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Banking Supervision: Towards an EU Single Rulebook

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The main topic today is the Single Rulebook and the path ahead of us to achieve the objectives of the new institutional framework established with the endorsement of the recommendation of the de Larosière report. However, before tackling these issues, I will address some of the more pressing challenges raised by the current phase of the financial crisis.

The first part of this lecture will discuss the proposals the European Banking Authority (EBA) has put forward to deal with the impact of the sovereign debt crisis on EU banking markets. I will argue that the package endorsed by the Council at the end of October was a good one, but has suffered from a major problem of incorrect sequencing of the different measures. I will also stress that the re-emergence of national responses to the crisis and the failure to put forward EU-wide policies is determining a new segmentation of the Single Market and jeopardising one of the main achievement of the Union.

The second part of the lecture will discuss the meaning of the Single Rulebook. The national response to the crisis is bringing us back to the idea that financial regulation is there to protect national taxpayers and, therefore, needs to have a fundamentally national scope. Several authorities are having second thoughts on the very concept of the Single Rulebook. I believe that an accurate reading of the events of the last months and years, on the contrary, points clearly to the need for a more uniform regulatory environment. I will then elaborate on the main areas in which the Single Rulebook should deliver its results: the new regulatory framework on bank capital, liquidity and crisis management and resolution. Finally, I will devote some preliminary thoughts to the issue of convergence in supervisory practices.

1. The current phase of the crisis

The deepening of the sovereign debt crisis since the summer of this year has triggered a dangerous feedback loop: bank funding has been severely affected, with the markets coming to a standstill since July. In turn, this has triggered a significant deleveraging process, which is now posing a serious threat to growth prospects. As a result, the fiscal position of the sovereigns under stress risks deteriorating even further.

The market for bank funding is the key transmission channel in this process. Only a handful of banks have been able to access medium and long term unsecured funding since late June 2011, at costs well above those prevailing during the spring. The high spreads currently prevailing on secondary markets suggest than bank issuance for the time being is extremely difficult. Even the markets for secured funding – including covered bonds, which are supposed to fund low margins prime mortgages and public-sector loans – have been closed in recent weeks.

The standstill in the term funding markets has gradually spilled over to the short term end of the market. The interbank market has been shrinking and is increasingly segmented by geographies, with banks limiting themselves to transactions with domestic peers and at shorter maturities. Hoarding behaviour is increasingly widespread, with deposits at the central bank reaching again the extremely high levels prevailing in the aftermath of the default of Lehman Brothers in 2008.

The funding squeeze is closely linked with the sovereign bond crisis: it first affected the banks headquartered in the euro area countries under stress, but since then, it has been spreading throughout the Single Market. Market indicators – both CDS and bond spreads, as well as drivers of equity valuations – suggest that the correlation of the banks with their sovereigns, especially when the latter are perceived as financially stressed, is tighter than ever.

The interconnection between the banks and their sovereigns has been generated by two policy choices:

(i) the decision taken after the default of Lehman Brothers to leave the sole responsibility for bank rescue plans to national governments. This was not the only possible choice. The close interconnection amongst financial intermediaries in the Single Market and the relevance of cross-border groups would have justified a greater coordination of the policy response at the EU-wide level, with some degree of burden sharing. But proposals in this direction were – mistakenly, in my view – turned down. As a result of the choice to go "national only", markets reviewed their assessment of banks, attaching a much greater weight to the standing of the sovereign providing them with the safety net;

(ii) the conclusions of the Deauville summit on the need to allow for orderly defaults of euro area sovereigns, through haircuts to creditors' exposures, and the ensuing debate on private sector involvement in finding a sustainable solution for Greece. This pushed investors to evaluate the capital adequacy of banks after having marked to market their portfolio of sovereign exposures.

