Slovensko predsedstvo EU 2008
Slovenian Presidency of the EU 2008
La Présidence slovène de l'UE 2008

EUROPEAN FINANCIAL SUPERVISION, CRISIS MANAGEMENT ON FINANCIAL MARKETS

Dr. Andrej Bajuk
Minister of finance

Brussels, 23 January 2008

Dear Madam Beres, distinguished Members of the European and National Parliaments, Ladies and Gentlemen,

It is indeed my pleasure to be here today and participate in the debate on the most topical subject of the European Financial Supervision and Crisis Management. The timing could not be better to say a few words, for first time in the Slovenian history as EU Presidency, about this topic of our mutual interest and concern, which I am sure will engage our minds intensively in the future. This topic is a clear priority for the Slovenian ECOFIN Presidency in the first half of 2008.

I would like to thank the European Parliament for organizing this event and offer to all of us this opportunity to have a constructive dialogue that will contribute to the search of best solutions for the challenges ahead.

I would like to stress at the beginning that one of the top priorities of the Slovenian Presidency is the timely entry into force of the Treaty of Lisbon, signed in December last year. The synergy of efforts of all three key EU institutions contributed to the signing of the Lisbon Treaty, which will ensure greater efficiency and democratic functioning of the enlarged European Union. The Lisbon Treaty will further extend the legislative powers of the European Parliament and strengthen the role of National Parliaments. The Slovenian Presidency acknowledges the role and importance of the voice of directly elected representatives of the EU citizens and will therefore strive for excellent working relations. I believe today's discussion will exemplify this.

Dear Ladies and Gentlemen,

The Slovenian Presidency devotes special attention to questions of financial stability. It is an extremely serious topic and we will ensure its efficient consideration by the Council. For this reason an annex to our ECOFIN programme has been prepared, which expresses our intentions in greater detail. We have to acknowledge that even if the current situation in the financial markets is not satisfactory, the real economy in the EU remains on strong fundamentals. Over the next two months the European Council in March will first have to review the developments and situation in financial markets on the basis of the contribution from the ECOFIN, while the whole dossier of the financial stability will be the key topic of the informal ECOFIN in April in Slovenia. This will give us the opportunity to discuss further steps in the development of a system of financial stability, in line with the roadmaps, agreed upon in autumn 2007. This includes the signing of a memorandum of understanding between the ministries of finance, supervisors and regulators on crisis management. The central aim of the Presidency is to carry the agreed work forward, to propose further policy action where appropriate and to speed up the progress where needed. The financial stability will surely be one of the key topics in the next few months and I expect that ECOFIN, as in other issues, will deal with it in a unified manner.

Financial services form a vital element of completing the structural reforms in Europe. Most market participants would agree that a great deal of work is still needed to create a functioning Single European Market for Financial Services. Such a market can only be created by responding to the needs of all market participants in a way which will stimulate business excellence, innovative, creative, competitive, and value added practices while maintaining financial stability and effective as well as efficient financial supervision.

Here we have to acknowledge the reality: ten years ago the share of bank assets in member states other than the home country was 11%. In 2006 it rose to 24%. This points to the level of integration of the European financial system. The legal framework and measures for financial stability including the managing of crises situations have to reflect this reality.

The Slovenian Presidency will thus focus on four strand of work:

1. Pushing forward some of the legislative proposals stemming from the Commission's White Paper on Financial Services Policy 2005–2010.
2. The second focus will be the strengthening of supervisory cooperation.
3. The third area will be to achieve further progress on developing common principles on crisis management and common procedures and practical guidelines for managing cross-border financial crises.
4. Another area will be to strive for continuous improvement of communication towards the public on the ongoing work.

If I just briefly touch on the legislative part, it is clear that the key legislative proposal in the field of financial services is the **Solvency II Directive** in the area of insurance. Here the Slovenian Presidency intends to work closely with the Member States, the Commission and the European Parliament in forging a legislative proposal, which will enhance policy holder protection and increase the competitiveness of the European insurance sector, while respecting its diversity.

