

SPEECH TO THE 7TH CONGRESS OF THE EUROPEAN FEDERATION OF
BUILDING SOCIETIES BY MR CHRISTOPHER TUGENDHAT, VICE-PRESIDENT
OF THE COMMISSION OF THE EUROPEAN COMMUNITIES, MUNICH,
17 SEPTEMBER 1982

It is a great pleasure for me to address your Congress here today. It gives me an opportunity to describe our efforts in the area of banking coordination, and, more particularly, and in more detail, to inform you of our work in the specific field of housing finance.

I have been looking forward to this occasion, both because my statements on our progress are, I think, very encouraging, and because I know that the Congress of European Building Societies will provide as interested and perceptive an audience as any in Europe.

As you will be aware the 1st Coordination Directive of 1977 created a break-through for the Commission's work on banking coordination. The Commission has subsequently sought to maintain the momentum it generated as shown by our proposals for directives on annual accounts of credit institutions and on consolidated supervision.

/I hardly need

I hardly need emphasise, in current circumstances, the importance of improving the Community's supervisory arrangements for banks and banking groups. Recent instances of over-exposure both within the Community and in the wider international arena have drawn attention to the remaining weaknesses of the present system. I would not claim that had our directive on consolidated supervision been in existence all the present troubles could have been avoided. But I do believe that it would have helped national supervisory authorities obtain a better overall picture of the exposure of some of the banks or banking groups for which they were responsible and might have enabled those supervisory authorities to intervene at an earlier stage. Certainly this summer's major European banking crisis would have been avoided had our directive been in operation. I hope therefore that the European Parliament, which is still considering the matter, will soon give a positive opinion on our draft directive on consolidated supervision and that the Council can then move to its speedy adoption.

Our close cooperation with the Banking Advisory Committee is proving highly successful. During the first three years it was chaired most effectively by Professor Köhler of the Deutsche Bundesbank. The report he published recently, at the end of his turn of office, demonstrates how wide-ranging its activities have been and the significant progress achieved.

/This work

This work will be taken further, in the first place with emphasis on observation ratios. You may know that we have started carrying out trial runs of ratios for solvency, profitability and liquidity. We would like in further steps to widen the number of credit institutions taking part in this exercise and to bring in specific groups of credit institutions not included the first time around. Problems arise here when we try to define comparable groups. There will also have to be a study of the question of a precise definition of "own funds". We may find that we shall not be able to use the same definition of own funds for such different purposes as requirements for licensing, minimum own funds for ongoing business, and for the regular returns compiled by the supervisory authorities.

The harmonization of annual accounts, which is drawing closer, should make progress easier. There is a connection of course between the two problems: for practical reasons our aim is to produce requirements for annual accounts and for solvency and liquidity ratios which can be derived from the same data base in the credit institutions, so as to avoid complicated extra calculations.

/It is with

It is with the same purpose in mind that the Commission wants to pursue work on the regular returns to banking supervisory authorities. Requirements vary greatly from one Member State to another. This is very inconvenient for those credit institutions which operate in several Member States, and it will become even more inconvenient as consolidated supervision becomes more usual. At present a branch in another Member State must make regular returns to the supervisory authority in its host country, and also supply information to the supervisory authority in its own home state.

Obviously therefore there is a need for coordination of the requirement for the supply of information to the supervisory authorities: here too our aim is to be able to use a common data base in the banks, for output to current ratio calculations and output for inclusion in the special tables in regular returns to the banking supervisory authorities.

Other areas in which we would like to see progress include common licensing procedures and common rules on the winding up of credit institutions.

/Some of the

Some of the elements I have mentioned will have to be covered in a second coordination directive. As you know we have started discussions with you and your colleagues in other European associations and federations of credit institutions in the CCA (Committee of Credit Association) on this matter. We have started these discussions at a very early stage of our considerations. Experience has shown us how profitable it is to open this dialogue with you as representatives of the industry concerned at the outset of our work.

In rounding off this survey of our general activities in the banking area, which I have not tried to make exhaustive I would make one final point. We are dealing with a sector which has seen relatively rapid changes in recent years, and which undoubtedly will see even more rapid changes of markets and structures in the future. We can count on international monetary developments, on institutional decisions and perhaps not least on technical progress to provoke such changes. One likely consequence is that we shall have to increase the intensity of our efforts on European banking coordination, and I am glad to be able to say that two important conditions for this have already been fulfilled: firstly, we have established an efficient system of cooperation with Member States' authorities in the Banking Advisory Committee, and secondly we have strengthened our close links with the European banking industry, both through the CCA and in our direct contacts with your Federation and your sister organisations.

/Let me

Let me now turn to the description of the Commission's current work in the field of housing credit. This is indeed, Mr President, a very striking example of a fruitful cooperation between your association, your colleagues in the European Mortgage Federation and the Commission. As you know, this work started in 1978 with a working paper dealing with free movement of capital and services in connection with housing credit, followed up by a 1979 working paper on the freedom of establishment aspects. We believe that opening up the housing finance market on a European basis will be of great practical benefit to many people in our Member States. We also think it will be good for the institutions that provide the money and also, I believe, contribute so much to our social well being. I hope our ideas will be judged according to these criteria and not be seen or sniped at as harmonization for its own sake.

Much work remains to be done, but it is my aim to present a draft directive to the Council by the end of 1984.

/Our next step

Our next step will be a third working paper which we hope to be able to present next spring. It will derive in part from the previous two. We shall also try to take into account the comments we have received from the various associations including your own federation. In this latter regard let me take the opportunity to thank you for the very active cooperation you have shown and to express the hope that you will continue to participate in the shaping of a common market in the field of housing credit.