As these decisions have taken their toll on the availability and cost of funding for the banks, risks are being transmitted to the real economy. Banks have undertaken a series of actions to improve their position, by enhancing their availability of eligible collateral, strengthening their access to retail funding and lengthening its maturity, re-intermediating savings flows previously directed to other financial intermediaries. But they have also started a deleveraging process. Banks first started downsizing global trading positions and investment banking activities. Then followed a contraction in other wholesale assets – interbank, trade finance, commodity finance, leasing, corporate and syndicated lending, especially US dollar denominated. At risk are now retail and commercial lending activities, starting from those of foreign subsidiaries and moving then to domestic business. The lending survey of the ECB shows that already in the third quarter of 2011 the funding pressure was the major factor driving a restriction in lending, especially to small and medium enterprises.

Banks are changing their operating model. Before the crisis they used to "post-fund" their activities, i.e. they were first granting a loan and then turned to a liquid wholesale market to finance it. Now they have moved to a "pre-funded" model, extending their assets only when and insofar as they have available funding. Often, this funding has to be available within the same jurisdiction and with a matching maturity. The liquidity and maturity transformation function of the banking system is impaired. Unless the funding mechanism is repaired, the financing of the economy is going to be negatively affected and the adverse feedback loop between sovereigns, banks and growth prospect is going to swirl out of control.

2. The policy response and the role of the EBA

The EBA is a very young authority. Besides its role in the rule making process, which I will address in a moment, it has a general role in assessing risks to the banking sector and coordinating supervisory policies when needed. It has also been attributed a role in emergency situations, although this can be fully exercised only when the Council has declared an emergency situation in areas where existing European regulation leave no room for differences in the applicable rules, and when there is no direct impact on the fiscal position of Member States.

Within this framework, already in August we wrote a confidential letter to the Council alerting it to the difficulties in bank funding markets and arguing that an EU-wide funding guarantee scheme would have been a very effective option to address this issue, cutting the interconnection between the banks and their sovereign. In September the European Systemic Risk Board (ESRB) issued a statement, highlighting that the crisis had reached a systemic level, calling for coordinated supervisory responses aimed at strengthening the banks' capital position, also taking into account the need to ensure transparency and consistent valuations in sovereign exposures. Building up on these initiatives, the EBA put forward to the European Council technical proposals for an EU-wide guarantee scheme and for a requirement to banks to establish a temporary and exceptional capital buffer, bringing their Core Tier 1 ratio to 9% after having taken into account the market valuation of their sovereign exposures.

The declared objective of these measures was to avoid an aggressive, and potentially disordered, deleveraging process focused exclusively on the assets side. The funding guarantee scheme aimed at re-opening the access to the term funding markets and lower the cost of funding, alleviating the main source of the pressure on banks. The recapitalisation exercise was intended to strengthen the position of banks, also in front of the systemic risk stemming for the sovereign debt crisis, thus favouring their access to markets and correcting the banks' tendency to reduce their leverage only by cutting assets. Although the capital target is defined as a ratio, it has always been clear that only the narrowest actions leading to curtail asset levels would be accepted in complying with the EBA's recommendations. Moreover, the sovereign component of the buffer, deriving from the application of market valuations to the holding of banks' sovereign exposure, is fixed on the data as at end September 2011, so that banks would not alleviate in any way the capital needs by selling their portfolio of sovereign bonds. It is therefore somewhat paradoxical that the EBA's recommendations are now often indicated as a driver of the deleveraging process and of the turmoil in sovereign bond markets.

The EBA has always been adamant that the "banking package" had to be part of a broader set of measures, capable of addressing the sovereign debt crisis at its root, through a strengthened firepower of the European Financial Stability Facility (EFSF) and a credible and sustainable solution to the Greek crisis.

The EBA's proposals were fundamentally endorsed in the conclusions of the European Council of 26 October. The Council stressed the need to avoid that the capital measures could aggravate the deleveraging process, calling for a strict control on the actions taken by banks to meet the new criteria. But it also decided that funding guarantee schemes should remain national, without any mutualisation of losses and even without any aggregation mechanism allowing to provide investors with a truly European guarantee. Purely national guarantee schemes can help widening the pool of collateral eligible for central banking operations, but do not help severing the interconnection between banks and their sovereign – on the contrary, such link is strengthened.

