OPENING ADDRESS GIVEN BY MR. CHRISTOPHER TUGENDHAT, EUROPEAN COMMISSIONER RESPONSIBLE FOR FINANCIAL INSTITUTIONS, THE COMMUNITY BUDGET AND PERSONNEL AND ADMINISTRATION, TO THE CONFERENCE ON DOMESTIC BANKING ORGANIZED BY THE FINANCIAL TIMES AT THE DORCHESTER HOTEL, LONDON JUNE 28/29 1979.
"THE DEVELOPMENT OF BANKING POLICY IN THE EUROPEAN COMMUNITY".

I am especially delighted to have been asked to open the Financial Times Conference on Domestic Banking. I think such a Conference is extremely timely and the topics that you will be covering are of interest and importance both to government on the one hand and the customer on the other. The fact that I, a Member of the European Commission, have been asked to give the opening address also shows an understanding on the part of the organizers of this Conference of an important truth about the position of the United Kingdom in 1979.

That is to say that as a Member State of the Community the word domestic no longer means for Britain the territory contained within the shores of the British Isles, but rather the whole of the Community of Nine - and shortly Ten - Member States comprising a population of nearly 270 million people. In Community jargon this area is known as the "internal" market or sometimes as the "single" market. It could as well be called the domestic market since by and large this is what it already is for trade in goods and what I hope it will become in the field of services, particularly financial services.

/Progress

Progress in the creation of a single market for services has lagged behind our achievement in the free movement of goods. This is not surprising since the difficulties involved are much more intractable and we took longer to begin tackling them. But the discrepancy in progress between the two sectors has become so great that catching up on services should now be a high priority for the Community.

Bringing about a banking system for over 250 million people which is at the same time both competitive on fair terms and yet secure for the customer, whether corporate or private, is not an undertaking which can be accomplished overnight. A step by step approach is necessary and in a moment I want to tell you how we are proceeding. But first I want to turn briefly to the immediate context in which we are operating.

/ First of

First of all the European Monetary system. The institution of the EMS does not of course constitute the new millennium which is going to solve all our problems. I do believe however it is the start of something important. I shall not rehearse before an audience such as this the arguments in favour of EMS: you are as familiar with them as I. I would however say that I detect a certain disillusionment with floating rates and at the same time a reluctance to revert for good reasons to a fixed rate system. Though one may argue about the details and the timing - and many in the UK have certainly done both - there is a growing consensus that a system which attempts to move simultaneously towards greater stability while retaining sufficient flexibility to accommodate changes in the relative strength of Member currencies is the direction in which we ought to be moving.

/ I say

I say this not simply because I regard currency stability as a good thing in itself, which I do especially as against our experience of the alternative. I also believe it is an essential component of what I regard as now being one of the most important aims of the European Community: namely the coordination of economic policy between the Member States and the Institutions of the Community with the object of bringing about a higher overall level of performance and a closing of the gap between the best and the worst. To use the current jargon I believe it will help to bring about convergence and on this point I must emphasize that that convergence should be towards the standards of the best and not of the worst performers. You can argue whether EMS should precede economic convergence or whether economic convergence should precede EMS. This is an interesting debate but the important thing is to achieve the aim of getting monetary and economic policy at the Community level to operate in support of one another - something which, to put it mildly, has not always happened in the past. The Community has decided to start with EMS. I believe it is very much in the interests of all our Member States that it should succeed in securing this objective.

I am sure that Member States will be prepared to make great efforts to maintain and develop EMS and it is a source of satisfaction to me that the UK has now decided to participate in the swap arrangements. I hope this step will lead in the near future to membership of the intervention currency mechanism as well.

All this, of course, is relevant to the development of banking policy in the Community. Greater monetary stability will provide a more favourable climate for increased cross frontier investment which should bring in its train increased capital movements. Greater freedom of capital movement - and in this context I greatly welcome the recent liberalisation by the British Government which I regard as good both for Britain and the European Community - must inevitably have certain consequences for those concerned with the prudential aspects of banking. It is vitally important that greater freedom should not result in less confidence. Our steps towards the wider market must not be dogged by banking failures that could have been avoided had there been more effective supervision.

Some in the banking industry may be worried about the implications of this remark. So I hasten to say that we in the Commission do not wish to see banking shackled with a great apparatus of prudential control at the Community level. But some extension of control is, I would say, self evidently necessary: as banking goes increasingly international, so must the supervisors.

/ So far

So far we in the Commission have concentrated our efforts on what we regard as the top priority. That is the creation of an adequate and reasonably uniform system of supervision for all banks operating in Europe, irrespective of their state of origin, in the interests both of the banks themselves (in the sense that we do not wish to see any bank at a competitive disadvantage) and of their depositors (who need to be guaranteed that certain minimum standards of prudence are being met).

