

SPEECH BY MR. CHRISTOPHER TUGENDHAT, VICE-PRESIDENT
OF THE COMMISSION OF THE EUROPEAN COMMUNITY, TO THE
HELLENIC BANKS' ASSOCIATION, ATHENS : 5 JULY 1984.

BANKING AND THE EUROPEAN COMMUNITY

IT IS A PLEASURE FOR ME TO BE HERE TODAY TO
ADDRESS YOU ON THE EUROPEAN COMMUNITY AND BANKING.
I HAVE AS IT HAPPENS BEEN PRIVILEGED TO VISIT THIS GREAT
CITY ON A NUMBER OF OCCASIONS IN MY CAPACITY AS A
COMMISSIONER. THIS IS HOWEVER THE FIRST TIME I DO
SO IN ORDER TO SPEAK ON BANKING.

IT IS NOW JUST SEVEN AND A HALF YEARS SINCE I
JOINED THE COMMISSION OF THE EUROPEAN COMMUNITY WITH
RESPONSIBILITY FOR FINANCIAL INSTITUTIONS. WITH RATHER
LESS THAN SIX MONTHS TO GO BEFORE THIS COMMISSION COMES
TO AN END AND I LAY DOWN MY RESPONSIBILITIES I WOULD
LIKE TO REVIEW WITH YOU THE COMMUNITY'S ACHIEVEMENTS
IN THE BANKING SECTOR AND SPECULATE A LITTLE ON THE
FUTURE.

WHEN I JOINED THE COMMISSION AT THE BEGINNING OF 1977 THE COMMUNITY HAD SO FAR ADOPTED NO SPECIFIC LEGISLATION ON BANKING MATTERS. THE PROVISIONS IN THE TREATY OF ROME ON CAPITAL MOVEMENTS ARE OF COURSE DIRECTLY RELEVANT TO BANKING AND SO TOO IN THEORY ARE THE PROVISIONS ON FREEDOM OF ESTABLISHMENT AND FREEDOM TO PROVIDE SERVICES. BUT, SINCE RESTRICTIONS REMAIN ON CAPITAL MOVEMENTS IN HALF THE MEMBER STATES, THESE FREEDOMS HAVE NOT IN PRACTICE PLAYED A SIGNIFICANT PART IN THE BANKING SECTOR. THE PROVISIONS ENSHRINING THESE FREEDOMS HAVE NEVERTHELESS BEEN HELD DIRECTLY APPLICABLE IN ALL MEMBER STATES WITHOUT THE NEED FOR SPECIFIC IMPLEMENTING LEGISLATION. THIS GENERAL PRINCIPLE IS NOW BEING TESTED THROUGH ACTIONS BEFORE THE EUROPEAN COURT CONCERNING INSURANCE. I HAVE NO DOUBT THAT THE COURT WILL UPHOLD THE GENERAL PRINCIPLE IN THE INSURANCE SECTOR ALSO. SUCH QUESTIONS HAVE NOT ARISEN IN THE BANKING SECTOR FOR TWO REASONS: THE HIGHLY INTERNATIONALIZED AND FLEXIBLE CHARACTER OF THE EXISTING WHOLESALE BANKING MARKET; AND A TRADITIONAL RELIANCE ON BRICKS AND MORTAR IN THE CONSUMER OR PERSONAL BANKING SECTOR.

ALTHOUGH THE COMMUNITY TOOK NO SPECIFIC LEGISLATIVE ACTION IN THE BANKING SECTOR BEFORE 1977, IT WAS ALREADY APPARENT BY THE EARLY 1970'S THAT THERE WAS A GROWING NEED FOR A COMMON APPROACH TO IDENTICAL PROBLEMS ON THE PART OF SUPERVISORY AUTHORITIES OF MEMBER STATES. AS BANKS BECAME MORE HEAVILY COMMITTED ABROAD THERE WAS AN INCENTIVE FOR AUTHORITIES TO GET TOGETHER AND TO COOPERATE ON ISSUES OF MUTUAL INTEREST. THE BANKING CRISES OF THE MID-70'S PROVIDED AN ADDITIONAL SPUR. IT WAS THEREFORE NATURAL FOR THE COMMUNITY TO TRY TO FACILITATE THE PROCESS OF COORDINATION BETWEEN MEMBER STATES.

I EMPHASISE THE USE OF THE WORD COORDINATION HERE. OUR LONG-TERM OBJECTIVE IS THE ELIMINATION OF ALL BARRIERS TO ESTABLISHMENT AND SERVICES BUSINESS IN THE BANKING SECTOR AS INDEED IN ALL OTHERS SO AS TO PROVIDE FOR A SINGLE COMMUNITY MARKET. IN THE CURRENT AMERICAN TERMINOLOGY THIS PROCESS WOULD BE CALLED DEREGULATION. IN THE COMMUNITY THERE IS OF COURSE NO CENTRAL FEDERAL AUTHORITY FOR MATTERS TOUCHING FINANCIAL INSTITUTIONS AND IT IS NOT OUR INTENTION TO CREATE ADDITIONAL LAYERS OF REGULATIONS AND THUS OVERLOAD CREDIT INSTITUTIONS AND SUPERVISORS. OUR AIM IN THE DEREGULATION PROCESS IS SO TO COORDINATE NATIONAL REQUIREMENTS AS TO ENSURE THAT A FINANCIAL INSTITUTION AUTHORIZED IN ONE MEMBER STATE CAN OPERATE IN ANOTHER MEMBER STATE WITH THE MINIMUM OF ADDITIONAL SUPERVISION AND CONTROLS NECESSARY TO AVOID ANY DISTORTION OF COMPETITION.

