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ДОКЛАД

относно препоръката на Съвета за назначаване на член на Изпълнителния съвет на Европейската централна банка
(N7-0002/2014 – C7-0010/2014 – 2014/0801(NLE))

Комисия по икономически и парични въпроси

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СЪДЪРЖАНИЕ

	Стр.
ПРЕДЛОЖЕНИЕ ЗА РЕШЕНИЕ НА ЕВРОПЕЙСКИЯ ПАРЛАМЕНТ	3
ANNEX 1: CURRICULUM VITAE OF SABINE LAUTENSCHLÄGER	4
ANNEX 2: ANSWERS BY SABINE LAUTENSCHLÄGER TO THE QUESTIONNAIRE ..	6
РЕЗУЛТАТ ОТ ОКОНЧАТЕЛНОТО ГЛАСУВАНЕ В КОМИСИЯ	31

ПРЕДЛОЖЕНИЕ ЗА РЕШЕНИЕ НА ЕВРОПЕЙСКИЯ ПАРЛАМЕНТ

относно препоръката на Съвета за назначаване на член на Изпълнителния съвет на Европейската централна банка
(N7-0002/2014 – C7-0010/2014 – 2014/0801(NLE))

(Консултация)

Европейският парламент,

- като взе предвид препоръката на Съвета от 7 януари 2014 г. (N7-0002/2014)¹,
 - като взе предвид член 283, параграф 2, втора алинея от Договора за функционирането на Европейския съюз, съгласно който Европейският съвет се е консултирал с Парламента (C7-0010/2014),
 - като взе предвид член 109 от своя правилник,
 - като взе предвид доклада на комисията по икономически и парични въпроси (A7-0023/2014),
- A. като има предвид, че с писмо от 8 януари 2014 г., получено на 9 януари 2014 г., Европейският съвет се е консултирал с Парламента относно назначаването на Сабине Лаутеншлегер за член на Изпълнителния съвет на Европейската централна банка (ЕЦБ) за мандат от осем години;
- Б. като има предвид, че комисията по икономически и парични въпроси направи оценка на квалификацията на г-жа Лаутеншлегер, по-специално от гледна точка на условията, посочени в член 283, параграф 2 от Договора за функционирането на Европейския съюз (ДФЕС), и на изискването за пълна независимост на ЕЦБ в областта на паричната политика съгласно член 130 от ДФЕС; като има предвид, че в рамките на тази оценка г-жа Лаутеншлегер предостави на комисията автобиография, както и своите отговори на изпратения до нея писмен въпросник;
- В. като има предвид, че впоследствие, на 13 януари 2014 г. комисията проведе изслушване на г-жа Лаутеншлегер, по време на което тя направи встъпителна декларация, а след това отговори на въпросите, зададени от членовете на комисията;
1. изказва положително становище относно препоръката на Съвета за назначаване на Сабине Лаутеншлегер за член на Изпълнителния съвет на ЕЦБ;
 2. възлага на своя председател да предаде настоящото решение на Европейския съвет, на Съвета, както и на правителствата на държавите членки.

¹ Все още непубликувана в Официален вестник.

ANNEX 1: CURRICULUM VITAE OF SABINE LAUTENSCHLÄGER

Deputy President of the Deutsche Bundesbank

Responsibilities

Banking and Financial Supervision, Audit

1964-06-03

Born in Stuttgart, Baden-Württemberg; married, one daughter

1983

A-Levels Antoniuskolleg Neunkirchen-Seelscheid

1983 – 1984

Foreign exchange student in St. Charles, IL., USA

1984 - 1990

Legal studies at the Rheinische Friedrich-Wilhelms-University Bonn

1990

First state examination in law; legal internship at the Consulate General of the Federal Republic of Germany in Chicago, USA

1994

Second state examination in law

1995 - 1998

Federal Banking Supervisory Office (Bundesaufsichtsamt für das Kreditwesen), Berlin; supervision of large, inter-nationally active banks

1999 - 2002

Federal Banking Supervisory Office, Berlin; Head of Press and Public Relations

2002 - 2004

Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin), Bonn; Head of Press and Public Relations/Internal Communication

2005 - 2008

Federal Financial Supervisory Authority (BaFin), Bonn; Head of the supervision of large, internationally active banks/Qualitative Supervisory Standards Department

2007 - 2008

Member of the Senior Supervisors Group

2008 - 2011

Member of the Executive Board of the Federal Financial Supervisory Authority (BaFin), Bonn; Chief Executive Director of Banking Supervision

Since 2008

Member of the Basel Committee on Banking Supervision (BCBS), Basel

January - May 2011

Member of the Management Board of the European Banking Authority (EBA), London
Member of the Board of Supervisors of the European Banking Authority (EBA), London

Since 2011-06-01

Deputy President of the Deutsche Bundesbank

Responsible for the Department of Banking and Financial Supervision, Department of Audit
Person accompanying the president at the ECB Governing Council Member of the Financial Stability Committee

ANNEX 2: ANSWERS BY SABINE LAUTENSCHLÄGER TO THE QUESTIONNAIRE

A. Personal and professional background

1. *Please highlight the main aspects of your professional experience in monetary, financial and business matters.*

After taking my final degree in law, I started my professional career at the Federal Banking Supervisory Authority (BaKred) in 1995. During the first four years I gained experience in almost every aspect of prudential banking supervision by being in charge of supervision of small banks as well as internationally active investment banks. During the second half of the 1990s, German global banks extended their international and trading business. The change in banking business was followed by a change in supervision from a strictly quantitative to a qualitative supervisory approach. The focus shifted to the new products, i.e. derivatives, and to the quality of risk management in banks. Because of the “diversity” of my supervisory portfolio I had the opportunity to “apply” almost every supervisory measure in the German Banking Act, such as the order for special examinations, the dismissal of board managers, the order of capital reduction, the granting and withdrawal of banking licenses, the prohibition of lending business and the closing of business.

Between 1999 and 2002 I headed the newly created office for press and public relations at BaKred. The objective of the new unit was to achieve greater transparency about the way supervision is done in Germany. My main responsibility was to develop and implement a public relations strategy and explain the rules and procedures of banking supervision to journalists and other interested parties.

In May 2002 the Federal Financial Supervisory Authority (BaFin) was founded by merging the three authorities for insurance, banking and securities trading supervision. I was asked to assume responsibility for internal and external communication. As head of this department, I developed and implemented a new public relations strategy, a policy for internal communication for the transition and the “steady state” period at BaFin. As leading press officer, I was the main contact for journalists reporting on insurance, securities trading and banking supervision.

Between 2005 and the beginning of 2008 I headed the department supervising large, complex banking groups in Germany. Additionally, I was in charge of developing standards on risk management and qualitative banking supervision. During this time the transition and implementation of the concept of Basel II and the supervisory review and evaluation process into national prudential supervision were as much the focus of supervision as the difficult competitive environment for banks in Germany. International cooperation between prudential supervisors intensified as banks’ interconnectedness increased; I participated in several different international groups, such as the Accord Implementation Group of the Basel Committee on Banking Supervision and the Senior Supervisor Group.

From April 2008 to May 2011 I was in charge of the supervision of the German banking

system, being the chief executive officer for banking supervision and a member of the board at BaFin. During 2008 and some months of 2009, crisis management and some short-term changes in supervision were the key aspects of my duties. Intense work on the concept of restructuring large, complex banks as well as the implementation of a new supervisory approach following major changes in the underlying Banking Act and the improvement of micro-prudential supervision by incorporating macroeconomic knowledge were some of the main topics in 2010 and 2011. In 2008 I became a member of the Basel Committee on Banking Supervision and participated in developing regulatory and supervisory answers to the financial crisis, i.e. Basel II.5 and Basel III. From January 2011 until May 2011 I was a member of the Board of Supervisors and a member of the Management Board of the newly founded European Banking Authority.

In June 2011 the Federal President of Germany appointed me Deputy President of the Deutsche Bundesbank. Since then I have been in charge of prudential banking supervision and internal audit at the Bundesbank. During this time I have focused on the transition of many regulatory concepts into European or German law, the implementation of a more strongly risk-orientated supervision, and on improving the link between macroeconomic oversight and micro-prudential supervision. When the German Financial Stability Board was established in 2012, I became a member of this board.