At the same time, only the proposals on bank capital were disclosed in their technical details at the end of October, while the other elements of the package – in particular, the strengthening of the operational capabilities of the EFSF – needed further technical work to become operational.

I am still convinced that the October package was a good one, but it suffered from ***two major shortcomings***.

First, a ***sequencing problem***: all the elements of the package should have been announced together, with the same degree of technical details, and they should have been implemented in a coordinated fashion. If anything, the firewall to be set up by the enhanced EFSF to avoid contagion from Greece to other euro area countries should have been operational before the finalisation of the banking package. This would have reflected the fact that the pressures on the banks are originating from the sovereign debt markets and would have allowed for a better calibration of the requirements linked to the banks' sovereign exposures. Such consistency issue will have to be dealt with in the application of the package. As the enhanced EFSF starts operating and is effective in tackling the sovereign debt issue, the EBA will reconsider the continued need for the sovereign buffer.

Second, there is an issue of ***continued focus on national solutions***. I already mentioned the limits of national guarantee schemes. But there is a more general issue, as when confronted with the crisis national authorities tend to develop unilateral responses. These policies may well end up having negative externalities in other Member States and, in any case, do not contribute to a unified EU-wide response. For instance, a number of authorities have announced plans to frontload the Basel 3 requirements with respect to the timeline agreed at the G20 level and incorporated in the legislative proposals of the Commission. Although well intentioned, these announcements put pressure on authorities in other Member States. They may also contribute to redirecting funding flows towards banks in countries that are seen as applying stricter requirements, thus aggravating the problems of banks in other Member States. In other cases national authorities have taken steps to constrain cross-border transfers of assets or expansion in the banks' balance sheets in foreign jurisdictions. The authorities' attempt to contain domestic funding problems and their preference for deleveraging accomplished outside national borders are leading to a new segmentation of the Single Market and risk jeopardising one of the main benefits of the euro.

After the first phase of the crisis the de Larosière report clearly stated that in the EU it was time to move away from "*chacun pour soi*" policies to prevent and manage financial crises. Unfortunately, we still have quite some way to go to achieve this objective.

3. The rationale for the Single Rulebook

The conclusion of the previous section leads naturally to consider one of the main proposals of the de Larosière report, embodied in the regulations setting up the EBA and the other European Supervisory Authorities: the Single Rulebook.

The idea is quite simple. As it was first put forward by Tommaso Padoa-Schioppa in the early 2000s, it envisages that key technical rules should be defined at the EU level and adopted through EU regulations, so that they are directly applicable to all financial institutions operating in the Single Market, without any need for national implementation or possibility for additional layers of local rules. The need for change stems from the fact that although the bulk of financial regulations in the EU originates from Directives, a lot of flexibility has been left – and fully exploited – at the national level. Under the umbrella of the same Community legislation a very diverse regulatory environment has flourished. In the run up to the crisis several drawbacks became apparent: too much room was left to regulatory competition, with national authorities choosing more lenient approaches to attract business in local market places and favour national champions; a truly coordinated supervision of cross-border groups was hampered by the heterogeneity of the rulebook; inefficiencies were generated as the compliance process was fragmented along national lines, thus increasing administrative costs.

All these arguments led to the endorsement of the proposals of the de Larosière report by the European Council and Parliament at the end of last year. Consensus was found on the need to significantly extend the role for maximum harmonisation in financial market regulation. The EBA and the other European Supervisory Authorities (ESMA and EIOPA) will have the task of drafting regulatory or implementing technical standards that, once endorsed by the Commission, will become legally binding across the EU.