BESIDES OF COURSE PROVIDING A FORUM FOR DISCUSSION AND CONSULTATION, AN ASPECT TO WHICH I SHALL RETURN IN A MOMENT, THE COMMUNITY HAS AT ITS DISPOSAL TWO LEGISLATIVE INSTRUMENTS: THE RECOMMENDATION, LITTLE USED IN PRACTICE AND IN OUR EXPERIENCE OF SOMEWHAT DOUBTFUL VALUE; AND THE DIRECTIVE. IN KEEPING WITH THE COORDINATION OBJECTIVE DIRECTIVES ARE BINDING AS TO THE RESULT TO BE ACHIEVED, BUT THEY LEAVE TO THE NATIONAL AUTHORITIES THE CHOICE OF FORM AND METHODS.

WE ACHIEVED A CONSIDERABLE BREAK-THROUGH WITH THE ADOPTION BY THE COUNCIL OF A FIRST DIRECTIVE ON BANKING COORDINATION IN DECEMBER 1977. THERE ARE NOT MANY SPECIFIC RULES OF LAW IN THE DIRECTIVE, BUT IT DOES STATE A SERIES OF PRINCIPLES WHICH THE COMMISSION IS NOW TRYING TO DEVELOP. IT ESTABLISHES AS THE ULTIMATE OBJECTIVE THE PRINCIPLE THAT THE OVERALL SUPERVISION OF A CREDIT INSTITUTION OPERATING IN SEVERAL MEMBER STATES SHOULD BE EXERCISED BY THE COMPETENT AUTHORITIES OF THE MEMBER STATE IN WHICH IT HAS ITS HEAD OFFICE, IN CONSULTATION, AS APPROPRIATE WITH THE COMPETENT AUTHORITIES OF THE OTHER MEMBER STATES CONCERNED. THUS EFFECTIVE PRUDENTIAL SUPERVISION WILL GRADUALLY SHIFT FROM THE HOST COUNTRY TO THE SUPERVISORY AUTHORITY IN THE HOME COUNTRY. THE DIRECTIVE SPEAKS OF THE NEED, IN THIS AS IN OTHER RESPECTS, TO PROCEED BY SUCCESSIVE STAGES. THE OBJECTIVE OF HOME COUNTRY CONTROL IS, HOWEVER, THE GOLDEN THREAD WHICH RUNS THROUGH ALL OUR WORK.

THE OPERATIVE PROVISIONS OF THE DIRECTIVE, WHICH ARE IN GENERAL TERMS, LAY DOWN CERTAIN MINIMUM ELEMENTS RELATING TO THE INITIAL AUTHORIZATION OF CREDIT INSTITUTIONS SEEKING ACCESS TO A GIVEN MARKET. THESE PROVISIONS ARE SUBJECT TO ANY MORE STRINGENT NATIONAL REQUIREMENTS. IT WILL BE NECESSARY TO INVENTORY THESE NATIONAL REQUIREMENTS AND TO TRY AND RATIONALIZE THEM EITHER BY OBTAINING THEIR ABOLITION OR BY HARMONIZATION. A FIRST STEP WOULD BE A STANDSTILL IMPLYING NO NEW NATIONAL REQUIREMENTS WITHOUT CONSULTATION WITH THE OTHER MEMBER STATES.

THE SECOND MAJOR INSTRUMENT ADOPTED IN THE BANKING SECTOR, LIKEWISE A FRAMEWORK DIRECTIVE, IS THE DIRECTIVE OF JUNE 1983 ON THE SUPERVISION OF CREDIT INSTITUTIONS ON A CONSOLIDATED BASIS. IT REPRESENTS AN INTERIM MEASURE AIMED AT ESTABLISHING THE BASIC PRINCIPLE OF SUPERVISION ON A CONSOLIDATED BASIS AND AT ELIMINATING THE OBSTACLES WHICH HAVE PREVENTED MEMBER STATES FROM IMPLEMENTING THE PRINCIPLE ON A NATIONAL BASIS.

THE DIRECTIVE REQUIRES ALL CREDIT INSTITUTIONS WHICH EITHER HAVE A MAJORITY HOLDING IN OR OTHERWISE EFFECTIVELY CONTROL ANOTHER CREDIT OR FINANCIAL INSTITUTION TO BE SUBJECT TO SUPERVISION ON THE BASIS OF THE CONSOLIDATION OF THEIR FINANCIAL SITUATION WITH THAT OF THE OTHER CREDIT OR FINANCIAL INSTITUTIONS CONCERNED.