For two and a half years I have been the accompanying person of Jens Weidman, the President of the Deutsche Bundesbank, at the Governing Council of the European Central Bank. I attend the Governing Council's meetings on a regular basis, am informed about the written procedures as well as the discussions in the Committees of the Eurosystem. Therefore, I am familiar with the decisions of the Governing Council as well as the basic legal and economic foundation of standard and non-standard measures of monetary policy. When necessary, I represent Jens Weidmann at the Council's meetings.

2. *Please highlight the main aspects of your European and international experience.*

During my professional experience in financial supervision, I have enjoyed three different types of work and cooperation at the European and/or international level. As a home and a host supervisor of internationally active banks, I worked together intensively with several European, US and Asian supervisors. The range of cooperation encompassed information exchange, joint risk assessment, joint examinations and regular workshops on specific topics concerning individual banks.

As head of department for systemically important banks, I joined international groups of prudential supervisors which worked on a common understanding of specific topics such as stress testing, hedge fund counterparty risk management and confirmation backlog in OTC derivatives. Horizontal reviews at the most global players were the main instruments we used to gain more knowledge and understanding about practices and standards used in these areas of banking. I was a founding member of the Senior Supervisor Group in 2007 and was involved in producing the first published paper entitled "Risk Management lessons learnt".

From 2005 onwards I became a member in several international regulatory and supervisory working groups or committees. In 2008 I joined the Basel Committee on Banking Supervision and participated in all of its regulatory answers to the lessons learnt

from the crisis, such as Basel II.5, Basel III and many new standards for governance and risk management. In 2011 and 2012 I co-chaired the Task Force on the Basel Core Principles on banking supervision. In September 2012 the review of the Core Principles was finalised and the new set of Principles was published. When the European Banking Authority took up its work, I became a member of the Board of Supervisors and was elected a member of the Management Board. I had to resign from both positions when I was appointed Deputy President of the Deutsche Bundesbank.

During the last year I have been, as a member of the German delegation, heavily involved in the preparatory work for the SSM.

For two and a half years I have been the accompanying person of Jens Weidman, the President of the Deutsche Bundesbank, at the Governing Council of the European Central Bank. I attend the Governing Council's meetings on a regular basis.

3. *What are the most important decisions to which you have been party in your professional life?*

When the Federal Financial Supervisory Authority was founded, many change management actions were required to form one single supervisory system out of the former authorities for insurance, banking and securities trading supervision. As head of internal and external communication, I took part in several decisions, eg concerning the mission statement of the single supervision system, the development of a joint supervisory approach, the structural and process organisation as well as the information flow between the different pillars of supervision.

With the implementation of Basel II the large, complex banking groups applied for supervisory approval of their internal models. As head of the department, I decided that all of the off-site supervisors of the department should take part in the on-site inspections of different banks to gain horizontal knowledge and experience. This was the basis of a different supervisory approach which focuses much more on the quality of banks' internal risk management and governance as well as on knowledge gained from horizontal reviews.

In the aftermath of the banking crisis I decided to change one relevant part of the German concept of the Supervisory Review and Evaluation Process by deducting all unrealised losses in the economic capital of banks irrespective of accounting rules, thereby putting pressure on large German banks to strengthen their capital base.

In 2009 and 2010, I institutionalised the insourcing of macroeconomic knowledge into micro-prudential supervision by installing a risk committee at BaFin and inviting the Deutsche Bundesbank to join. The committee meets regularly and discusses not only macroeconomic and infrastructural trends and their consequences for German banks but also concrete supervisory actions needed to identify and mitigate possible emerging risks. Supervisory strategy and planning for the coming year are very much influenced by the results of this committee.

In 2011 and 2012, after joining the Deutsche Bundesbank, I continued to work on linking micro-prudential supervision with macro-prudential oversight by adjusting the

Bundesbank's supervisory approach and changing processes and organisational settings in supervision. The objective is to ensure, on the one hand, that information about macroeconomic trends is sufficiently considered in the risk profile of banks and, on the other hand, that information about emerging trends in individual banks is aggregated and circulated to functions dealing with financial stability. The results of the risk committee that was set up are regularly incorporated in supervisory strategy and planning.

4. *Do you have any business or financial holdings or any other commitments which might conflict you with your prospective duties, and are there any other relevant personal or other factors that need to be taken account of by the Parliament when considering your nomination?*

No.

5. *What would be the guiding objectives you will pursue during mandate at the European Central Bank?*

As an Executive Director of the ECB, I will act according to the principles and objectives stipulated by the European Treaty. The Treaty defines the ECB's mandate as maintaining price stability and – without prejudice to the objective of price stability – as supporting the general economic policies in the Union and contributing to financial stability. I am convinced that this mandate of the ECB is one of the most important factors to ensure a permanently stable European Economic and Monetary Union. One of my guiding principles will, therefore, be to align my actions and positions with the mandate, taking into consideration the short-term, medium-term and long-term effects of my positions as well as the incentives structures these positions set for others.

Fulfilling the objective of price stability will not be possible without credibility. Therefore, coherence in decision-making and transparency in the basic motivation of decisions will be essential.

The independence given to the ECB, the national central banks of the Eurosystem and the members of the decision-making bodies is an important factor to successfully fulfil the mandate of the ESCB. The same holds true with respect to the independence of the Executive Director. I am committed to act only in the interest of the euro area as a whole and independently from any national interest.

B. ECB monetary policy

6. *What is your view on the heterogeneity of monetary conditions across the euro area and its impact on unitary monetary policy of the ECB?*

During the crisis, monetary and financial conditions have become increasingly heterogeneous across euro-area countries, resulting in fragmented money and credit markets. Several countries in the EMU are currently suffering from a severe decline in bank lending or tightening lending standards.

Fragmentation has been a continuous challenge for the conduct and transmission of the single monetary policy. To address this challenge, the Eurosystem has adopted a number

of non-standard measures to ensure a more homogeneous transmission of monetary policy across the euro area in line with its price stability mandate. But while the Eurosystem's policies can smoothen the adjustment process, in my opinion they are no substitute for the necessary structural adjustments that euro-area economies have to undertake. The latter pertain, in particular, to the need to reduce fiscal, macroeconomic and financial imbalances that continue to hinder growth in several euro-area countries.

Funding conditions very much depend on domestic fiscal and macroeconomic imbalances. Since the summer of 2012 substantial progress has been made in reducing monetary and financial fragmentation and improving the funding situation of banks. The remaining variations in lending rates and credit standards largely reflect differences in borrowers' creditworthiness as well as banks' efforts to improve their balance sheets and capital positions. Looking ahead, to foster a more even transmission of monetary policy in the euro area, it is essential that the necessary balance sheet adjustments in both the non-financial and financial sectors are concluded successfully. Before the ECB adopts its supervisory role under the single supervisory mechanism, it will conduct a comprehensive assessment. This assessment will help to build up confidence in the banking sector, thereby contributing to reducing fragmentation.

7. *Do you judge that there has been overreliance in euro area banks on liquidity provision by the ECB?*

The Eurosystem has conducted its liquidity provision to banks by way of a fixed-rate tender procedure with full allotment since 2008. This liquidity support was necessary to prevent a disorderly deleveraging of bank balance sheets when stress in financial and money markets intensified with possibly severe consequences for price stability.

Recourse to Eurosystem refinancing operations peaked at the height of the financial crisis at the beginning of 2012, when many banks in more troubled countries found that their access to financial markets was severely impaired.

Financial market segmentation has receded gradually since mid-2012. Likewise, reliance on Eurosystem liquidity support has declined, as banks have been repaying 3-year LTRO loans as their market access improved, uncertainty has diminished and demand for liquidity buffers has dropped. I expect reliance on Eurosystem liquidity operations to recede further in the context of the AQR and the establishment of the banking union.

There might still be individual banks which are significantly reliant on the liquidity provided by the Eurosystem owing to various reasons. Monitoring and assessing individual banks' liquidity and funding situations as well as the viability of their respective business models will be one of the tasks executed by the ECB.