Only few months have elapsed since the final approval of the new institutional set up, but the support to the concept of a Single Rulebook seems to be already faltering. Some Member States wrote a letter to the Commission asking to reconsider the role and scope of maximum harmonisation in the implementation of the G20 reforms, in particular Basel 3, into EU legislation. More generally, financial regulation is increasingly seen as a tool for protecting national taxpayers, so that, it is argued, sufficient flexibility should be allowed to adapt to local preferences and specificities.

I will try to group the arguments opposing the Single Rulebook into three categories.

First, there is the argument that only minimum harmonisation is needed to prevent regulatory competition. If a Member State decides to be stricter than others, it is said, this should not be a cause of concern. For instance, if the capital requirement in one country is raised above the common European benchmark, it is the financial institutions located in those jurisdictions that are going to be penalised, which should not bother authorities in other Member States and the European institutions. I believe this argument neglects the fundamental point that we have already been living in a ***minimum harmonisation*** world so far and this ***has not prevented regulatory competition***. Financial regulation is now a very complex technical mechanism, whose functioning cannot be summarised by the setting of a minimum capital requirement. As it is painfully clear to anybody that has tried to analyse European banking markets, the same Basel capital ratio could have a significantly different meaning across countries. Different instruments could well be accepted as high quality regulatory capital across jurisdictions, as it happened since the recent past. The new regulatory framework will surely be triggering a new wave of financial innovation and it would be very difficult to preserve a tight definition of capital without having a clear commitment to having exactly the same rule, to accept as Core Tier 1 capital only instruments that are accepted by all regulators in the EU. Similarly, risk weighted assets can differ to a significant extent due to the diverse methodologies for applying rather complex technical rules – for instance, the transitional Basel 1 floors – or to the approaches followed by national authorities in the validation of internal models. The experience in the first months of operations of the EBA has already shown how relevant these differences may be. Higher capital requirements in one country might well turn out to be more lenient if the technical application is based on laxer approaches. Without the Single Rulebook, with uniform technical rules, jointly reviewed in the face of financial innovation, we are bound to work without a real level playing field.

Second, it is frequently argued that the Single Rulebook would hamper the operation of macroprudential supervision, which calls for the ability to adjust the prudential requirements in view of the specific risk environment in a country. It is a fact that the credit cycle is not synchronised across the Single Market and real estate bubbles might require a modulation of prudential requirements which are different from one country to another. National authorities should have flexibility to operate in response to different trends in the build-up of risks. I surely agree with this line of argument, but do not understand why it should be seen as conflicting with the concept of maximum harmonisation and the Single Rulebook. As a matter of fact, we already have single rules in each jurisdiction, but they endow the supervisors with the necessary degree of flexibility to calibrate the requirements to the risk profile of each individual financial institution. Similarly, we may well build up a uniform regulatory framework at the EU-wide level, allowing national authorities the flexibility to increase the requirements to face specific risks. The Commission's proposal for the CRD4 already incorporates several aspects of flexibility, following also comments raised by the ESRB. What is important, in my view, is that such national discretion is to some extent constrained within the EU. The ESRB should set out *ex ante* guidance on the way in which this discretion should be activated and conduct *ex post* reviews to make sure that the common criteria are correctly applied. This, in fact, is the approach suggested also by the Basel Committee for the application of the first macroprudential tool introduced in prudential regulation, the countercyclical buffer. Only by setting up such a framework for ***constrained discretion*** will we be sure that a similar risk outlook in two different areas of the Single Market is addressed with broadly similar prudential tools. This is essential, I believe, as we have now seen only too well that bubbles that develop in national markets have area-wide repercussions when they burst. Systemic risk cannot anymore be contained within national borders.