CONSOLIDATION IS ONLY REQUIRED WHERE A CREDIT INSTITUTION IS THE HEAD OF A GROUP OR SUB-GROUP: IT DOES NOT FOR INSTANCE APPLY TO NON-BANK HOLDING COMPANIES AT THE HEAD OF A GROUP, ALTHOUGH IF A NON-BANK HOLDING COMPANY IS SITUATED WITHIN THE STRUCTURE OF A GROUP HEADED BY A CREDIT INSTITUTION THEN THE PARENT INSTITUTION IS REQUIRED TO LOOK THROUGH THE HOLDING COMPANY AND CONSOLIDATE ANY CREDIT OR FINANCIAL INSTITUTIONS WHICH IT HOLDS INDIRECTLY.

THE DIRECTIVE CAN, OF COURSE, ONLY APPLY TO INSTITUTIONS SITUATED WITHIN THE COMMUNITY. BUT WHERE APPROPRIATE WE ENVISAGE THAT INSTITUTIONS SITUATED IN THIRD COUNTRIES MAY BE BROUGHT WITHIN THE SCOPE OF CONSOLIDATION BY MEANS OF BILATERAL AGREEMENTS BETWEEN THE SUPERVISORY AUTHORITIES OF THE COUNTRIES CONCERNED.

THERE ARE TWO PARTICULAR ASPECTS RELATING TO THE CONSOLIDATED SUPERVISION DIRECTIVE TO WHICH I WOULD LIKE TO DRAW YOUR ATTENTION. IN THE FIRST PLACE, IT IS THE BEST EXAMPLE WE HAVE OF WHAT CAN BE DONE WHEN THERE IS ACTIVE COOPERATION BETWEEN SUPERVISORY AUTHORITIES: THE PROPOSAL FOR A DIRECTIVE WAS PRESENTED IN 1981 AND WAS ADOPTED IN LESS THAN TWO YEARS. THIS STANDS IN MARKED CONTRAST TO THE DEPLORABLE DELAYS EXPERIENCED WITH PRACTICALLY ALL COMMISSION PROPOSALS IN THE COUNCIL.

THE OTHER POINT TO NOTE IS THAT THE DIRECTIVE IS IN RESPONSE TO A RECOMMENDATION FROM THE BASLE GROUP OF 10 AND FITS IN WITH THE REVISED BASLE CONCORDAT ISSUED LAST YEAR.

THE ACTIVE AND FRUITFUL COOPERATION BETWEEN AUTHORITIES TO WHICH I HAVE JUST REFERRED IS CONDUCTED IN THE BANKING ADVISORY COMMITTEE, WHICH WAS ESTABLISHED UNDER THE FIRST BANKING COORDINATION DIRECTIVE OF 1977. THE COMMITTEE WAS INSTRUMENTAL IN ENSURING SUCCESS ON THE CONSOLIDATED SUPERVISION DIRECTIVE AND IS REGULARLY ENGAGED IN A DIALOGUE WITH THE COMMISSION IN THE ELABORATION OF APPROACHES AND PROPOSALS DESIGNED TO FLESH OUT THE TWO FRAMEWORK DIRECTIVES.

ONE OF THE VITAL CONDITIONS TO BE FULFILLED BEFORE THE OBJECTIVE OF HOME COUNTRY CONTROL CAN BE REALISED IS A NARROWING OF EXISTING DIFFERENCES IN SOLVENCY AND LIQUIDITY REQUIREMENTS. AS A FIRST STEP IN THIS DIRECTION THE DIRECTIVE CALLS FOR THE ESTABLISHMENT OF RATIOS FOR OBSERVATION PURPOSES.

THE BANKING ADVISORY COMMITTEE HAS BEEN VERY ACTIVE IN WORKING OUT THESE OBSERVATION RATIOS. THE OBJECTIVE IS TO DEVELOP OVER TIME A SERIES OF RATIOS FOR MONITORING THE SOLVENCY AND LIQUIDITY OF CREDIT INSTITUTIONS, WHICH CAN BE USED THROUGHOUT THE COMMUNITY. AT PRESENT TRIAL RUNS ARE BEING CONDUCTED ON VARIOUS RATIOS WITH A SAMPLE OF BANKS FROM EACH MEMBER STATE. THE NEXT STEP WILL BE TO WIDEN THE NUMBER OF CREDIT INSTITUTIONS TAKING PART.

ASSEMBLING STATISTICS FOR THESE TRIAL CALCULATIONS OF THE OBSERVATION RATIOS HAS HIGHLIGHTED THE FACT THAT REQUIREMENTS FOR THE REGULAR RETURNS TO BANKING SUPERVISORY AUTHORITIES VARY GREATLY FROM ONE MEMBER STATE TO ANOTHER. THIS IS VERY INCONVENIENT FOR BRANCHES OPERATING IN OTHER MEMBER STATES SINCE THEY HAVE TO SUPPLY OFTEN WIDELY DIVERGING SETS OF INFORMATION TO THE AUTHORITIES OF HOST AND HOME COUNTRIES. WE ARE TRYING TO CO-ORDINATE THE NATIONAL REQUIREMENTS, THE AIM BEING THAT A BANK SHOULD BE ABLE TO PROVIDE OUTPUT FROM A SINGLE DATA BASE WHICH CAN BE USED SIMULTANEOUSLY FOR THE RATIO CALCULATIONS AND FOR REGULAR RETURNS TO THE VARIOUS NATIONAL AUTHORITIES. IT IS HOPED THAT THIS DATA BASE CAN BE STRUCTURED AROUND THE REQUIREMENTS FOR THE PUBLISHED ANNUAL ACCOUNTS OF BANKS.