8. *Without prejudice to the objective of price stability, how in your view should the ECB fulfil its secondary obligations under the Treaty (to contribute to economic growth and full employment) and what instruments could the ECB use to do so?*

Article 127 of the Treaty states that price stability is the primary objective of the ESCB. All other tasks have to be pursued in consideration of this primary objective. Aiming at inflation below but close to 2% over the medium term takes into account the need to

support the “[...] general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union”.

I am convinced that sustainable growth and the Union’s general economic policies such as full employment cannot be achieved without price stability. Maintaining price stability is therefore the best contribution the Eurosystem can make to supporting the secondary obligations.

Price stability influences long-term interest rates by minimising the inflation risk premium. Price stability protects the purchasing power of consumers, wage earners, pensioners and savers. Price stability supports an efficient allocation of resources and enhances the functioning of the price mechanism. Moreover, with their medium-term orientation, the Eurosystem’s monetary policy measures designed to stabilise inflation do not create unnecessary volatility in real economic activity.

Monetary policy alone cannot deliver economic prosperity: all economic policymakers need to live up to their responsibilities. For that reason, the Eurosystem calls for structural reforms designed to foster the creation of jobs. Institutional changes aimed at completing EMU are also of key importance.

Over the course of the crisis, monetary policy has also performed a relevant role in crisis management. The Eurosystem has decided on a range of non-standard measures supporting the flow of credit to households and enterprises. These measures helped to fulfil the primary mandate of maintaining price stability, but at the same time they also supported economic growth and employment in the euro area. Some of the measures should be exited as soon as possible because of their side-effects. Low interest rates, for example, stimulate economic activity, but are not without risks in the long run. That is why it is so important for structural adjustments in the euro-area economies to be implemented without delay so as to eliminate the root causes such as a lack of competitiveness in some member states. Additionally, these measures should be monitored regularly as to their effectiveness, taking into account their possible future costs.

9. *What roles, relationships and challenges do you see for the ECB and the European Stability Mechanism?*

The ECB and the ESM have different mandates which have to be fulfilled. The ECB’s main objective is to ensure price stability within the euro area. With respect to the European assistance mechanisms, the role of the ECB is mainly of an advisory nature. Taking over the financing of EMU member states experiencing financial difficulties or the ESM is not possible because it is not within the mandate of the ECB.

The ESM is responsible for preserving financial stability in the euro area by providing financial support for countries which are finding it extremely difficult to obtain financing on the capital markets. The ESM is a fiscal institution which is controlled by the governments of participating countries. ESM support is subject to conditionality.

The relationship between the ESM and the ECB is laid down in the ESM Treaty. The

main rules governing this relationship stipulate that the Commission, in liaison with the ECB, shall assess the existence of a risk to the financial stability of the euro area as a whole or of its member states, and whether it would therefore be warranted for a euro-area member state to conclude an agreement for an adjustment programme supported by an ESM facility. In this context, the Commission, again in liaison with the ECB, shall assess whether public debt is sustainable, and assess the actual or potential financing needs of the ESM member concerned. The Commission, in liaison with the ECB, and, wherever possible, together with the IMF, is also entrusted with the task of negotiating a memorandum of understanding detailing the conditionality attached to the financial assistance facility and monitoring compliance with the agreed conditionality. The ECB also acts as an agent for the ESM in the conduct of market operations and is represented as an observer on the Board of Governors and Board of Directors of the ESM.

In the short term, the key challenges are the successful completion of the Greek, Portuguese (both EFSF), and Cypriot (ESM) programmes, following the successful completion of the Irish (EFSF) and Spanish (ESM) programmes. Looking to the medium term, the concerted implementation of the strengthened governance framework in the EU is essential for preventing the emergence of new crises in member states which would require ESM support. Establishing the best incentive structure for structural reforms and budget consolidation is another key challenge for the ESM. The European assistance measures partially shield the recipient countries from market developments and ease the interest expenditure burden in order to achieve a smooth transition to sustainable debt and deficit levels. In so doing, they contribute to financial stability in the euro area. In this context, conditionality and appropriate interest rates are important in order to maintain the correct incentives.

10. How will you ensure transparency regarding the SMP and Covered Bond Purchase Programme?

There is a high level of transparency in both asset purchase programmes. The details on securities holdings acquired under the Securities Markets Programme were made public by the ECB on 21 February 2013, in line with the envisaged transparency stance for the Outright Monetary Transactions (OMTs). A breakdown of the Eurosystem's SMP holdings per country of issuer, indicated at nominal value, book value and average remaining maturity has been provided.

The outstanding amounts held by the Eurosystem under the Covered Bond Purchase Programmes (CBPP) 1 and 2 are published on a daily basis. In addition, for the CBPP2, the monthly breakdown of purchases and the breakdown between primary and secondary market purchases have also been published.

11. What is your estimate of the amount of implicit subsidy, including any option value, that the eurosystem has given euro area banking institutions as a result of its unconventional monetary policy operations over the last four years? What do you perceive to be the schedule for the ECB to exit from the current non-standard measures?

The Eurosystem's non-standard measures have been taken with a view to safeguarding the transmission of the single monetary policy. These measures have to be seen against the background of the severe economic, financial and sovereign debt crisis, and its impact on

the Eurosystem's objective of maintaining price stability in the euro area.

My understanding is that the Eurosystem's non-standard measures are likely to be maintained as long as they are needed. In addition, the Governing Council continues to closely monitor the impact of – and the need for – non-standard measures, with a view to preventing potential side-effects. The probability of such side-effects will increase as long as the measures remain in place. Non-standard measures are, however, temporary in nature and by design: some have a built-in mechanism ensuring that their significance diminishes once conditions improve. For example, improvements in euro-area monetary and credit conditions since summer 2012 have resulted in reduced excess liquidity through LTRO repayments.

12. What role should sovereign ratings have in your view on ECB policy? Do you think that ECB should accept as a rule all euro area government bonds as securities?

The Eurosystem evaluates the risk connected with all collateral taken in. Pursuant to Article 18.1 of the Statute of the ESCB/ECB, all Eurosystem credit operations have to be adequately collateralised. This necessitates inter alia that all assets put forward as collateral, including government bonds, meet high credit standards, and the Eurosystem has defined procedures and rules to ascertain whether this is the case. Therefore, differences in the creditworthiness of sovereigns have always been, and continue to be, relevant for monetary policy operations. The crisis has shown that government bonds cannot be considered risk-free per se and that there are noticeable differences in member states' creditworthiness. In fact, there are good reasons to believe that many market participants' disregard for differences in sovereign risk has been an exacerbating factor in the build-up of financial imbalances and in the severity of the impact which the crisis has had on banks.

Ratings produced by credit rating agencies (CRAs) are one factor among several criteria used to assess whether the requirement of high credit quality is met. However, Eurosystem reliance on the ratings provided by CRAs or any other credit assessment source is not mechanistic, as the Eurosystem reserves the right to determine whether collateral fulfils its requirements for high credit standards on the basis of any information it may consider relevant. For example, in the case of sovereigns which are under EU-IMF programmes, the ECB's assessment of the programme and the country's compliance with this programme is essential. The Eurosystem has also temporarily excluded government bonds of these countries from the set of eligible collateral as those bonds could no longer be considered adequate collateral in the case of a selective default, for instance.

The use of several factors in determining collateral adequacy, the fact that reliance on the ratings produced by CRAs is not mechanistic, and the possibility to use discretion in Eurosystem collateral and risk control frameworks are, in my opinion, appropriate measures to limit the role of CRAs in the Eurosystem's monetary policy implementation framework. Notwithstanding this, I would welcome steps to further reduce reliance on CRA ratings, in line with the G20 commitment.

