in recent years**