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Statement

**by Felix Hufeld
President of the Federal Financial Supervisory Authority
(BaFin)**

at the

**Public Hearing “Review of the European System of Financial
Supervision”**

**European Parliament
Committee on Economic and Monetary Affairs**

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Ladies and Gentlemen,

Thank you very much for inviting me to discuss a very important issue: the European System of Financial Supervision (ESFS). It is of course a privilege to do so together with its architect, Jacques de Larosière. Watching time, let me just focus on some key observations on the ESA architecture. Let me start by saying that many of my colleagues at BaFin including myself are passionate about making financial regulation & supervision in Europe in general and the ESAs in particular a success.

We consider ourselves an integral part of this architecture and spend an enormous amount of time, resources and energy to make it an even better venture. So – although I am obviously representing a major national authority – my remarks are not about “us vs. them” or a turf-war of “national vs. European interests” but very much about good or not so good European policy decisions. So let me offer five principles which guide our thinking about improving the ESAs’ work:

1 Don’t fix what’s not broken: I explicitly cannot confirm that the ESAs systematically overstep their competencies, but I equally fail to see a lack of competencies. Both assertions are more driven by political perceptions as opposed to our reality as supervisors. The challenge to improve the ESAs’ mission is to better enable them to exercise the competencies they *have* (including appropriate resources), *not* to systematically *enlarge* them.

2 No supervisor of the supervisor: Whoever wants to create a supervisor of the supervisor – implicitly or explicitly – creates one too many. Processes, governance structures or planning requirements which essentially eliminate the ESAs’ members-driven nature need to be avoided. The ESAs core mission is regulatory harmonisation and supervisory convergence. This needs to be improved by a collaborative but not a heavy handed, asymmetric top down approach.

3 No bureaucratic monstrosity: Overlapping competencies, highly laborious interfaces on key supervisory processes like e.g. strategic planning, internal model approvals or outsourcing would create huge inefficiencies, cost and administrative slowdown. We should quite simply not do that.

4 Regulation vs. supervision: We need to respect the integrity of regulation vs. supervision and vice versa but not mix things up. This has profound implications on many levels. The relationship between the ECB as a supervisor and EBA as a regulator is an excellent example. But it has also implications on funding: Supervision is funded by levies on the institutions supervised, regulation is essentially a political discipline funded by tax payers’ money.

5 Strengthen the ESAs where they have a structural advantage: There are obvious examples where the ESAs role due to their European nature could and should be strengthened, e.g.

- third country equivalence
- ESMA as the CA for third country entities like CCPs
- financial data analysis
- common financial data language etc.

In short: We reject any attempt to add administrative burden, complexity and cost, we consider the members driven set up of the ESAs as an indispensable pillar and strongly support strengthening the ESAs' role where there is an obvious cross border advantage.

I thank you for your attention and look forward to our Q&A session.