13. What is your assessment of the success of the Private Sector Involvement (PSI) initiative to restructure Greek debt?

The PSI in early 2012 certainly lowered the debt burden of the Greek sovereign by a substantial margin and thus contributed to improving the conditions for debt sustainability in Greece. I would, however, hesitate in using the term “success” in the context of a sovereign debt restructuring, as the latter is normally a dramatic culmination of years of unsuccessful economic policies. This was, in particular, the case in Greece, where fiscal and structural policies had been very poor for many years before 2010 and one had to experience important slippages in programme implementation in the run-up to the PSI. Given these special conditions, PSI was the last resort for placing public debt on a sustainable trajectory, which is a precondition for additional fiscal support by the European stabilisation mechanism. Moreover, the Greek PSI imposed large losses and contagion costs on other euro-area countries and citizens.

For these reasons, I am convinced that member states are determined to implement the necessary reforms and measures, which ensure that no more sovereign debt restructuring will be necessary in the euro area. As the Heads of State or Government of the euro area have stressed repeatedly, euro-area member states are inflexibly determined to honour their individual sovereign signature and all their commitments to sustainable fiscal conditions and structural reforms.

14. How do you evaluate the grown Target II liabilities and receivables of the ECB members?

TARGET2 balances in the Eurosystem rose to unprecedented levels during the financial crisis until June 2012. Since then, we have seen a downward trend which has continued to the end of 2013.

TARGET2 balances are an important crisis indicator which nevertheless need to be interpreted cautiously. The increased balances in the Eurosystem were indicative of the unbalanced need for central bank money in the different national banking communities. TARGET2 liabilities and, correspondingly, TARGET2 claims on the balance sheets of national central banks in the euro area reflect net cross-border flows in the TARGET2 payment system.

Those TARGET2 balances result from the Eurosystem’s increased liquidity intermediation. As market funding dried up in the context of the crisis and large net payment outflows were seen from banks in stressed countries to banks in other euro-area countries, banking systems with limited market access could replace market funding with Eurosystem funding. TARGET2 balances thus reflect the decentralised provision of Eurosystem funding support in the context of financial market fragmentation mainly along national borders in the euro area. The possibility for internal positions to emerge between central banks, such as TARGET2 balances, is at the core of the functioning of the Monetary Union.

The current downward trend in TARGET2 balances is a good sign, generally speaking. It is driven by different aspects. First, investors’ faith in peripheral countries is on the rise again. The Irish Treasury’s comeback on the financial markets in early January was a striking move. Second, banks – including those in the severely hit crisis countries – are deleveraging. This reduces the need for external funding.

The best way to durably contain economic (including financial) imbalances in the euro

area is to restore sound economic policies in the fiscal, financial and economic areas and, notably for certain countries, to regain competitiveness. A strengthened policy framework and institutional setting in EMU, including the single supervisory and resolution mechanism, will enhance confidence in the euro-area banking system, and help to normalise the flows of investors' savings across euro-area member countries. This should restore conditions in the cross-border interbank market that are compatible with a sustained decline in TARGET balances.

15. What is your opinion regarding the pace at which the New Member States should join the monetary union and adopt the Euro, considering all of the convergence criteria and the participation in the exchange rate mechanism (ERM II)?

In my opinion, there is no optimal pace for euro adoption; it depends entirely on the degree of convergence achieved. Article 140 of the Treaty on the Functioning of the European Union states that a country has to achieve a "high degree of sustainable convergence" before it can adopt the euro. In order to create a stability union, it is essential that convergence criteria should not be read mechanically, but the durability of the convergence is assessed as well. Without lasting economic convergence, countries will eventually experience losses in competitiveness and/or boom-bust cycles. The crisis has shown how important it is to carefully assess the readiness of a potential member state – and to assess the criteria correctly, one needs reliable statistics.

A requirement for adopting the euro is participation in ERM II for at least two years. During ERM II, member states must maintain price stability, fiscal discipline and competitiveness without major exchange rate adjustments.

Currently, only Lithuania is participating in ERM II – together with Denmark, which, however, has an 'opt-out' from joining the euro area. Regarding the member states that have not yet adopted the euro, the European Commission and the European Central Bank will prepare their latest assessment in the 2014 Convergence Reports which will be published in early June this year.

16. What is your perspective on the "Beyond GDP" initiative?

I agree that parameters such as environmental and social progress enrich the set of information when assessing macroeconomic developments. I therefore welcome more research in this field of economics and support this initiative.

Having said that, I think that currently the economic indicators available from the European System of Accounts (ESA) – compiled by national statistical institutes and Eurostat – play the most important role when assessing macroeconomic activity in the euro area as well as in individual countries. Importantly, it also facilitates cross-country comparisons, which is an essential capability for analysing developments within a monetary union. Additionally, the envisaged update of the ESA, later in 2014, will further improve the statistical standards in the

European Union used to compile GDP (and bring them closer to the international statistical standards as included in the SNA, the System of National Accounts).

17. What are, according to you, the main challenges for the European Statistical System in the next decade?

European statistics produced by the ESS have never been needed more for policymaking than since the start of the current financial and economic crisis. In my view, the main challenges are the following.

First, economic and financial statistics are increasingly used as the basis for numerical political target-setting in a variety of policy frameworks. This creates pressure on the production of statistics in the context of well-known budget restrictions. After insufficient and partially incorrect statistical data contributed to the build-up of imbalances in the run-up to the crisis, important progress has been made in the statistical domain in recent years. However, stringent implementation and continued vigilance remain key.

Second, there is a lack of some relevant information for global multilateral surveillance. Significant work needs to be done to close these statistical gaps at G20 level. In addition, consistent, comparable and high quality data are required at the international and European level. The recently updated international statistical standards will have to be implemented in a coordinated manner across the EU. All these initiatives require significant work and coordination efforts.

Finally, the already smooth coordination between the two European statistical systems (the ESS and the ESCB) needs to be further intensified and supported. The ESS is mainly responsible for economic statistics, while the ESCB is responsible for financial statistics at the European level. The current crisis originated from imbalances in the financial sector which were underestimated in macroeconomic analyses, leading to questions being raised about the availability and quality of data on the financial sector and their use. In this context, high quality, consistent and timely data for the Commission's scoreboard and the European Systemic Risk Board's risk dashboard are key. Hence, any such efforts need to be pursued jointly.

I trust that the European Parliament will make a substantial contribution to further strengthening the statistical framework, as it has done in the past.

C. Views on EU economic policy

18. What additional measures, if any, are necessary ensure that the EU has really overcome the crisis?

In my opinion, important steps to overcome the crisis have been taken so far, but further efforts will be necessary at the national level, in particular, but also at the European level.

At the national level, substantial measures have been taken in the more vulnerable euro area countries with a view to unwinding economic, fiscal and financial imbalances and returning to more balanced and sustainable growth. However, the adjustment in these countries is not complete, not least due to the large stock of public and private debt. I therefore see a need to continue with the reform effort in a determined manner in many structural areas.

Fiscal policies, in turn, should focus on enhancing the efficiency of expenditure and avoiding undue cuts in public investment.

Further structural reforms – in particular in vulnerable countries – remain essential in order to address existing rigidities in product and labour markets alike. As regards financial sector policies, countries need to ensure their banks' viability to make it easier for the real economy, particularly for SMEs, to access funding. More precisely, policies should be geared, where necessary, to improving banks' capital and liquidity situation.

At the European level further efforts to strengthen the EU governance framework will be necessary in order to create a genuine Economic and Monetary Union. The proposals communicated in June 2012 (and specified further in two subsequent reports) by the four Presidents – the President of the European Council in close collaboration with the Presidents of the Commission, the Eurogroup and the ECB – indicate steps in the right direction to bring liability and control back into balance. I am deeply convinced that this balance is essential for the long-term stability of monetary union. Certainly, significant steps to strengthen the economic governance framework have been taken, such as the six- and the two-pack. This notwithstanding, further steps are needed to ensure that all euro area countries pursue sustainable fiscal policies at all times. Furthermore, it is crucial that member states stick closely to the new rules and that existing room for interpretation is used very cautiously. Only this will ensure that the strengthened framework gains public credibility.