The scope of the new paper will be defined in terms of activities to which a future directive would apply rather than in terms of types of institutions. The definition suggested in the 1979 paper was largely approved by the majority of the associations concerned, subject to a number of suggestions for amendment on points of detail. We will therefore take this as the starting point in the new paper. It covered activities which consist in the granting of housing credit secured by mortgage on residential property including the refinancing of such credit. Since mortgage lending for non-residential purposes is undoubtedly linked even more closely with the fundamental objectives of the EEC Treaty the Commission services are presently analysing how best to tackle the parallel institutional problems standing in the way of such transactions.

/In bringing

In bringing together the ideas of the two previous papers our new paper will cover both freedom of establishment and freedom to undertake cross-border transactions.

Let me first turn to the aspect of freedom of establishment. The problem here is that the financing technique brought into one Member State by a credit institution from another Member State could conflict with the laws of the host country. This is because there are generally speaking three different types of technique within the Community represented respectively by the German "Bausparkassen", the British and Irish "Building Societies" and finally the mortgage banks. The present situation is that a person who wishes to buy or to build a house is forced to use the form of housing finance traditional in his home country. This is not how we think a common market ought to be. In a common market there should be a wider choice in the methods of housing finance, and we feel that it is in conflict with the general objectives of the Treaty that as things stand a Bausparkasse for example cannot be set up in Belgium, as Belgian legislation requires that the date on which the loan will be paid over must be fixed in advance.

/On the other hand

On the other hand the German legislation states that the date on which the loan will be paid over may not be fixed in advance. This problem of "incompatibility" is presently being studied by your Federation as well as by the European Community Mortgage Federation. I might say here that we are very grateful for the important work you are carrying out in this field. We look forward to being able to draw on the results of your work in our forthcoming working paper.

Our intention is to provide for effective freedom of establishment in other Member States. This could perhaps be achieved by laying down in the proposed directive that Member States should abolish all provisions which directly or indirectly prevent credit institutions having their head office in one Member State from setting up in another Member State. Such measures should remove not only direct prohibitions of such activities but also such indirect measures, e.g. concerning the application of a specific financing technique, which presently stand in the way of establishment in another Member State.

/Another problem

Another problem is connected with the supervision of credit institutions established abroad. Here one must decide who is to supervise these institutions. It is well-known that the Commission's and indeed the Community's, long-term objective is to move towards home country control, that is to say prudential supervision from the country of the head office, and from that country only. I stress that we speak here of the prudential supervision and not the supervision linked with monetary or exchange policies. It is also well-known that the Commission as well as Member States are fully aware that such a far-reaching measure cannot be undertaken before a considerable measure of standardization of supervisory procedures and requirements has been achieved. Without such standardization the risk of distortions would increase, and it goes without saying that the Commission would deplore this.

/When it comes

When it comes to the activities of the specialized institutions we find, however, that their structural differences are such that it does not make much sense to call for standardization of prudential measures. They are and should remain structurally and fundamentally different and, as I have said, the purpose of the whole exercise is to present a broader choice in those Member States where this is not possible today. We must therefore of necessity rely rather more on the acquired experience of the home country supervisors for these institutions. We shall need a rather more elaborate formula based on an efficient exchange of information between the supervisors of home country and host country. But we envisage maintaining formal responsibilities and powers with the host country as long as any particular risk of distortion of competition presents itself.

/Finally,

Finally problems arise in connection with government assistance measures. These can broadly be divided into three categories:

- first measures relating to borrowers, for instance savings premiums or tax benefits;
- secondly measures relating to institutions (for example tax concessions granted to building societies);
- finally measures relating to property (for instance state guarantees or tax concessions to promote house building).

In all these cases our basic approach is that measures or benefits should be non-discriminatory as between domestic institutions and those from other Member States.

/Let me now turn

Let me now turn to the other aspect of our paper, namely freedom of cross-border transactions. The Commission is of the opinion that time has come to provide a measure of liberalization in cross-border mortgage transactions. However, this liberalization has to be confined, in a first stage, to a certain ratio of the individual credit institution's total lending. This limit could for instance be set at 20%. This is the figure that applies for prudential purposes to the out-of-state activities of US savings and loan associations. In any case it should be optional for the country of origin to introduce such limitations.

Another problem which will need to be resolved is that of exchange rates. Here we are thinking of introducing an option. Either transactions should be denominated in the currency of the country on whose market they are placed or else they should be denominated in European currency units (ECU). It might even as a temporary measure be stipulated that funds raised should not leave the country in which they are raised. We would like to see the "ECU" used as the currency of the transaction and we would want to see the elimination of obstacles to capital movements of ECUs in the field of housing credit.

/We have also

We have also been looking at the situation where a given borrower who has a close relationship or maybe even a contract with an institution, moves abroad. In this case it ought to be possible for the institution to maintain relations with the customer and vice versa. The main problem here will be to define the connection between the institution and the customer.

Mr President, in my speech I have made repeated references to the very satisfactory relationship between the European Federation of Building Societies and the Commission. Today is a unique opportunity to dwell on this subject, since you are now stepping down as President of the Federation. The programme for this morning includes a vote of thanks to the retiring President. As a mere observer to your Congress I fear I cannot participate with sufficient emphasis in this vote and I therefore wish to finish my speech by putting on record that the Commission has been aware of how important your contribution has been to the very close, very constructive contacts between your Federation and us. We are grateful to you for your truly European efforts, and allow me to extend the same appreciation and gratitude to Mr Osterbrauck who is now retiring as the Federation's Managing Director.

Thank you Mr President.