Third, there is the argument that uniform EU-wide rules cannot accommodate the specific needs of smaller, local institutions, especially co-operative and savings banks. If the particular business models of these institutions is not factored in the Single Rulebook the financing of households and SMEs could be negatively affected. Also in this case a parallel with national rulebooks can be helpful. Large and complex financial institutions and smaller local players operate side by side in national markets and face a single regulatory framework, which usually does include specific provisions tailoring the general rules to the needs of the different players. The main regulatory concept to tackle this issue, already enshrined in Community legislation, is ***proportionality***. At the EU level, as at the national one, there needs to be room to allow for a lighter application of the general rules to financial institutions with simpler business models and traditional banking activities. For instance, when designing a uniform framework for supervisory reporting we will have to graduate the requirements according to the complexity of the financial institutions. The Single Rulebook can and should allow for such flexibility, again within a consistent framework preserving the level playing field.

I understand the resistance to move to a Single Rulebook, as this new concept is depriving national authorities of well-established reference points, in a world that is already difficult enough. But the lesson of the crisis is that financial regulation has to be overhauled and we can deliver effective and long lasting results only if this effort is conducted jointly, at a truly European level.

4. Giving life to the Single Rulebook: bank capital, liquidity and crisis management and resolution

In giving life to the Single Rulebook in banking the EBA is facing a major challenge. Considering only the CRD4, we will have to accomplish around 200 tasks. By the end of next year we will have to finalise around 40 implementing and regulatory standards. The time schedule is extremely tight. We will have to ensure standards of high legal quality, as they will be immediately binding in all 27 Member States. We will also have to ensure proper due process, engaging in a technical dialogue with interested parties early on, establishing appropriate mechanisms for public consultation and for assessing the impact of the proposed regulations.

As to the substance of the new regulatory framework, while we will have to put proper attention and ensure adequate quality in all areas, I believe that the key litmus test for the Single Rulebook will be in two areas: the definition of capital and the implementation of the new liquidity standards. A third essential hurdle will be the implementation of the new Directive on crisis management and resolution, which the Commission should issue in the near future.

The definition of capital has been one of the key loopholes in the run up to the crisis. As financial innovation brought about increasingly complex hybrids instruments, national authorities have been played against each other by the industry, with the result that the standards for the quality of capital were continuously relaxed. As a consequence of regulatory competition, once the crisis hit a significant amount of capital instruments proved to be of inadequate quality to absorb losses. In a number of cases, taxpayers' money was injected in the banks while holders of capital instruments were still enjoying regular coupon payments. The Basel Committee has done a great job in significantly strengthening the definition of capital. We will now have to make sure that those criteria are implemented in a rigorous fashion throughout the EU. In particular, only instruments of the highest quality are to be included in the Common Equity Tier 1 (CET1) of EU institutions and the compliance with this strict requirement should be continuously monitored as financial innovation brings about new instruments. The draft legislative text proposed by the Commission favours an approach that privileges substance over form, as we do not have an EU-wide definition of common equity. If this approach is chosen, it is essential that strong mechanisms are in place to make sure that there is no room to water down this requirement in national application: the "substance" has to be the same across the Single Market. The key principles of permanence, loss absorbency and flexibility of payments need to be translated into the same operational criteria and should identify exactly the same type of instruments. The draft regulation requires the EBA to establish and publish a list of forms of capital instruments that qualify as CET1. It is essential that the legislation clarifies that only the instruments included in the EBA list will be eligible as CET1. European supervisors cannot afford any more to lose the control of the definition of regulatory capital.

Moreover, as I mentioned before, the EBA standards should make sure that consistency is achieved in the calculation of risk weighted assets and in the algorithms to compute the relevant ratios. Otherwise the same figures can have a very different meaning. The work on the consistency in the calculation of risk weighted assets has already started under the aegis of the Basel Committee, but also the EBA will have to invest on this topic. We plan to attribute great priority to this work stream in 2012.