Moreover, additional efforts to integrate the economic policy framework are needed in order to increase the ownership and peer pressure for the implementation of the necessary structural reforms at national level. Finally, the creation of the SSM, the on-going Comprehensive Assessment, the agreement reached between the Parliament and the Council as regards the Bank Recovery and Resolution Directive and the progress made in the negotiations on the Single Resolution Mechanism are important steps towards a genuine banking union. However, further steps have now to be taken to ultimately safeguard financial stability in the euro area and contribute to enhancing economic integration as well.

In order to sever the sovereign-bank nexus, the preferential treatment of sovereign debt in European banking regulation also needs to be ended. This would imply an adequate risk-weighting of sovereign bonds as well as a large exposure regime for sovereign debt. However, to mitigate a possible adjustment burden for banks and sovereigns caused by such a regime, an adequate transition period would be appropriate.

19. What would the establishment of a Debt Redemption Fund or Eurobills imply for economic governance in the euro area?

In the discussions about debt mutualisation, it is essential, in my view, to ensure a balance between liability and control. Therefore, getting the sequencing right will be key.

Any form of relevant common debt issuance should only be pursued once a genuine fiscal union, with extensive sharing of fiscal sovereignty at the European level, has been established. Without such change to euro area fiscal governance, common debt issuance may undermine incentives for sound fiscal policies and the pursuit of price stability by the

Eurosystem.

Furthermore, the compatibility of common debt issuance with existing Treaty provisions would need to be assessed carefully. Common debt backed by joint and several guarantees rather than pro-rata guarantees would, in all likelihood, require amendments to the Treaty as well as to national constitutions.

If further sharing of sovereignty at the European level were to take place and euro area countries were to agree to issue common debt, the debt redemption fund proposed by the German Council of Economic Advisers could provide guidance. Particularly useful elements may include: giving the mechanism ex ante a clearly temporary character; pledging national assets and/or revenue streams to contain the risk associated with the redemption fund; and making it conditional on compliance with the EU fiscal framework.

Eurobills would create common short-term debt and face similar incentive problems to other forms of debt mutualisation. Special risks associated with eurobills notably include the creation of unwarranted incentives for short-term financing, the credibility of the exit option at roll-over for non-compliant countries and the impact on borrowing costs of more creditworthy member states. In addition, market segmentation would put pressure on national government bonds, especially in vulnerable countries, and might increase debt management costs.

20. What do you think are the most important objectives for the strategy for jobs and growth until 2020? How could the ECB and the instruments of economic policy co-ordination contribute to the success of this strategy? Please list in order of importance the structural reforms which you believe are a priority in the EU and justify your choices.

Job creation depends on strong and sustainable economic growth. In this regard, member states need to undertake efforts to unlock their growth potential. Most importantly, product and labour market rigidities have to be reduced to ensure the most efficient allocation of resources. In addition, supporting innovation and increasing the quality of education will contribute to optimal conditions for sustainable economic growth and job creation. These aspects are highlighted in the Europe 2020 strategy.

On labour markets, many reforms are underway which are essential given the importance of tackling high unemployment rates (which come at a substantial social and economic cost). In order to reduce the risk of unemployment becoming structural, much work remains to be done in terms of comprehensive reform measures to reduce labour market rigidities. In particular, wages should respond flexibly and appropriately to unemployment as well as to losses in competitiveness. In addition to improving the flexibility of labour markets, priority should also be given to policies aimed at improving human capital, worker skills and labour mobility.

As regards markets for products and services, less progress has been achieved in previous years, rendering reforms aiming at increasing competition most urgent. Especially in some service sectors which are highly protected from domestic and international competition, more efforts should be made to reduce entry barriers and ensure a sufficient level of competition. This will help reduce excessive profit margins and, in turn, reducing prevailing downward rigidities in prices while at the same time allowing the benefits from

reforms aimed at wage adjustment to be reaped. In cases where state-owned firms make up a large share of certain sectors of an economy, privatisation can contribute to increasing competition and efficiency while at the same time helping to reduce the level of gross government debt.

Many countries need to invest in research and development to push innovation. The same holds true for investment in higher education and lifelong learning. Vocational education has a good track record in battling youth unemployment. Moreover, reducing bureaucracy is part of a growth strategy. The implementation of these measures remains the core responsibility of member states.

In some cases, increasing the efficiency of the public sector or the judiciary could make important or even critical contributions to raising the potential for growth, improving investment opportunities and fostering the creation of new jobs. More generally, it is important to ensure credible commitment to all the structural reforms mentioned above, on behalf both of decision makers in governments and national parliaments and of the civil service that is responsible for implementing and monitoring agreed reforms.

21. What is your view on the taxation of financial transactions? Do you think that a tax on currency transactions involving the euro could have beneficial effects – for example by stabilising the exchange rates of countries wishing to join the euro area in the future? What are your views on the feasibility of enhanced cooperation among some Member States in this area?

There are many objectives associated with the Financial Transaction Tax (FTT). By increasing the cost of financial transactions, the FTT holds the promise of reducing volatility, dampening speculation, enlisting the financial sector in sharing costs of the crisis, and providing an additional source of public revenue. But it is not entirely clear that the FTT will actually bring about the desired effects, nor that it will not hamper the transmission of the single monetary policy and the smooth functioning of settlement systems.

The effects of an FTT on financial stability are not clear-cut. FTT implies reducing volatility but could lead to a reduction in market liquidity. The fact that the tax would be applied through enhanced cooperation only in a sub-set of member states bears a significant risk of relocation of trading outside the FTT area, which might thus harm the euro area financial market and its institutions.

With regard to monetary policy, the smooth functioning of the repo market is key to the redistribution of liquidity among commercial banks and to monetary policy transmission. A FTT that also applies to the repo market would incentivise banks to raise funds via the Eurosystem instead of using the interbank market. Central banks would then remain permanently and massively involved in liquidity redistribution among banks even after the financial crisis, running counter to the temporary nature of the Eurosystem's extraordinary liquidity provision.

22. What is your view on the respective roles of the Council and the ECB in terms of external representation of the Euro zone?

The Treaties envisage different roles for the Council, the member states and the ECB with regard to their competences as well as external representation. The ECB is the competent authority to represent the euro area in matters related to the single monetary policy.

As economic policies have largely remained the responsibility of the individual member states, external representation in those matters has also remained in their remit. Whether or not a common external representation in the EMU will evolve in future will hinge on future deeper economic integration. However, that is a political debate, one to be held among, and resolved by, the member states.

23. How do you assess the recent evolution of the USD/EUR exchange rate?

Over the course of 2013 the euro exchange rate appreciated by around 7% in nominal effective terms, measured against the currencies of 39 major trading partners. The appreciation was broad-based and largely reflected improving expectations regarding the euro-area economic outlook. The euro's 4.5% appreciation against the US dollar in 2013 was additionally influenced by changing market expectations regarding the monetary policy stances of the Eurosystem and the US Fed. In particular, changing expectations of a possible tapering of the US Fed's QE purchases, and the related timing, had a significant short-term impact on the exchange rate of the US dollar.

In nominal effective terms, measured against the currencies of 39 trading partners, the euro is about 8.5% above its average since 1999. In real effective terms, however, the euro is currently close to its historical average level. Hence, from a long-term perspective, the euro's exchange rate has remained remarkably stable.

24. How do you assess the recent evolution of the Renminbi/EUR exchange rate? Do you think that Central Banks are able to fight efficiently against excessive volatility? Do you think that the international role of the Euro should be encouraged?

Against the US dollar and in nominal effective terms, the Chinese renminbi appreciated in 2013 by around 3% and 6%, respectively, and currently is at an all-time high against the US dollar. This is a reflection of sustained capital inflows due to improving investor optimism over the Chinese economy and was accompanied by a renewed build-up of foreign exchange reserves. Given the euro's rise against the US dollar (by about 4.5%, as mentioned earlier), the RMB depreciated by around 1.5% against the euro in the course of 2013.

I very much welcome the recent announcement by the People's Bank of China to "basically" end normal intervention in the currency market and to widen the renminbi's daily trading band. It will help with other financial sector reforms in China as well as facilitate the pricing and risk management capabilities of market participants. It will also create a good basis for further liberalising China's capital account.