ANOTHER IMPORTANT AREA OF CURRENT WORK IS ON THE DEFINITION OF THE ELEMENTS OF THE 'OWN FUNDS' OF A CREDIT INSTITUTION. WHILE IT IS CLEAR THAT, FOR INSTANCE, PAID-UP CAPITAL WILL COUNT IN A BANK'S 'OWN FUNDS', IT IS NOT SO EASY TO DETERMINE TO WHAT EXTENT RESERVES, CURRENT YEAR'S PROFITS OR, TO NAME A PARTICULARLY DIFFICULT QUESTION, SUBORDINATED LOANS SHOULD OR SHOULD NOT BE INCLUDED IN THESE FUNDS WHICH PLAY AN EXTREMELY IMPORTANT ROLE, ESPECIALLY AS A YARDSTICK FOR THE MEASUREMENT OF THE SOLVENCY AND THE STABILITY OF A CREDIT INSTITUTION. WHILE THERE IS A WIDE CONSENSUS ON THE SO-CALLED INTERNAL ELEMENTS, THE TENDENCY OF DISCUSSIONS IS THAT THE "EXTERNAL" ELEMENTS SHOULD BE EXCLUDED, OR AT ANY RATE LIMITED, IN THE LONG TERM. THE CONCEPT OF 'OWN FUNDS' MAY HAVE TO VARY ACCORDING TO WHETHER IT IS BEING USED, E.G. AS A LICENSING CONDITION, OR AS A BASE OF REFERENCE FOR VARIOUS SUPERVISORY PARAMETERS.

I SHOULD NOT LEAVE THE SUBJECT OF COORDINATION AND THE BANKING ADVISORY COMMITTEE WITHOUT MENTIONING THAT CONSULTATION WITH THE INDUSTRIES CONCERNED IS OF COURSE EQUALLY VITAL TO OUR WORK. IN 1980 THE COMMISSION SET UP A COMMITTEE OF CREDIT ASSOCIATIONS (CCA) WHICH COVERS ALL THE EUROPEAN FEDERATIONS OF CREDIT INSTITUTIONS, ABOUT TEN IN ALL. THIS COMMITTEE ALLOWS FOR BROAD DISCUSSION OF COMMISSION INITIATIVES AND OTHER TOPICAL PROBLEMS. AS SUCH IT USEFULLY SUPPLEMENTS THE BILATERAL RELATIONSHIPS BETWEEN THE COMMISSION AND THE INDIVIDUAL EUROPEAN FEDERATIONS. THE COMMISSION OF COURSE HAS REGULAR CONTACTS WITH NATIONAL FEDERATIONS AS WELL (INDEED TODAY PROVIDES AN EXAMPLE), BUT LOOKS TO THE EUROPEAN FEDERATIONS FOR THE OVERALL VIEW.

ANOTHER IMPORTANT ASPECT OF THE COMMISSION'S WORK, OUTSIDE THE DIRECT AREA OF SUPERVISION, IS ACCOUNTING FOR BANKS. ON ANNUAL ACCOUNTS AS SUCH THERE ARE A NUMBER OF MEASURES UNDER CONSIDERATION. FIRST, THE COUNCIL IS CURRENTLY CONSIDERING THE COMMISSION'S PROPOSAL FOR A DRAFT DIRECTIVE ON THE ANNUAL ACCOUNTS OF CREDIT INSTITUTIONS, WHICH FOLLOWS ON FROM THE FOURTH COMPANY LAW DIRECTIVE ON THE ANNUAL ACCOUNTS OF COMPANIES, ADOPTED IN 1978. THE MOST CONTROVERSIAL ISSUE HERE IS WHETHER BANKS SHOULD BE ALLOWED TO MAINTAIN UNDISCLOSED RESERVES; THE COMMISSION HAS TAKEN A MIDDLE-OF-THE-ROAD POSITION PROPOSING THAT UNDISCLOSED RESERVES SHOULD BE PERMITTED TO A MAXIMUM OF 5% OF LOANS AND ADVANCES IN ORDER TO ENABLE BANKS TO AVOID ANY DRAMATIC FLUCTUATIONS IN THEIR PUBLISHED RESULTS. WE THUS RECOGNIZE THE REALITY OF HIDDEN RESERVES IN SOME MEMBER STATES AND FOR SOME TYPES OF INSTITUTION, WHILE AT THE SAME TIME LIMITING ANY DAMAGE TO THE PRINCIPLE OF TRUE AND FAIR VIEW.