Our starting point is the First Directive in the field of credit institutions or, to give it its full title, the First Council Directive on the coordination of laws, regulations, and administrative provisions relating to the taking up and pursuit of the business of credit institutions. I will not go into detail about the provisions of this Directive - I imagine most of you are familiar with its broad outline - and for my purposes today I think it will be sufficient for me to remind you that the First Coordination Directive has two main aspects: in the first place, it requires the setting-up of a basic licensing procedure for all banks within the Community and in the second place - and this will prove to be its more important aspect - it looks to the future, not in the sense that it prescribes specific tasks to be carried out at some future date in the coordination of banking legislation, but in that it attempts to create the machinery for the identification and implementation of such tasks.

It is on this second aspect that I should like to dwell in the time that remains to me, because I believe its implications for the creation of a single domestic market in Europe to be very considerable.

There are two types of machinery proposed in the Directive - one formal, one informal. The latter is to be found in Article 7 of the First Coordination Directive which calls upon the banking supervisory authorities of the Member States to (and I quote) "collaborate closely in order to supervise the activities of credit institutions operating ... in one or more Member States." There are several reasons which prompted the inclusion of this Article. First, in order to avoid unnecessary and wasteful duplication of effort in the supervision of credit institutions, we are promoting the principle of home country control. In other words, as banks branch into other Member States, we wish their home supervisory authorities to be able to follow them, since as I have already argued only in this way can they obtain the overall view which is so essential if they are to do their job properly. This procedure will obviously require close cooperation among control authorities. Indeed willing and close cooperation is nothing short of critical to the success of the Commission's approach.

Secondly, despite what some of our critics may say, we do not in the European Commission believe in legislation for its own sake. In the field of banking, we learnt this lesson early on. As some of you may recall, our first attempt at a banking coordination directive set out to harmonise in one go the various legal provisions governing banking in the Member States. To put it at its best this attempt met with a mixed reception. Now we opt for a more pragmatic approach, and rightly so, I think: much better a system of close cooperation between national supervisory authorities imposing a minimum number of legal requirements and solving problems as they arise than the lengthy and complex route of institutional harmonisation. Thirdly, this process of cooperation between supervisory authorities has an important part to play in the general coming together of Community countries and of their institutions. The benefits from this may be less tangible in the short term but they are real nonetheless and will become of increasing value as time goes on.

The other and more formal type of machinery which the First Coordination Directive proposes is contained in Article 11, which deals with the formation of an "Advisory Committee of the Competent Authorities of the Member States of the European Economic Community". This again involves national supervisory authorities but officials serving on the Advisory Committee do so not in their national capacity but as members of a European body which has been created by the First Coordination Directive and charged with specific tasks under that Directive. The Committee is to work alongside the Commission and has three main tasks allotted to it :

- the first, that of assisting the Commission in ensuring the proper implementation both of the First Coordination Directive and, in so far as it relates to credit institutions, of a Directive adopted in 1973 on the abolition of restrictions on the freedom of establishment and the freedom to provide services;
- the second, that of carrying out other tasks prescribed by the First Coordination Directive, an example of which would be the overseeing of the so-called observation ratios which are to be established for the purposes of monitoring the solvency and liquidity of credit institutions;
- and lastly, that of helping the Commission prepare new proposals to the Council of Ministers concerning further coordination in the sphere of credit institutions - a task which, though I place it last here, may well be the Advisory Committee's most useful contribution to building a truly European framework within which banks may operate.

/ I

I should clarify here that despite this fairly technical-sounding brief it is not intended that the Advisory Committee should preoccupy itself with details. Its function is much more advice on policy formulation within which the more detailed technical aspects can then be worked out. It meets once or twice a year only. Its first meeting which took place just last week confirmed our expectations that this Committee will serve as a useful forum for concrete and constructive discussion between the Commission and the Member States.

I referred earlier on to apprehension sometimes encountered in banking circles at the prospect of consolidated supervisory control. As I indicated I think that it is an inevitable trend and one which need not give rise to anxiety. Indeed it has its advantages for banks. It would for instance permit centralised bookkeeping leading eventually in a single banking market to a situation in which deficits of liquidity in one Member State could be offset against surpluses in another - a facility certainly not available at the moment. In such a situation the present requirement for separate capital to be hived off for every foreign branch each of which in turn has to conform to different local solvency and liquidity ratios would also be removed. One of the most important first steps down this road will be getting agreement on the principle in all the Member States of consolidated accounts and then the enactment of appropriate legislation. My impression is that the principle is now generally accepted. I agree with the Governor of the Bank of England when he said in a recent speech that consolidated global balance sheets would be a major step forward in the ability of supervisors to assess any risks being run in international banking. I therefore regard it as a matter of priority that the Commission should produce a legislative proposal to send to the Council at an early date. There are several difficult problems to be solved over bank accounts and adoption of legislation in this area will be an important achievement for the Community enabling us to speed up work on other related issues.