I am convinced that the Eurozone should continue to follow a neutral approach: to neither hinder nor encourage the international use of the euro. It should remain a market-driven process, in which sound euro area fundamentals, in combination with the free movement of capital within the EU, create the underlying conditions for the international attractiveness of the euro.

25. *How do you assess the achievements of the G20? What are your views on the current level of coordination?*

It was the global financial crisis which led to the elevation of the G20 as the premier forum for international economic cooperation, involving Heads of State and Government. The G20 deserves due credit for taking decisive and coordinated action to prevent the acute crisis in 2008/2009 from snowballing into a second Great Depression. In recent times, the G20 has continued to deliver important agreements in areas such as financial regulation or tax evasion while focusing on its key objective of achieving strong, sustainable and balanced growth, which is a prerequisite for creating more jobs.

As regards central banks, existing channels of regular and ad-hoc cooperation and coordination are manifold. Beyond regular cooperation at the BIS and in the G7, central banks have repeatedly demonstrated their ability to respond to exceptional circumstances by taking swift and effective decisions on joint bilateral or multilateral actions. Let me mention here as an example the decision to strengthen the global financial stability net via a network of swap arrangements (between the Federal Reserve, Bank of Japan, Bank of Canada, Bank of England, Swiss National Bank and the ECB) which enables liquidity to flow to major financial hubs, and through these hubs to other regional and global markets.

D. Financial stability and supervision

26. *How can the competitive disturbances that have developed following the crisis and rescue measures taken by the governments and central banks of the Member States be eliminated?*

During the crisis it became evident that some banks are considered too-big-to fail. This forced governments and central banks alike to take extensive crisis measures to safeguard financial stability. To eliminate competitive disturbances that are the result of 'too-big-to-fail', international policy reforms are focusing on improving both the resilience and the resolvability of banks.

To enhance the resilience of banks, important measures have been agreed. The transposition of Basel III to the CRD IV/CRR will represent a significant enhancement in the level and quality of capital buffers banks must hold. Also, the upcoming introduction of liquidity and leverage ratios as part of the prudential panoply is an important development in this respect. Furthermore, systemically important banks will be subject to intensified supervision and required to hold higher capital levels and to ensure adequate recovery plans.

In the euro area specifically, governments and central banks have taken many measures to stem financial fragmentation which threatened financial stability. The Single Supervisory Mechanism should help reverse this fragmentation and help bring about true European supervision with no room for national bias.

To enhance resolvability, banks will be required to draw up resolution plans that set out the strategy to be applied for their resolution and identify what impediments specific to the institution concerned must be removed in order to make resolution possible. Banks that are either failing or likely to fail will be subject to the resolution regime of the Bank

Recovery and Resolution Directive and be resolved by the Single Resolution Mechanism. Together, these policy measures will ensure that the future framework prioritises bail-in and resolvability rather than bail-out.

27. What would you recommend to strengthen the links between macro and micro supervision?

There are several strong arguments in support of enhancing cooperation between micro-prudential and macro-prudential supervision. Information about emerging macroeconomic trends can be of major importance to banking supervisors as well as institutions in charge of macroprudential oversight. The implementation of micro-prudential measures may have adverse systemic consequences yet at the same time may also address systemic risks (if properly designed and calibrated). However, much of the macro-prudential toolkit is so far rather untested, and the transmission mechanism of macro-prudential instruments must be further explored.

First one need to make sure that the insourcing of macroeconomic knowledge into micro-prudential supervision forms a regular part of the new supervisory approach. While information about macroeconomic trends should be adequately included in banks' risk profile, information about emerging trends in individual banks should be aggregated and circulated to functions dealing with financial stability. The outcome of this information flow ultimately has to be incorporated into the supervisory strategy and planning for the coming year.

At institutional level, the ESRB offers a good platform to gather views on systemic risks and vulnerabilities. At national level, supervisory authorities contribute to this discussion. The fact that the ESRB itself is in close contact with all ESAs should ensure the preservation of the ESRB's cross-sector view. At the same time, the relevant European bodies should be closely involved in international discussions taking place in global forums to enrich those with a European perspective.

28. How can financial institutions be forced/ incentivised to reduce their risk appetite?

Regulators have several instruments at their disposal to enforce or incentivise changes in the institutions' risk appetite. For example, regulators define the risk weights assigned to certain business activities and define the overall level of capital requirements. The latter has a direct impact on the overall level of risk that institutions can take, whereas the former affects the allocation of institutions' resources among various business activities.

National supervisors, and in future the SSM, are also in a position to take action if they believe that institutions are showing inadequate risk appetite. Risk-taking is part of a bank's business model, as are decisions on the allocation of resources to different business lines and risks. It is supervisors' responsibility to continuously monitor whether institutions' risk appetite remains in line with its internal capital adequacy and management capabilities and to take suitable measures if this is not the case. If risk appetite exceeds an institution's internal capital adequacy, the competent authorities may require increased capital for risky business fields or may, as a last resort, prohibit specific business activities.

29. What are your views on the recent agreement on the Bank Recovery and Resolution Directive (BRRD), and on the revision of the Deposit Guarantee Schemes Directive?

The recent agreements are milestones for the completion of the banking union. I broadly welcome the agreement reached on these Directives, which will substantially improve and harmonise the resolution frameworks and depositor protection in the EU. The new regulatory framework will minimise the costs of future banking crises for taxpayers (see also question 30). These Directives are prerequisites for the Single Resolution Mechanism, which is a necessary complement to the SSM.

I welcome the general principle of the BRRD in terms of the allocation of losses. The BRRD involves shareholders, creditors and the banking sector as a whole in covering bank losses. All in all, the BRRD strikes a sound balance between the conflicting objectives of harmonisation and flexible rulemaking. A high degree of harmonisation is needed to ensure both predictability and a level playing field. However, a certain degree of flexibility is necessary in order to tailor resolution measures to the specific crisis situation.

The new Deposit Guarantee Schemes Directive will provide for EU-wide streamlining of deposit insurance and will thus contribute to the creation of a level playing field as well as to financial stability. The newly established arrangements for financing DGS by introducing a target level and the general use of ex ante funds are most important. Only existing financial means based on regular contributions by banks are readily available if measures for deposit insurance are needed and the pay-out has to be organised at short notice. I do not feel comfortable with allowing any deviations from the general target level, as this could upset the level playing field. It is important to introduce risk-based measures to determine regular contributions by banks. These should reflect the degree of risk taken by an institution for the DGS, thus both ensuring that contributions are risk-based and encouraging less risk-taking by institutions. This should also minimise the risk of moral hazard for institutions.

30. In particular, what are your views on the introduction of the bail-in provisions in the BRRD?

I am pleased that the entry into force of the bail-in provisions in the BRRD has been brought forward to 1 January 2016. It is important that the resolution authorities in the EU and the SRM have this essential tool in their toolbox sooner rather than later, since it will further protect European taxpayers by shifting the resolution costs foremost to shareholders and unsecured creditors when banks fail.

The BRRD contains a valuable proposal for the design of the bail-in instrument and provides a transparent hierarchy, which supports the principle that shareholders and creditors should be the first to absorb losses. The directive manages to strike a good balance between the need for flexibility and the necessity of ensuring clarity and transparency. Another essential building block of the bail-in instrument is the minimum requirement for eligible liabilities (MREL) to ensure that sufficient bail-in-able debt is available when necessary.

31. What do you think of the proposal for a Single Resolution Mechanism, in particular in

terms of scope, decision-making structure, composition and voting modalities of the Single Resolution Board, establishment and financing of a Single Resolution Fund, establishment of a backstop for the Fund, trigger for resolution?

I very much welcome the fact that both the European Parliament and the Council in December have reached internal agreements on the SRM proposal and that the trilogue process has begun. It is important that the SRM Regulation is adopted before the end of the current legislative cycle. The Single Resolution Mechanism is a crucial component of banking union. A cross-border supervisory structure needs a common restructuring and resolution regime. Centralised decision-making on resolution matters will strengthen the stability of EMU. The Council's general approach represents a significant step forward, though key issues still need to be resolved. The remaining gaps have to be closed soon for the banking union to operate effectively.