THE SECOND ACCOUNTING MATTER CONCERNS THE PRODUCTION OF CONSOLIDATED ACCOUNTS FOR BANKING GROUPS. NOW THAT THE COUNCIL HAS ADOPTED THE SEVENTH COMPANY LAW DIRECTIVE, WHICH COVERS ANNUAL ACCOUNTS OF GROUPS OF COMPANIES IN GENERAL, WE ENVISAGE AN AMENDMENT TO THE MAIN PROPOSAL ON ANNUAL ACCOUNTS OF BANKS.

FINALLY, AFTER A TRANSITIONAL PERIOD, WE WOULD LIKE TO ABOLISH THE REQUIREMENT TO PRODUCE BRANCH ACCOUNTS FOR COMMUNITY BANKS. FOR BRANCHES FROM THIRD COUNTRIES THE PROBLEM IS COMPLICATED BY OPPOSING FACTORS: ON ONE SIDE THE IMPOSSIBILITY OF ALLOWING SUCH BRANCHES TO OPERATE IN THE COMMUNITY ON WHAT MIGHT BE REGARDED AS MORE FAVOURABLE CONDITIONS (E.G. LOWER STANDARDS OF INFORMATIONÈ THAN BRANCHES FROM OTHER MEMBER STATES, AND ON THE OTHER SIDE THE WISH TO AVOID UNNECESSARY DUPLICATION OF WORK, ESPECIALLY IN CASES WHERE THE HEAD OFFICE IS OBLIGED TO PRESENT ACCOUNTS WHICH ARE IN FACT AS COMPREHENSIVE AS WOULD BE REQUIRED OF COMMUNITY BANKS). WE NEVERTHELESS PROPOSE THAT BRANCH ACCOUNTS SHOULD BE ABOLISHED IN PARALLEL IN THESE CASES TOO, PROVIDED THE HEAD OFFICE ACCOUNTS MEET COMMUNITY REQUIREMENTS AND SUBJECT TO THE RIGHT OF SUPERVISORY AUTHORITIES TO ASK FOR ADDITIONAL INFORMATION.

WORK IS GOING ON IN A NUMBER OF OTHER, QUITE DISPARATE AREAS, WHICH I SHALL TOUCH ON VERY BRIEFLY. IN THE FIRST PLACE, DISCUSSIONS CONTINUE ON THE SUBJECT OF EXCHANGE OF CREDIT INFORMATION, BUT WE ARE AS YET SOME WAY FROM FINDING A COMMON BASIS FOR ACTION. SECONDLY, WE WILL IN DUE COURSE BE PROPOSING AN INSTRUMENT DEALING WITH THOSE ASPECTS OF WINDING UP OF COMPANIES WHICH ARE PECULIAR TO BANKS, WITH THE IDEA THAT THE CONVENTIONAL ASPECTS SHOULD BE DEALT WITH BY THE PROPOSED GENERAL CONVENTION ON THE WINDING UP OF COMPANIES.

BEFORE LEAVING THE NUTS AND BOLTS OF COMMUNITY WORK IN THE BANKING SECTOR, I SHOULD MENTION DEVELOPMENTS RELATING TO ONE SPECIFIC AREA, NAMELY HOUSING CREDIT. JUST TWO WEEKS AGO I ANNOUNCED TO THE ANNUAL GENERAL MEETING OF THE MORTGAGE FEDERATION OF THE EUROPEAN COMMUNITY THAT IT WAS MY INTENTION SHORTLY TO PRESENT TO THE COMMISSION WITH A VIEW TO ONWARD TRANSMISSION TO THE COUNCIL A PROPOSAL FOR A DIRECTIVE ON THIS SUBJECT.

THE CENTRAL OBJECTIVE OF OUR PROPOSAL, AS YOU MAY KNOW ALREADY, WILL BE TO ENABLE DIFFERENT FORMS OF MORTGAGE CREDIT, HAVING THEIR ROOTS IN THE HISTORY AND TRADITIONS OF THE DIFFERENT MEMBER STATES, TO BE PROVIDED SIDE BY SIDE ON THE MARKET OF A GIVEN MEMBER STATE, WHETHER THROUGH A LOCAL ESTABLISHMENT OR AS A SERVICE ACROSS NATIONAL BORDERS. THE INTENTION HERE IS THAT PRIVATE INDIVIDUALS AND BUILDERS SHOULD HAVE AVAILABLE THE WIDEST CHOICE OF CREDIT INSTRUMENTS. EQUALLY, WE OF COURSE WANT TO FACILITATE THE FULL EXERCISE BY CREDIT INSTITUTIONS OF THE FREEDOM OF ESTABLISHMENT AND FREEDOM TO PROVIDE SERVICES LAID DOWN IN THE TREATY.

WITH REGARD TO ESTABLISHMENT, WE THEREFORE ENVISAGE THAT BRANCHES OF MORTGAGE INSTITUTIONS FROM OTHER MEMBER STATES SHOULD AT THE FIRST STAGE BE SUPERVISED BY THE COMPETENT AUTHORITIES OF THE HOST COUNTRY, ACCORDING TO THE RULES OF THAT COUNTRY; A CLOSE COOPERATION WITH THE COMPETENT AUTHORITIES OF THE HOME COUNTRY WILL HOWEVER BE NECESSARY NOTABLY ON ASPECTS OF THE IMPORTED FINANCING TECHNIQUES. AT A LATER STAGE, WHEN COORDINATION HAS PROGRESSED FURTHER, WE WOULD HOPE THAT THE EMPHASIS WOULD MOVE TO SUPERVISION BY THE HOME AUTHORITIES IN ACCORDANCE WITH THE PRINCIPLE OF HOME COUNTRY CONTROL WHICH IS OUR GENERAL OBJECTIVE IN THE BANKING SECTOR.