As to the liquidity requirements, it is the first time that global and EU standards are going to be implemented in this area. The proposals put forward by the Basel Committee and mirrored in the Commission's legislative proposal have raised great concern in the industry. Also authorities have voiced some concerns on potential unintended consequences on the functioning of money markets. The basic principles of the new standards are sound: banks need to keep buffers of liquid assets readily available to withstand potential stress for a sufficient period of time, without having to resort to support from the central bank; and constraints need to be in place to prevent an excessive mismatch between the maturity of assets and liabilities. However, the technical details of the two ratios – the liquidity coverage ratio, LCR, and the net stable funding ratio, NSFR – have to be carefully reviewed and calibrated to ensure they achieve the intended results. The EBA will be asked to collect and analyse data from EU banks and report back to the EU institutions on the expected impact of the new requirements, with special attention to the financing of the real economy and SMEs. The EBA has already started its work, in parallel with the steps undertaken by the Basel Committee. Then, also in this area we will have to issue technical standards and make sure that the aggregates, the methodologies for calculating the relevant ratios and the reporting standards are effectively the same for all EU banks, with common principles to apply proportionality.

Any progress in achieving a stronger and more integrated regulatory framework would risk being spoiled if we don't manage to set in place an effective framework for crisis management and resolution. This entails making the orderly exit of large and complex institutions from the market a credible option and providing the right framework for a more coordinated approach across countries.

The road to follow has been clearly indicated at the international level. The line set out by the Financial Stability Board and endorsed by the G20 Leaders in November this year rests on three building blocks:

- the same comprehensive range of resolution powers and tools in all jurisdictions (resolution tool-kit);
- improved resolution planning by global systemically relevant institutions (G-SIFIs) through recovery and resolution plans (RRPs) to be discussed within Crisis Management Groups (CMGs) by end-2012, to ensure effective resolvability;
- cross-border cooperation arrangements in the form of bilateral or multilateral institution-specific cooperation agreements to allow for integrated resolution of cross-border entities.

At the EU level, a formal legislative proposal by the Commission on harmonisation of crisis management and resolution is forthcoming and extensive work has been carried out through various consultation documents – the EBA issued its opinion on the most recent one in March 2011.

The Regulation establishing the EBA already attributes the task of coordinating the preparation of RRPs and promoting cross-border cooperation when international groups face stressful situations. While some national authorities, including the National Bank of Belgium, are at an advanced stage in drafting and assessing RRPs, the progress achieved so far is still uneven.

But with all the progress that could be made in strengthening the structures for cooperation, in setting up mechanisms for mediation in case of conflicts between national authorities and in ensuring a legal setting that supports a coordinated resolution process for cross-border groups, the reform would still fall short of achieving its key objectives if the funding of rescue operations were to be still considered a matter for national budgets only. As discussed, this is at the very origin of the current phase of the crisis and overlooks the complex web of relations that connects financial institutions within the Single Market and that makes systemic risk an EU-wide concern, spanning well beyond national borders. A European System of Resolution

Funds, as proposed in the consultation document issued by the Commission, should be built in a medium to long term perspective. This should proceed hand in hand with greater convergence and cooperation in the conduct of supervision, as this is a necessary condition for sharing responsibilities for crisis resolution at the EU level.

The new resolution system will have to include mechanisms that call for a contribution of uninsured creditors in restoring an ailing bank's viability – the so-called bail-in. This is essential to curb moral hazard and the implicit subsidy large and complex banks have enjoyed so far on the cost of funding. It also reduces the need for government interventions with taxpayers' money. It has to be acknowledged, though, that bail-in requirements raise complex issues from a legal and operational standpoint. Relevant trade-offs arise, for instance in defining the possible scope of bail-in and its cross-border application. Again, this will require clear and homogeneous provision, a Single Rulebook approach, to which the EBA stands ready to contribute.

The most important point I would like to raise on bail-in concerns timing. In order to avoid that the new rules contribute exacerbating existing difficulties on the bank funding markets, it would be appropriate that any legislative proposal provide for the entry into force of bail-in provisions only with reference to debt issued after a certain date. I am aware that introducing such cut-off dates could segment the market and generate incentives to raise excessive funding before the date, which in turn could trigger excessive risk taking. But I don't think these concerns are particularly relevant under current circumstances, when banking markets are still rife with risk aversion and harsher regulatory requirements are being phased in.