On the scope of the SRM, I think it should include all credit institutions supervised directly or indirectly under the SSM. The fact that both the European Parliament and the Council advocate such a broad scope is welcome.

In terms of decision-making, it is important to avoid lengthy and complicated procedures. It should be ensured in the final SRM Regulation that a bank can be resolved in an orderly fashion over a weekend. On the composition and voting modalities of the Single Resolution Board, I share the view that the ECB should participate in the Single Resolution Board only as an observer, i.e. without voting rights. The composition of the board with an executive director, four full-time members and the representatives of the national resolution authorities of all participating countries will enable the SRB to build on national expertise while at the same time taking an unbiased European perspective. The exercise of tasks in either a plenary or executive format ensures that decisions are taken by the relevant members only, which will facilitate the decision-making processes.

It is key that the appropriate parties – those who invested in the failed bank in the first place – be first in line to bear the burden of bank failures. This will establish the right incentive system. On resolution financing, the single resolution authority should have access to a Single Resolution Fund. This Fund should be financed by ex-ante risk-based contributions from all banks subject to the SRM and be complemented by ex-post contributions where necessary. However, when laying down the details for calculating banks' individual contributions in the proposed implementing legislation, it should be borne in mind that smaller institutions under the responsibility of national authorities might never benefit from the resources of the fund. Moreover, a temporary, fiscally neutral, public backstop should be available.

Finally, regarding the trigger, I think that the supervisor is best-placed to assess whether a bank is “failing” or “likely to fail”.

32. What do you see as the most pressing issues in financial services legislation which remain to be completed?

There are several on-going regulatory initiatives, each of which addresses specific shortcomings of financial services legislation revealed by the financial crisis. It is therefore difficult to single out certain measures, because they can collectively enhance

the resilience of the financial system. Let me nevertheless highlight two areas of particular importance:

First, in order for the banking union to be operational and effective, the Single Resolution Mechanism is clearly a key element of financial services legislation which needs to be completed.

The second issue is the legislative proposal on bank structure reforms, based on the Liikanen Report. Some EU member states, such as the UK, France and Germany, are implementing, or have already implemented, structural reforms. However, from a single market perspective, a consistent approach should be developed. With this in mind, the European Commission has just announced that it will publish a proposal for a regulation on the separation of certain trading activities from credit institutions and their EU parents in January.

Apart from these two issues, the focus should be on the proper implementation of the huge amount of financial services legislation which has been passed during the current legislative cycle, including adopting the delegated acts and regulatory and implementing technical standards provided for by Level 1 legislation, such as the Capital Requirements Directive and Regulation and the EMIR Regulation.

33. What are your views on the regulation on shadow banking entities?

Shadow banking activities made a decisive contribution to the vulnerabilities that hit the financial markets and the real economy during the financial crisis. However, in many cases the intensity of the distortions was caused not by the activities themselves but by their intransparency and their possible links to, and impact on, the traditional financial sector.

Therefore it is important for risks to be made transparent so that they can be properly priced. However, as shadow banking entities are geographically very mobile, regulation will be most successful if implemented in a globally consistent manner.

Therefore I broadly support the FSB's work with regard to shadow banking entities, particularly the high-level policy framework for strengthening oversight and regulation of shadow banking entities recently proposed by the FSB. This framework provides for appropriate policy measures to address the diverse risks arising from different shadow banking entities.

Regarding specific entities, I welcome the Commission's proposal on the regulation of money market funds, and particularly its introduction of several measures aimed at reducing the vulnerability of money market funds to runs. This has been a major concern since the financial crisis.

E. Functioning of the ECB and democratic accountability and transparency

34. In your view, should the different responsibilities of Board members change with time, in line with the changes happening in the ECB's tasks and priorities?

I wonder whether mandatory changes of administrative responsibilities may bring about substantial benefits. The Executive Board of the ECB is a collegial decision-making body. It is not the individual member but the Executive Board, which bears the overall responsibility. This collegiality principle not only safeguards independence, but also allows for the varied backgrounds and professional expertise of the Executive Board members to feed into the decision-making process. I find this pooling of skills and approaches extremely valuable, particularly given the challenges that lie ahead.

Without prejudice to the principle of collective responsibility administrative responsibilities are distributed among the members of the Executive Board to manage the day-to-day operation of the ECB. This allocation of portfolios among the Board members creates direct reporting lines between the individual Executive Board members and the various directorates of the ECB.

35. What system do you think is appropriate to ensure an equitable rotation of membership on the ECB-executive board also in terms of nationalities and gender?

The relevant legal framework sets out clear criteria for the appointment of members of the ECB's Executive Board. The Treaty and the ESC/ESCB Statute requires the members of the Executive Board to be appointed from "among persons of recognised standing and professional experience in monetary or banking matters". These criteria have to be fulfilled. Moreover, the term of an executive board member lasts eight years ensuring a certain rotation cycle.

Having said this diversity has great value as it allows the organisation to draw on a wide variety of knowledge and experience, which enhances the quality of the debate and ultimately of the ensuing decisions. Incidentally, the benefits of diversity are not restricted to the Executive Board, but also accrue to the ECB's staff and management. I therefore welcome the ECB's public commitment and significant efforts to promote diversity and, in particular, to improve the gender balance in its managerial ranks in the coming years.

36. What is your view on the need to increase the diversity of backgrounds represented in the ECB board rather than relying solely on central bankers? What is your view on the issue of "revolving doors" between supervisory or regulatory bodies and private institutions of the same field?

As noted before, diversity has great value: a broad range of relevant professional experience and a variety of backgrounds result in a decision-making process, which benefits from different perspectives and hampers one-sidedness. Thus diversity contributes to sound decision-making.

In this respect, the Treaty requires candidates to have a "recognised standing and professional experience in monetary or banking matters", without specifying where and how they may have acquired this standing and experience. While a wealth of experience in central banking is relevant and should be taken into account, other professional backgrounds and experiences are also very valuable. When looking at the professional experience of the Executive Board members, one recognizes that not all of them are central bankers by training. They have obtained broad and diverse insights by serving in a variety of positions not only in the public sector, but also in the private sector as well as

academia. My own experience in banking supervision and communication will certainly help me to serve the ECB well.

The current ECB provisions comprehensively address the risk of conflicts of interest once the Executive Board members' mandates end (see also Question 37).

37. What kind of relationship with the private financial sector would in your view constitute a conflict of interest for a member of the board of the ECB?

Credibility and legitimacy are important assets of the ECB. Therefore it must avoid any conflict of interest which could endanger its credibility. The ECB framework seems to be a robust legal framework to address conflict of interests. Notably Articles 7, 11.1 and 37 of the ESCB Statute, as well as the terms and conditions of employment, applicable to the members of the Executive Board, should ensure the independence of members' decisions. It should avoid situations which could cause, or be perceived as causing, a conflict of interest even beyond the term of office. This, of course, does not exclude exchanges of views with representatives of the private financial sector. Additionally, the Code of Conduct for the Governing Council members imposes a one-year cooling-off period during which past members must "continue to avoid any conflict of interests that could arise from any new private or professional activities". Under their conditions of employment, subject to a decision by the Governing Council, ECB Executive Board members are prohibited for up to one year following the end of their term of office from accepting any staff, managerial, advisory or consulting position – remunerated or not – with an entity that has been a counterpart in Eurosystem monetary policy or foreign exchange operations.

38. Do you consider that the recent active involvement of the European Parliament in this area of encouraging gender diversity in the ECB has been helpful?

On the one hand it is certainly the role of the European Parliament to critically assess the work of the European Central Bank. In democratic societies, all public institutions must be accountable to bodies of directly elected representatives. On the other hand, within the relevant legal framework, the ECB should and does take all its decisions, including those on HR policies, in full independence.

More generally, I am very much in favour of better representation of women in the public sector. I am therefore pleased to note that the ECB has adopted gender targets to increase the number of female managers. I am committed to the set objectives.

I am convinced that discussions about gender balance in political arenas as well as in public will help to change the awareness and attitude towards gender diversity.

