

EPFSF Lunch Discussion

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“Supervisory Architecture”

Speech from Sergio Lugaresi
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- **UniCredit is a European and multi-local enterprise.** The Group has grown internationally through the aggregation of national banks. **UniCredit balances its multinational dimension with its local roots:** 165 thousands employees, over 9,700 branches, with the parent company in Italy and subsidiaries in 19 countries, of which 13 are EU member States (MS). In terms of market share, UniCredit Group is the first bank in Austria, Poland and Bulgaria; the second in Italy, the third in Germany; among the first five in the Czech Republic and Slovakia.
- Cross-border banking groups in Europe have reinforced the **single European market** and integrated financial markets across the European Union.
- Their **Internal Capital Markets** have allocated resources to those places which most need them within the Union. Central and Eastern European economic growth has been boosted by their presence.
- In the last crisis, **European Banking groups were a source of stability in the Central and Eastern Europe** where, in coordination with international financial institutions (IMF, EBRD) and European bodies, they insulated those economies from extreme outflows of foreign direct investment.
- The extraordinary boost to integration, as a result of the single market and the launch of the Euro, has not been adequately mirrored with the required harmonisation of rules and supervisory coordination. The result has been extremely costly for the European economy.
- The lessons of the recent crisis for the EU:
 - Supervisory powers are heterogeneous and not integrated across MSs;
 - The lead supervisor model (the host authority delegates supervisory powers to the home supervisor) is inadequate for crisis management;
 - There are no effective crisis management tools at the EU level.
- A common **harmonised regulatory framework and integrated supervisory** architecture needs to be put in place urgently
- The banking framework in Europe is a complex issue but:
 - It is not a reason to destroy the benefits European banks can and have provided.
 - Neither should it be a reason to roll back the single European market and revert to ring-fencing and national barriers.

- The **European Commission** has made a proposal for a European system of financial supervision. We look forward to the set up of:
 - A single rule book.
 - A strong European Banking Authority.
 - Enhanced colleges of supervisors;
 - A new authority for systemic risk.
- UniCredit fully supports the Commission proposals and welcome the European parliament proposals, in particular with regard to the European Stabilisation Fund.
- We are confident that the newly established **European Systemic Risk Board**, under the strong leadership of the European Central Bank, will be able to collect all relevant market information and have the authority to send warnings and recommendations to supervisory authorities and directly to the relevant financial institutions.
- There will be no agreement between Member States and between banks, and therefore a European public-private partnership, unless the **quality and effectiveness of supervision** throughout the entire European System of Financial Supervision is guaranteed. Experience has shown that to prevent financial crises, governments and taxpayers need effective and intrusive supervision, and authorities need to be in line with market development. We need internationally coordinated and integrated authorities rather than de-internationalisation in the market and ring-fencing. Supervisors should have intrusive powers:
 - To require and check information and data from the parent company.
 - To take discretionary decisions on the group's prudential requirements.
 - To ensure those requirements are implemented by the parent company.
- **Colleges of supervisors** should be lead by the European Banking Authority.
- The **parent company** is the primary tool to access and manage a crisis in a banking group. It has direct:
 - Powers
 - Information
 - Knowledge
 - Data
- The recent crisis has shown that authorities need **medium-term financing tools** for crisis prevention. In fact, to avoid the worsening of a crisis and possible contagion, financial institutions which are solvent may need medium-term financing just when financial markets are in distress.
- For this reason we are proposing the establishment of a European Financial Stabilisation Fund **partially pre-funded** (just its equity component). The equity should be provided by cross-border financial institutions and Member States.
- The Fund would provide medium-term financing in the form of fully collateralised loans, conditional to recovery measures agreed with the European System of Financial Supervisors (EBA, college of supervisors). So, the Fund can either guarantee a syndicated loan or issue bonds to finance or recapitalise an ailing financial institution.