WITH REGARD TO THE PROVISION OF SERVICES, THE MAIN SUPERVISORY ROLE WILL STAY WITH THE HOME COUNTRY AUTHORITIES; BUT :

- THE RELEVANT INSTITUTION WILL BE REQUIRED TO REPORT REGULARLY ON ITS OPERATIONS IN THE HOST COUNTRY TO THE LOCAL AUTHORITIES;
- THERE WILL BE A FACILITY FOR THE SUPERVISORY AUTHORITY OF THE HOST COUNTRY TO COMPLAIN TO THE AUTHORITIES OF THE HOME COUNTRY IF THE INSTITUTION CONCERNED BREACHES LOCAL MANDATORY REGULATIONS, ESPECIALLY PROVISIONS ON FAIR TRADING, AND A CORRESPONDING OBLIGATION ON THE HOME COUNTRY AUTHORITIES TO TAKE REMEDIAL ACTION IF APPROPRIATE;
- IF, IN SPITE OF MEASURES TAKEN BY THE HOME COUNTRY, THE MORTGAGE INSTITUTION PERSISTS IN FLOUTING LOCAL RULES, THE SUPERVISORY AUTHORITY OF THE HOST COUNTRY WILL BE EMPOWERED TO TAKE APPROPRIATE MEASURES TO PUT AN END TO THE SITUATION, BUT THESE MEASURES MUST BE NO MORE THAN IS STRICTLY NECESSARY.

IN THE FIRST STAGE OF LIBERALIZATION THE HOST COUNTRY WILL BE EMPOWERED TO REQUIRE THAT BOTH THE FUNDING AND LENDING OPERATIONS BE EITHER IN THE CURRENCY OF THAT COUNTRY OR IN ECU. MEMBER STATES MAY ALSO REQUIRE MATCHING BETWEEN ASSETS AND LIABILITIES IN EACH NATIONAL CURRENCY OR IN ECU.

UNDERSTANDABLY, APPROPRIATE SUPERVISORY MEASURES WILL HAVE TO GO HAND IN HAND WITH LIBERALIZATION IN ORDER TO ENSURE ON THE ONE HAND THAT THE RELEVANT INSTITUTION DOES NOT GET OUT OF CONTROL IN THE HOME COUNTRY AND, ON THE OTHER, THAT UNFAIR COMPETITION PROBLEMS DO NOT ARISE IN THE HOST COUNTRY. MEMBER STATES WILL ALSO HAVE THE OPTION OF LIMITING THE FOREIGN EXPOSURE OF THEIR MORTGAGE INSTITUTIONS.

I AM CONSCIOUS THAT TO AN OUTSIDE OBSERVER MUCH OF WHAT WE ARE DOING MAY SEEM TO HAVE RELATIVELY LITTLE TO DO WITH EVERYDAY PROBLEMS. THIS IMPRESSION WOULD BE WRONG. WITH THE DEBT CRISIS AND THE OVER EXPOSURE OF AMERICAN BANKS AND SOME EUROPEAN BANKS, WITH THE RECENT PROBLEMS OF SEAFIRST AND CONTINENTAL ILLINOIS, THE FINANCIAL SECURITY OF BANKS HAS BECOME A WORLD ISSUE AND AT THE SAME TIME A MATTER OF IMPORTANCE TO EVERY MAN AND WOMAN IN THE ECONOMIC SYSTEM.

THROUGH THE COMMUNITY'S WORK ON CONSOLIDATED SUPERVISION WE HOPE THAT PROBLEMS SUCH AS THE BANCO AMBROSIANO AFFAIR CAN BE AVOIDED FOR THE FUTURE.

OUR WORK ON OBSERVATION RATIOS IS A UNIQUE EXAMPLE OF INTERNATIONAL COOPERATION AND IS BEING WATCHED CLOSELY BY SUPERVISORY AUTHORITIES OUTSIDE THE COMMUNITY AS WELL AS BY THE BASLE GROUP WITH WHICH WE ARE TRYING TO COORDINATE.

WE ARE BEGINNING TO START WORK ON THE SUBJECT OF LARGE EXPOSURES, A PROBLEM WHICH WAS OF COURSE BROUGHT HOME TO EVERYBODY WITH THE RECENT COLLAPSE OF THE SMH BANK IN GERMANY.