Slovenia will under its Presidency also begin the discussions on two new legislative proposals: Amendments to the investment **UCITS III Directive** in the area of investment funds and Amendments to the Directive **on Financial Collateral Arrangements, and the Directive on settlement finality in payment and securities settlement systems.**

On the more **financial stability-oriented issues**, I can confirm that these will feature high on our agenda. The Ecofin will focus mainly on three sets of issues: (i) the EU policy response to the current turmoil in the financial markets in the light of developments since October 2007, and possible further lessons to be drawn; (ii) follow-up on the Lamfalussy review with a main focus on ensuring that the supervisory framework keeps up with market developments and progress in financial integration; and (iii) enhancements to the EU arrangements for financial crisis management.

After several years of high profitability, financial institutions in the EU are in a much better position to face the current situation in the financial markets. We have to be aware, though, that the primary source of problems is not in Europe. It is a wave that was triggered by the difficulties of the US sub-prime mortgage market. But this does not mean that Europe faces no problems of its own. It is only right that we identify and resolve them. In great part it is a responsibility of the private sector, but the legislation and supervisors must also do their part. In response to the developments in the financial markets, that emerged last August, the Ecofin Ministers swiftly agreed on key issues which call for particular attention and agreed on a specific roadmap for action. I can only confirm that the Council will continue to monitor very closely the situation under our Presidency. This includes both the longer-term stability arrangements that were discussed under the Portuguese Presidency, as well as the response to the recent sub-prime mortgage problem and the associated market developments.

Much has already been achieved with regard to strengthening financial stability in the European Union:

- legislative initiatives such as the European Union capital requirements directive and the financial conglomerates directive have strengthened the requirements for information-sharing between authorities involved in the management of cross-border crises;
- cooperation among European authorities in the area of crisis management has been strengthened through voluntary agreements in the form of memoranda of understanding;
- the Lamfalussy process has led to the establishment of Level 3 committees, where national supervisors sit together and discuss the relevant issues.

But the work regarding financial stability in the European Union must continue. The recent turmoil in financial markets was also a test of the effectiveness of the current institutional structure of financial supervision in EU, because it occurred in the regulated markets and thus highlighted the importance of prudent and effective risk management, market transparency, need for intensified cooperation and cross sectoral supervision. We were in a way lucky that no financial institutions that were affected had cross-border exposure. This would really put the functioning of the system to the test, but it did underscore the need for consolidated EU action.

Financial stability is a common concern for all Member States and the EU as a whole. It must therefore be safeguarded on the basis of close cooperation among the responsible authorities, to minimize potential harmful economic impacts at the lowest overall collective cost. I assume I do not have to accentuate the extent of risks we are facing. If we look at the level of fiscal costs, related to the biggest bank crises in the past 20 years, we will see that it amounted to 8% GDP on average. This figure is alarming for any finance minister.

The ECOFIN Council in spring 2008 will discuss an extended Memorandum of Understanding on financial crisis management. The next stage of a broader international agreement should help to reinforce the EU crisis management framework, to further increase the preparedness of the EU for potential cross-border crisis situations.

In line with the ECOFIN agreement of last October, common practical guidelines for crisis management should be developed in order to reflect a common understanding of the steps and procedures that need to be taken in a cross-border crisis situation. An optimal EU framework would need common principles on burden sharing, operational guidelines and cooperation mechanisms. The process should strengthen crisis preparedness in normal times as well as in crisis situations.

As a rule, the handling of a crisis and its resolution are primarily the responsibility of the institution(s) involved. The management should bear the consequences of their decisions, whether they turn out to be ill-advised or when those decisions turn out to be wise. However, the impact of disturbances will depend upon previous crisis arrangements and contingency planning.

Before concluding, I would briefly like to touch the issue of communication with the public, as the market tends to be sensitive on these issues. Given the extent of the ongoing work and the new initiatives that are unfolding it is important for the EU to streamline its communication to the public. This aspect will remain high in our presidency agenda.

In conclusion let me emphasize that I believe that an integrated financial market in Europe needs better arrangements for crisis management and crisis resolution. We all have the goodwill and common goal to create even an even more prosperous and stable financial market in global competition.

Let me conclude with our motto during the Slovenian Presidency – Si.nergy for Europe – together we will manage to make progress and succeed.

Thank you.