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Chair Economic and Monetary Affairs Committee
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Thank you for continuing the tradition of inviting the chair of the ECON Committee to the informal ECOFIN meetings.

The ESAs are now "complete" in the sense of the chair and executive director appointments. Only the ESRB vice chair hearings are left to do. We have learned from that process and we have ideas for the future. I thank Minister Matolcsy and Commissioner Barnier for their cooperation and pledges which allowed us to move forward together.

The ESAs are born into a storm and the Parliament will be their strong ally in meeting that challenge, although that does not always mean total agreement.

Parliament considers it imperative that the bank stress tests are credible, robust and transparent. We made that clear in the hearings with both Chair Andrew Enria and Executive Director Adam Farkas where we also specifically raised the matter of stress testing the banking book. We support the EBA efforts to be tough.

However it seems the collective or political will is still too feeble to test the banking book and face up to the recapitalisation that is needed.

If I pretend for a moment that I am a market analyst, this would be my thought process.

What contingency plans will be demanded by governments and will this just be on the reported tests or will they address the elephant in the room - the banking book? Anyway, I will make assumptions reading across to the banking book holdings that are disclosed. Cynical analysts will be suspicious of the phrase "full disclosure of **relevant** sovereign holdings".

Next stop, I will measure the stated exposures against BIS data to find for example how much various banks are exposed and if there is a gap between BIS data and stress test disclosures I would query who holds the missing bonds and why they are not revealing it - with the assumption that the truth has been hidden because it is too grim to face. This could lead to a resumption of interbank mistrust.

I will also start to question the exposures to failed banks as well as to sovereigns. So my message is, both as a pretend analyst and parliamentarian: don't hide anything, there really is only one answer - own up and recapitalise.

The consequences of not doing so will continue to be felt in destabilising the Euro, because of where the market fears will hit. Not facing the truth on bank capital also risks driving the EU out of the main G20/FSB agenda as

legislative wiggles and exemptions are sought by undercapitalised industry and Governments grasp them as a cheap solution.

Delaying the inevitable is always more costly and it risks neutering both full regulatory cover and Europe's place and voice in global regulation.

On the matter of transparency, Parliament is observing the disclosures of the US Federal Reserve concerning which firms used liquidity facilities - European banks being interestingly large users. Historic data of this kind from EU central banks would be a healthy step, marking a move to a new, more transparent future.

Insurance stress tests under Solvency II are being tested and do not seem problematic, another demonstration of the advanced thinking of Solvency II. But we have challenges, in insurance and elsewhere, around the sameness of prudential regulation forcing on exodus from equity and corporate bond markets. This is at a time when sovereigns no longer look quite as attractive as in times past and when we are desperate for growth, so this is unhelpful.

The provision of pensions is also challenging alongside demographic change. We are already wrestling with that at the macroeconomic end including in the economic governance package.

Meanwhile a whole range of microprudential measures, from IROPS to EMIR, threaten to raise costs. It is one of the reasons why the principles of promoting competition and driving down Europe's high costs that underlay MiFID must not be lost, not in EMIR nor in MiFID II.

In terms of stability versus volatility we should also recognise we are creating more triggers - such as CCP haircuts on government debt triggering a sell off as happened with LCH and Irish bonds

One final thing that I would like to touch on is the G20 focus on the shadow sector, clearly this is essential to reap the benefits of full regulation. The turn of phrase has become if it looks like a duck, regulate it as a duck. So if there is maturity transformation and leverage - prudential rules apply.

A problem we will have in the EU is that our legislation does not allow for discretion - at least at ESA level - and so we will be left trying to prejudge what the shadow ducks look like and we will all realise innovative techniques make that a difficult task and the real risks may continue to exist outside of our definitions.

This may be where the ESRB can help out but response in a legislative way in the EU is slow. This will be a particular problem for ESMA which may well need nimbleness both in the making or withdrawing of regulation.

I have not got a conclusion because there is too much still to mention, but with the ESAs the evolution of a new way of European supervision has begun.