OF COURSE THE PROBLEMS WITH WHICH WE SEEK TO DEAL UNDER THESE VARIOUS HEADS ARISE NOT MERELY BECAUSE OF INADEQUACIES IN BANKING MANAGEMENT OR BANKING SUPERVISION, BUT TO AN INCREASING EXTENT DUE TO STRUCTURAL ECONOMIC PROBLEMS OUTSIDE THE COMMUNITY. UNTIL RECENTLY THE COMMISSION HAS BEEN RATHER RETICENT ABOUT ANY APPEARANCE OF BECOMING INVOLVED IN DEBT QUESTIONS AND RESTRUCTURING. WITH THE LONDON ECONOMIC SUMMIT THERE IS NOW A CONSENSUS THAT INTERNATIONAL DEBT AND RESTRUCTURING IS NOT PURELY A MATTER TO BE LEFT TO THE IMF AND THE WORLD BANK GROUP, VITAL THOUGH THESE INSTITUTIONS ARE. THE COMMUNITY ITSELF OUGHT INCREASINGLY TO ADOPT A COHERENT STRATEGY ON THESE MATTERS.

GOVERNMENTS AND SUPERVISORY AUTHORITIES SHOULD USE THE PRESENT BREATHING SPACE TO CONSIDER A COORDINATED APPROACH TO RISK EXPOSURE AND PROVISION FOR SOVEREIGN DEBT, COVERING THE SUPERVISORY ASPECTS AND ALSO THE ASSOCIATED TAXATION PROBLEMS. IN CONSIDERING OUR APPROACH TO THE DEBT PROBLEM WE SHOULD LOOK AT THE INVESTMENT AND RESTRUCTURING ASPECTS AS WELL AS THE BANKING ASPECTS. I BELIEVE THE COMMUNITY IS UNIQUELY PLACED TO TAKE AN OVERALL VIEW OF THESE PROBLEMS WITH SPECIAL EMPHASIS IN ENSURING THE VIABILITY OF THE FINANCIAL SECTOR.

I HAVE TOUCHED ON SOME OF OUR MAJOR CURRENT ACTIVITIES BUT WHAT ARE THE LONGER TERM PROSPECTS FOR THE BANKING SECTOR IN A COMMUNITY OF TEN, SOON, WE HOPE, TO BE ENLARGED TO TWELVE?

MUCH WILL DEPEND ON THE PACE OF TECHNOLOGICAL AND INSTITUTIONAL CHANGE. I BELIEVE THAT THE COMMUNITY MEMBER STATES OUGHT TO ADAPT THEIR SYSTEMS AND METHODS TO THESE CHANGES: THEY SHOULD NOT SEEK TO CONFINE THEM BY CONSTRAINTS WHICH WERE APPROPRIATE TO THE AGE OF LEDGER AND QUILL. THE GROWTH OF INTERNATIONAL INTERCHANGE OF THE WHOLESAL LEVEL IS LIKELY TO DEVELOP VERY RAPIDLY. NEW FINANCIAL VEHICLES ARE BEING CONSTANTLY DEVELOPED AND THE GROWTH OF INSTITUTIONS COMBINING A NUMBER OF TRADITIONALLY SEPARATE FINANCIAL SERVICES IS A FACTOR WHICH ALSO HAS TO BE TAKEN INTO ACCOUNT. OPINION IS DIVIDED AS TO THE LIKELY PACE OF CHANGE FOR CONSUMER OR PERSONAL BANKING. PERSONALLY, I THINK THAT DIFFERENCES OF LANGUAGE AND CULTURE AND THE FACT THAT CLIENTS TEND TO LIKE TO TALK TO THEIR BANKS POINT IN THE DIRECTION OF DEVELOPMENTS CONFINED TO NATIONAL MARKETS, OR AT LEAST COMMON LANGUAGE AREAS.

THESE DEVELOPMENTS DO NOT ALLOW ROOM FOR COM
PLACENCY.

THERE ARE AT PRESENT CONSIDERABLE DIFFERENCES
BETWEEN THE VARIOUS NATIONAL MARKETS IN FINANCIAL
SERVICES IN THE COMMUNITY. SOME ARE MORE EFFICIENT
THAN OTHERS; SOME ARE LESS TIED BY PUBLIC REGULATIONS
THAN OTHERS, SOME ARE MORE COMPETITIVE THAN OTHERS.
UNTIL NOW SOME HAVE INDEED MANAGED TO REMAIN RELATIVELY
CLOSED. BUT CHANGE IS COMING THROUGHOUT THE COMMUNITY
ONE WAY OR THE OTHER, AND IT IS IMPORTANT TO START
ADJUSTING NOW.

THERE ARE TWO STRONG REASONS FOR THIS. ONE IS
THAT A RELATIVELY INEFFICIENT FINANCIAL SECTOR OF AN
ECONOMY IS AN EXTRA BURDEN WHICH HAS TO BE CARRIED BY
THE REST OF THE ECONOMY; IT HITS PRODUCTION THROUGH
HIGHER COSTS OF FINANCING AND INSURANCE COVER, AND IT
HITS HOUSEHOLDS, WHO HAVE TO PAY MORE OR ACCEPT LOWER
STANDARDS OF FINANCIAL SERVICES.