39. What will be your personal approach of the social dialogue at the ECB?

I am convinced that every institution or company, which wants to be successful, needs a fruitful and trustful dialogue between employers and employees. It is essential for the sound governance of an institution, for the necessary identification with the objectives of the institution as well as for the motivation of staff. With the change of tasks as well as the challenges ahead of us it will be essential to stay in close contact with the representatives

of the employees to foster respect, team spirit and partnership.

I am committed to continue the “open-door-policy” I practised at Deutsche Bundesbank and at BaFin, meaning that I am willing to adequately inform and discuss major developments in my administrative responsibility with representatives of the employees. I am committed to support the practice of the ECB consulting staff representatives on changes to the employment conditions and staff rules.

A dialogue with ESCB staff representatives also takes place. The further involvement of National Competent Authorities in the context of the SSM has added a further dimension to this dialogue, which needs to be maintained in an open and constructive spirit.

40. Would you be in favour of a confirmation procedure by the European Parliament (notwithstanding the constitutional issues that such a change would raise)?

It would be for the Member States and the European Parliament to discuss any such changes to the Treaty, as it is their prerogative.

That said, I believe that the current procedure has achieved its main goal, which according to Article 283 of the TFEU is to select “persons of recognised standing and professional experience in monetary and banking matters”.

41. Could you elaborate on your views on the concept of democratic accountability with regards to the ECB and central banking in general?

The Treaty grants the Eurosystem independence from democratic processes to best ensure price stability. In return, the ESCB’s mandate is quite clearly defined, because monetary policymakers have powerful and far-reaching instruments at their disposal. In this sense, a clear and narrowly defined mandate, as has been given to the Eurosystem, is also meant to protect monetary policy from having to bear too heavy a burden.

Against this backdrop, accountability is the necessary counterpart to central bank independence. As the Treaty grants the ECB comprehensive independence in terms of the operations it undertakes to fulfil its mandate, this has to be offset by comprehensive accountability and transparency. This is particularly true in times of crisis when the boundary between monetary policy and fiscal policy tends to blur. The European Parliament plays an essential role in ensuring that the ECB is held accountable.

The ECB uses a variety of instruments to ensure transparency and to allow it to be held accountable. Reports, press conferences, research papers, speeches and in particular hearings of the ECB President at the European Parliament are valuable and necessary. They keep the European Parliament and the public informed about the actions of the central bank and allow them to assess its decisions and performance. Thus, transparency and accountability crucially add to the central bank’s credibility and to the legitimacy of its actions.

42. What conclusions do you draw from the comparison between the transparency policies followed by the Federal Reserve Bank and by the ECB? What do you think about the publication by the Fed or the Bank of England of the minutes of their meetings? Do you

think this policy could be applied by the ECB.

Transparency is an important element of the monetary policy approach of both the Federal Reserve Bank and the ECB. Transparency about the factors underlying a decision helps to facilitate the transmission of monetary policy. Both institutions present and explain their policy decisions to the general public in an open, clear and timely manner.

It is interesting to observe the approach of other central banks, including the US Federal Reserve, which has, in some aspects, converged towards the Eurosystem's practice. The practice initiated by US Federal Reserve Chairman Bernanke to give press conferences after some of the meetings of the Federal Open Market Committee is one such example.

Yet, as different tools are available for central banks to enhance communications, central banks must always choose the most appropriate communication channel depending on the circumstances, weighing advantages and disadvantages of alternative approaches.

As regards the specific issue of the publication of minutes, a careful deliberation is warranted given the complexity of the issues at stake. A publication of the minutes could be considered if it contributes to greater transparency with regard to the monetary policy decisions of the Governing Council. To achieve this, publishing the general line of arguments within the Governing Council debate could be helpful. With regard to the question of whether or not the minutes should include personal quotes from the Governing Council members, however, it is crucial to bear in mind that the ECB is a supranational central bank in a multi-country monetary union. The arguments that have been presented in similar debates in other jurisdictions are therefore not always applicable to the specific situation of the ECB and the euro area.

43. What's your opinion of the monetary dialogue with the European Parliament? Might ECB board members discuss monetary policy and its decisions with other political actors or would this harm the bank's independence?

The regular hearing of the ECB President at the European Parliament's Economic and Monetary Affairs Committee is a key channel for the ECB to discharge its accountability. It is my understanding that these hearings have so far been informative and constructive for both institutions. Furthermore, the ECB has had a valuable opportunity to communicate its policies.

The ECB should explain its policies to a wide range of political actors including national parliaments, national authorities and other European institutions to allow them to better understand the Eurosystem's decisions and to take them into account when formulating their own policies. However, as the ECB's primary mandate is to maintain price stability in the euro area as a whole, accountability should be discharged at the European level and primarily to the European Parliament.

44. What do you see as the most important risks and challenges facing the ECB?

The euro area faces a number of interrelated key challenges, namely to bring the current crisis to an end, to restore sustainable growth and debt levels and to achieve high employment in all member states. The euro area is confronted with deleveraging,

fragmentation and a weak economic recovery. While deleveraging is affecting banks, households and governments across the euro area, some member states have been hit harder than others, contributing to a large cross-country dispersion in loan dynamics. At the euro-area level, deleveraging, fragmentation, uncertainty and a subdued macro environment have resulted in contracting investment, which remains below pre-crisis levels, and rising unemployment.

The ECB's main responsibility is to preserve price stability and conduct monetary policy within its mandate. It thus helps achieve sustainable growth and reduce uncertainty. The Eurosystem has provided an important expansionary monetary impulse for the economy, and – given the current outlook on price developments – it is rightly expected to continue to do so for an extended period of time. Moreover, by allocating ample liquidity it has contributed to financial market stability and the proper financing of the euro-area economy.

The future challenge will be, first, to continue to support the economy, to counter any deflationary pressures that might emerge (which I do not see at the moment), to make the transmission mechanism work efficiently and to help smooth financial market developments.

Second, it is important to keep inflation and inflation expectations well anchored and to always carefully consider the potential negative side effects that unconventional and conventional monetary policies might have.

The Eurosystem's monetary policy has resulted in a reduction of financial fragmentation, as indicated for instance by the evolution of spreads on corporate bonds, the cost of deposit and bond funding for banks, or the repayment of the liquidity injected into the banking system by the two very long-term refinancing operations. However, the improvement in financial conditions is not yet fully reflected in the real economy.

In order for banks to pass on to their clients the favourable financing conditions (in terms of price and quantity), trust needs to be re-established in the strength of the European banking sector and its capacity to finance the economy. Trust in the banking sector is one of the most important preconditions for solving the current crisis. With this aim in mind, the ECB will become the single supervisor of 128 of the most significant euro-area banks in November 2014. By then, it will have conducted a comprehensive assessment of their balance sheets to create greater transparency in respect of the risks and ensure that prompt corrective action is taken should the assessment reveal excessive risks or insufficient capital.

Finally, it must be remembered that the ECB can contribute to crisis resolution, but that the most important reforms have to be performed in other policy areas. The ECB is a very important stability anchor in the crisis, but it should not be overburdened. National governments have to consolidate their public finances and implement the necessary structural reforms. Further efforts are needed to address the weaknesses in the governance framework of EMU revealed by the crisis. Steps need to be taken to ensure that policies adopted by member states are consistent with membership in a currency union and do not create unsustainable imbalances carrying systemic risks. New legislation to this end was adopted during the crisis, but it is essential that it is fully and stringently implemented so

as not to repeat the mistakes of the past. Also, instruments for the management of crises need to be reinforced: while significant progress has been made with the establishment of a European crisis resolution mechanism, more needs to be done, notably by establishing a Single Resolution Mechanism including a Single Resolution Fund. It is important that the framework is not only stable in the short term, but is sustainable in the medium to long term. Therefore, common liability and common control must be balanced. If more risk-sharing is agreed upon, more sovereignty over economic, fiscal and financial market policies will, ultimately, have to be ceded to the European level in order to strengthen member states' commitment to a genuine and stable EMU.

РЕЗУЛТАТ ОТ ОКОНЧАТЕЛНОТО ГЛАСУВАНЕ В КОМИСИЯ

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