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Europe needs a single financial rulebook (commento)

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Comment

Europe needs a single financial rulebook

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Last week the European Union finance ministers decided that co-operation in financial regulation and supervision should be strengthened. They will look at the issue again in April. Indeed, time is running out to show that the evolution towards full co-operation can meet the challenge of Europe's financial integration and that the revolution of creating a single supervisory authority is therefore not necessary.

The recent financial turmoil has confirmed the shortcomings of the current system. In the monetary field, the European Central Bank acted quickly and decisively, getting high marks even from those who had long questioned its ability to manage a crisis. The European supervisory function, on the contrary, has been almost absent. Even with signs of a clear risk of contagion, no common analysis of the situation, no sharing of confidential information, no co-ordinated communication and no emergency meetings appear to have taken place among EU supervisors. Even the ECB, unlike the Federal Reserve, lacked the information on the soundness of counterparties normally available to national central banks.

The severe judgment expressed last June by the International Monetary Fund was confirmed: in crisis situations, European supervisors may take a narrow national perspective and resist pooling crucial information that would aid common action. In spite of progress in recent years, the system is still unable to respond effectively to the challenges of a largely integrated market.

Common principles have been developed, but the convergence of day-by-day practice has lagged behind. A banking group providing financial services in, say, 10 countries must fulfil 10 different reporting systems and capital

In crisis situations, European supervisors may take a narrow national perspective and resist pooling information

requirements, although they all stem

from the same European directives.

Current arrangements for co-ordinating national supervisory activities are overly complex and burdensome. They have proved incapable of ensuring efficient area-wide supervisory teamwork during a crisis. There is no single place in the EU where the same eyes can simultaneously look at the reported data concerning the two or three dozens of EU-wide institutions, whose tightly woven network of operations creates a potential for cross-border contagion and systemic risk. We speak so much of supervision, but this is neither "vision" nor "super".

Moreover, as market integration strengthens, competition among national exchanges and financial institutions puts pressure on national regulators to obtain privileged treatments within the wide range of options offered by European legislation and supervisory standards.

This has two regrettable consequences. It creates an extra regulatory burden entailing a loss of competitiveness for Europe's financial industry and it offers inadequate protection for investors. We must therefore now act decisively to enhance European supervisory structures. This applies in particular to the euro area, where a single payment infrastructure, a single liquidity source and interconnected lender of last resort functions are in place.

Strengthening the supervisory structure for multinational financial institutions means achieving two results: a single European rulebook aimed at ensuring equal treatment, low costs of compliance and the removal of regulatory arbitrage; and an integrated supervision of EU-wide groups, resting on a complete pooling of information and the enhancement of the powers of the colleges of supervisors. Such progress would not require the revolutionary step of creating a European supervisor, twin to the ECB, as advocated by some large market players. It would be entirely evolutionary - taking seriously the proposals made seven years ago by the Lamfalussy group, which received high praise but scant implementation.

What we need is active goodwill by existing bodies and minor adjustments to the Community legislation. National authorities would not be deprived of

the responsibility for decisions affecting financial institutions; they would simply be called to act on enhanced co-operation.

The argument that such a step would not be feasible without a prior agreement on how to share the burden of a possible systemic crisis is not just invalid, it is irresponsible. It amounts to the dismaying conclusion that no such agreement is likely to have been reached once the time of crisis comes. A change of gear is urgent to cope with a rapidly integrating European financial system. Only political impetus from governments can bring it about.

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