THE SECOND REASON IS THAT THE PROBLEM WILL NOT GO AWAY, BUT WILL GET WORSE. IT WILL BE REINFORCED BY THE SORT OF RAPID CHANGES WE CAN NOW SEE IN COUNTRIES WITH MORE FLEXIBLE MARKETS. NEW TECHNIQUES, NEW MARKETS AND FINANCIAL CONGLOMERATES ARE LIKELY TO GIVE STRONG IMPETUS TO THE COMPETITIVITY OF THE MORE DYNAMIC MARKET PLACES. WE MUST PREVENT THE GAP BETWEEN THE MOST AND THE LEAST EFFICIENT NATIONAL MARKETS FOR FINANCIAL SERVICES GETTING ANY WIDER. THE ONLY ACCEPTABLE WAY OF DOING THIS IS BY HELPING THE REAR CATCH UP. IN LESS ABSTRACT TERMS THIS MEANS: ENSURING THAT COMPETITION STARTS BITING, BOTH DOMESTICALLY, BETWEEN LOCALLY ESTABLISHED BANKS, INSURERS, AND INTERMEDIARIES IN THE SECURITIES MARKETS, AND INTERNATIONALLY THROUGH SERVICES BUSINESS OFFERED ACROSS FRONTIERS FROM OTHER MEMBER STATES. AT THE SAME TIME WE MUST PROVIDE NATIONAL SUPERVISORY AUTHORITIES WITH A COMMON SET OF SUPERVISORY INSTRUMENTS, AND ASK THEM TO DO AWAY WITH NATIONAL REGULATIONS WHICH WOULD HAMPER THE EFFICIENCY OF THEIR INSTITUTIONS; FOR OBVIOUSLY THERE CAN ONLY BE FAIR COMPETITION THROUGHOUT THE COMMUNITY IF ALL PARTICIPANTS IN THE MARKET ARE OBLIGED TO PLAY BY THE SAME RULES.

IF WE ARE TO DO MORE THAN SIMPLY REACT TO EVENTS IN THE MARKET PLACE THERE MUST BE A NEW ASSESSMENT, A NEW REALIZATION IN MEMBER STATES OF WHAT IS ABOUT TO HAPPEN IN INTERNATIONAL FINANCIAL MARKETS; AND AN ACCEPTANCE THAT THE COMMON MARKETS IN FINANCIAL SERVICES SHOULD BE INTRODUCED IN THE SHORT TERM RATHER THAN THE MEDIUM TERM, ESPECIALLY IN THE INTERESTS OF ENTERPRISE IN THOSE MEMBER STATES WHICH DO NOT PRESENTLY ENJOY THE ADVANTAGES OF A COMPETITIVE FINANCIAL SECTOR.

THERE ARE A NUMBER OF GENERAL POINTS TO BE EMPHASIZED AT THE END OF THIS SURVEY. WE HAVE MADE THEM BEFORE BUT I THINK THEY BEAR REGULAR REPETITION :

- THE COMMISSION HAS NO INTENTION, OR EVEN AMBITION, OF SETTING UP SUPRANATIONAL SUPERVISORY AUTHORITIES IN THE COMMUNITY, BUT WANTS TO ESTABLISH EFFICIENT COOPERATION BETWEEN NATIONAL SUPERVISORY AUTHORITIES, AIDED BY THE GRADUAL INTRODUCTION OF THE SAME SORT OF PROCEDURES FOR THE PRUDENTIAL ASSESSMENT OF BANKS THROUGHOUT THE COMMUNITY.
- A HIGH VOLUME OF FOREIGN BANKING SERVICES IN EACH MEMBER STATE IS NOT SEEN AS A GOAL IN ITSELF, BUT THE COMMISSION DOES WANT TO SECURE FREEDOM OF ESTABLISHMENT AND SERVICES - AND LIBERALIZATION OF CAPITAL MOVEMENTS - AND THUS THE REMOVAL OF OBSTACLES TO THE COMMON MARKET IN BANKING.
- THE COMMISSION HAS NO PARTICULAR PREFERENCE FOR ONE BANKING STRUCTURE OVER ANOTHER. IT IS UP TO THE MARKETS TO DETERMINE THE ADVANTAGES AND DISADVANTAGES OF VARIOUS TYPES OF CREDIT INSTITUTIONS.
WE ENDEAVOUR TO PUT FORWARD PROPOSALS THAT ARE NEUTRAL IN THIS RESPECT.

- IT IS ESSENTIAL THAT THE GRADUAL COORDINATION OF BANKING SUPERVISORY PROCEDURES IN THE COMMUNITY SHOULD NOT LEAD TO A MONOTONOUS INCREASE IN THE ADMINISTRATIVE BURDEN FOR EUROPEAN CREDIT INSTITUTIONS AND AUTHORITIES. SINCE THE INTRODUCTION OF NEW COMMON PROCEDURES MAY TEND TO ADD TO EXISTING ONES, EFFORTS MUST BE UNDERTAKEN TO ACHIEVE PROGRESS IN AREAS LIKE SIMPLIFICATION OF REGULAR RETURNS, ABOLITION OF BRANCH ACCOUNTS AND GRADUAL RELIANCE ON HOME COUNTRY BASED TECHNIQUES. COMMUNITY COORDINATION CAN CONTRIBUTE ACTIVELY TO A STREAMLINING OF PROCEDURES HERE.