5. The ultimate challenge: supervision

The Single Rulebook could bring about a major change in the EU, but there is a last, difficult hurdle to overcome to deliver the outcomes expected out of the new institutional framework. This hurdle is the convergence in supervisory practices. The topic would deserve a lecture of its own and I will just provide you with some preliminary thoughts.

It is a fact that supervisory approaches and traditions are quite diverse in the EU. This means that even in the presence of exactly the same rules, supervisory outcomes could be quite different.

The differences span through different dimensions: the reliance on on-site examinations versus off-site surveillance, the process to challenge management choices, the instruments used for corrective action, the data intensity of the supervisory process, the amount, type and distribution of resources devoted to each financial institution, to mention a few.

Work has already started at the global level to identify key principles for effective supervision of large, systemically relevant institutions. This will have to be followed through in the EU. The participation of the EBA in colleges of supervisors should be instrumental in identifying good practices and providing them as benchmarks at the EU level. The development of joint risk assessment, according to harmonised college processes and common metrics, is also expected to drive towards greater convergence. Peer review processes should allow identifying the major differences in the application of the Single Rulebook and single out those that are giving rise to level playing field concerns and call for follow up action. Common, EU-wide assessments should help the joint prioritisation of supervisory action.

However, I would note that all these steps correspond to a strengthening of methodologies already in use in the previous institutional environment, based on the so-called Level 3 Committees. They are in my view a necessary, but not a sufficient condition for supervisory convergence. The convergence process has been shaped under the untested assumption that it is possible to drive supervision to consistent outcomes while leaving ample flexibility in terms of national processes. I have been for long convinced that this was the right way forward, but have now changed my mind. After having seen the major differences in outcomes stemming out of different supervisory processes, I think we should set for ourselves the long term goal of a Single

Guidebook for supervisors – a manual that defines common procedures and processes for examiners. In fact, this is not different from what has been accomplished in the US by the Federal Financial Institutions Examination Council (FFIEC), which has defined common procedures and training for examiners, with a view to ensuring consistency across all the Federal supervisory agencies.

6. Concluding remarks

I realise that today I abused of your patience to touch upon an extensive number of issues. But we are at an extraordinary juncture, still going through a deep and difficult crisis and building a new regulatory and supervisory framework for the future.

Crises provide unique opportunities for change, as they push us to think outside the box and look at old issues with new eyes. But they also generate fear and a natural reflex to protect oneself, to erect barriers and go back to the old world as we knew it.

The establishment of the new institutional framework for financial regulation and supervision in the EU is a bold and promising innovation. The rationale for the Single Rulebook, for greater coordination in supervision and crisis management is stronger than ever. Reading again today the de Larosière report is a powerful experience: each piece of analysis, each conclusion is confirmed and reinforced in light of the development of the recent months.

At the same time, there are strong currents driving us back to a segmentation of the Single Market, to the preservation of diverse national regulatory frameworks, to the exclusive sovereignty of national governments in dealing with financial crises.

The challenge is very tough for a young authority as the EBA. We are often criticised in the national press because we are seen as erratic, not providing for enough certainty in the regulatory framework. But this is due to the fact that as soon as we start analysing a subject we realise how different national approaches are and provide benchmarks to ensure consistency. True enough, we change frequently our approaches, but we need to do so to remain loyal to our mandate and push for a level playing field. Sometimes we are criticised because we do not ensure sufficient consistency, so that our requirements are not fair, or affect banks in one country more than those in another. But this is a reason for continuing the work we are accomplishing, not for going back to national discretions.

In closing, I would like to take this opportunity to thank all national supervisory authorities and the members of our Board of Supervisors. I believe in these first months of activity we have shown an ability to decide, also in areas where there was no consensus, and move forward with a truly European approach. I am very much aware that the success of the EBA and of the new institutional framework will depend very much on our ability to work in a "system" with national supervisors.

Thank you very much for your attention.

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