Before closing I want briefly to mention the Euro-currency market. This is an essential element in international borrowing and lending, as its ability to cope with the excessive international liquidity which followed the oil price rise of the early 1970s testifies. There is in my view no necessary antagonism between the Euro-currency market and the domestic market - indeed they have different functions which complement one another. But the increasing concern that is being expressed from both the monetary and, to a lesser extent prudential point of view about the present state of the Euro-currency market, cannot be ignored. Various remedies of greater or lesser severity are being suggested to deal with the situation. In my view, sensible and timely prudential measures are likely to preserve in existence a relatively unfettered Euro-currency market. And of one thing I am convinced - more information about the market is needed. The Commission is not at present planning specific prudential measures in relation to the Euro-currency market. Equally, we cannot ignore its existence. The impact of the proposals which we shall bring forward on consolidated accounts will naturally extend to the Euro-market and will be a useful first step towards greater transparency of it.

/ In developing

In developing a Community banking policy therefore we seek to open up and unify a market that is still fragmented and do so in a manner which ensures that competitive conditions are fair. Fair does not mean identical. We are not seeking, as I hope I have convinced you, massive harmonisation. But fair means a reasonable overall balance of advantage for those operating in the market. Our approach is minimalist. We are content with less rather than more legislation and look to cooperation between existing national supervisory authorities rather than to the creation of new institutions. The rule of the market will still be caveat emptor. The Commission is not in business to do away with risk. Equally there must be reasonable security for the investor. Exactly how this security is achieved can and indeed will to a considerable extent be influenced by the responsibility shown by the banking industry itself. In the creation of a single European market for banking the European Commission has sought and received the constructive cooperation of the European banking industry. We regard it as essential that this should continue and be reinforced as we get down to tackling some of the difficult issues, both technically and politically, that will have to be resolved. That we will solve them, I am equally convinced. Our aim, as I said, at the outset, is to bring the development of the common market in services into line with progress in trade in goods - a development which the UK will be well placed to profit from and from which the whole Community will derive benefit.

European Communities Commission Press Release

20 Kensington Palace Gardens
London W8 4QQ
Telephone: 01-727 8090

ISEC/18/79

June 27, 1979

EMBARGO: Not for use by media or on agency or club tapes before 09.25 HOURS, THURSDAY, JUNE 28, 1979.

ESTABLISHMENT OF SERVICES SHOULD BE PRIORITY

Mr Tugendhat discusses credit institutions in the EEC

The discrepancy in progress between the creation of a single market for services in the European Community and the achievement of free movement of goods has become so great that catching up on services should now be a high priority for the Community, said Mr Christopher Tugendhat, European Commission member responsible for financial institutions, in London today (Thursday June 28).

Speaking at a Financial Times conference at the Dorchester Hotel, Mr Tugendhat said that greater monetary stability which the European Monetary System should help to bring would provide a more favourable climate for increased cross-frontier investment which should bring in its train increased capital movements.

"Greater freedom of capital movement - and in this context I greatly welcome the recent liberalisation by the British Government which I regard as good both for Britain and the European Community - must inevitably have certain consequences for those concerned with the prudential aspects of banking. It is vitally important that greater freedom should not result in less confidence. Our steps towards the wider market must not be dogged by banking failures that could have been avoided had there been more effective supervision.

"We in the Commission do not wish to see banking shackled with a great apparatus of prudential control at the Community level. But some extension of control is, I would say, self evidently necessary: as banking goes increasingly international, so must the supervisors.

"So far we in the Commission have concentrated our efforts on what we regard as the top priority. That is the creation of an adequate and reasonably uniform system of supervision for all banks operating in Europe, irrespective of their state of origin, in the interests both of the banks themselves (in the sense that we do not wish to see any bank at a competitive disadvantage) and of their depositors (who need to be guaranteed that certain minimum standards of prudence are being met).

Out lining the Commission's proposed directive on credit institutions, Mr Tugendhat said that in order to avoid unnecessary and wasteful duplication of effort in supervision, the Commission was promoting the principle of home country control, so that as banks branched into other member states, home supervisory authorities would be able to follow them. "This procedure will obviously require close cooperation among control authorities."

"Despite what some of our critics may say, we do not in the European Commission believe in legislation for its own sake... much better a system of close co-operation between national supervisory authorities imposing a minimum number of legal requirements and solving problems as they arise than the lengthy and complex route of institutional harmonisation."

The main formal machinery proposed under the directive is the Advisory Committee of Competent Authorities, which involves national supervisory authorities, but whose members serve not in their national capacity but as members of a European body. Their task, said Mr Tugendhat, would be to advise the Commission on policy formulation.

.-.-.-.-.