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The European banking union, a precondition to financial stability and a historical step forward for European integration
Ladies and Gentlemen,

First of all, I would like to thank the European Corporate Governance Institute, and Chairman Jörgen HOLMQUIST, for inviting me.

Let me also thank:

• the National Bank of Belgium, the host of this conference;
• as well as the US Securities and Exchange Commission and Columbia Law School.

Ladies and Gentlemen,

As you know, the Council of European Finance Ministers reached a historic agreement last week.

Member States have agreed to hand over the key supervisory tasks over their banks to the European Central Bank. This is the first step towards the Banking Union.

The ECB will be in a position to detect risks to the viability of banks. And require banks to take the necessary actions.

It will be competent to grant and revoke licences for credit institutions.

It will ensure compliance with capital requirements.

This Single Supervisory Mechanism (SSM) will be a great asset for financial stability in Europe.

Before I will say a few words on the modalities of the SSM and the next steps of the Banking Union, I would like to explain the key rationale for the SSM.

I – The Single Supervisory Mechanism should bring three major benefits to Europe

1. First, it is a precondition to put an end to the negative feedback loop between banks and sovereigns.

Between 2008 and 2011, EU taxpayers granted banks €4,5 trillion in loans and guarantees.

This has had very concrete consequences. In some countries it has resulted in soaring rates at which countries can finance themselves on the markets and a severe drop in market confidence.

Therefore, we need to move from national backstops to a European backstop. This is the purpose of the European Stability Mechanism. But this new fund will only be able to recapitalise banks directly once all European banks are properly supervised. This is why an agreement on the SSM was so deeply needed.

2. Second, we need the SSM to reduce the fragmentation of the banking system.

The current crisis has led to a re-nationalisation of bank activities. With less cross-border funding and many lost opportunities for citizens and businesses.

The differentiated perception of risks led to disparity of spreads on sovereign bonds as well as in the interbank market.
We all know the consequences: similar companies in different parts of Europe operating on the same markets may be subject to significantly different costs of borrowing. The SSM will restore confidence in the European banking sector. It is likely to have a positive impact on the spreads and consolidate the Single Market.

3. Third, we need the SSM to complete the monetary union.

Monetary policy is an important tool to deal with economic shocks. But it depends to a large extent on private banks which transmit monetary impulses to the real economy.

If we want an efficiently functioning monetary policy, we need a single European banking system. And it starts with a single European supervisory system.

Therefore the SSM is not just a way to restore confidence and deal with the crisis in the short-term. It is also a way to consolidate our economy in the longer-term.

For all these reasons, the last week's agreement is a major milestone in the history of European integration.

Let me now move to the content of the SSM agreement.

II – How will the new Single Supervisory Mechanism work?

There are five important points which deserve attention.

1. First, the scope of the new supervision

Some Member States wanted the new supervision to be restricted to "systemically important" banks.

But we know that small or medium-size banks can endanger the entire financial system. The failures of banks like Northern Rock, Dexia or Bankia are clear reminders of that.

Moreover, we cannot have two supervisory mechanisms for banks operating in the same market. It would be inherently unstable.

Therefore I am glad that the SSM will cover all 6,000 banks in the Euro area. The ECB will set the rules and be able to assume directly all relevant supervisory tasks whenever it considers it appropriate. For each one of these 6,000 banks.

However, it seems logical that the ECB focuses its direct supervision on the banks which can generate significant prudential risks – through their size or risk profile.

Member States decided last week to clarify the division of labour between the ECB and national authorities.

Within a unified supervisory system, the ECB will have direct responsibility for around 150 banks with assets of more than 30 billion Euros, or representing more than 20 % of a Member State's national output.

Other banks will still be looked after primarily by national supervisors within the same unified supervisory system. The ECB will have the power to step in directly at any moment, if need be.

Besides, national supervisors will also remain in charge of tasks like consumer protection, money laundering and branches of third country banks.
2. Second, the governance of the new mechanism
Bank supervision is a new task for the ECB.
We had to make sure that this task is clearly separated from the monetary policy functions of the ECB.
That is why we proposed to create within the ECB a Supervisory Board alongside the Governing Council.
In addition, to ensure the democratic accountability of the new system the ECB will report to the European Parliament on its role as a Single Supervisor.

3. Third, the participation of non-Euro area Member States in the SSM
The SSM is open to all Member States, also those outside the Euro area.
The final decision-making body of the ECB is the Governing Council, which includes only representatives from Euro area Member States. Therefore, it was important to allow non-Euro area Member States to participate in the SSM on an equal footing. The creation within the ECB of the Supervisory Board alongside the Governing Council solves this issue, with a mediation panel to resolve differences.

4. Fourth, the case of non-Euro area Member States which do not wish to participate in the new mechanism
Some countries have expressed their wish not to join the SSM for now. In this context, the UK, Sweden and the Czech Republic have expressed concerns about the ECB’s new powers.
In particular, they questioned the ECB's voting rights within the European Banking Authority (EBA).
I understand these concerns. And last week’s agreement does preserve the influence of non-Eurozone Member States within EBA.
According to the new voting modalities, any EBA decisions will have to be approved by a majority of countries outside the Banking Union.
EBA will have the task of fostering a single rulebook for all 27 countries of the single market. It will also work on enhancing convergence of supervisory practices via a single supervisory handbook.

5. Finally, the timing
Let me reiterate one point: an effective SSM is a prerequisite if we want to open the way for the European Stability Mechanism to directly recapitalise banks. And to break the vicious circle between banks and sovereigns.
Therefore we had no time to lose.
That said, the Member States found last week that a phasing-in approach was necessary. That is why they decided that the new mechanism will become fully operational in March 2014.
And before that happens, the ECB will be able to take over supervision of ailing banks, at the request of the European Stability Mechanism.
III – Finally, let me conclude by adding a few words on next steps.

The SSM is a great first step towards a proper Banking Union. But the Banking Union does not stop with the SSM.

1. First, the Banking Union will build on a single rulebook.

The single rulebook will be applicable to all 27 Member States. It will include rules on key issues such as:

- **Capital requirements:** Our "CRD 4" proposal is crucial for financial stability. It is currently being discussed in the so called "trilogues" and we hope to reach an agreement very soon.

  And our banks are ready for it as demonstrated by stress tests conducted by the European Banking Authority.

But our major partners should also follow. Starting with the US. As the two largest financial markets in the world, we both have a duty to set the example and show leadership. We need to ensure a coordinated approach for the implementation of these important rules.

- **Deposit guarantee schemes** are another important aspect of the single rulebook. We need to ensure that each Member State has a fully funded scheme in place.

- We also need rules on **Bank resolution:** Our proposal for a common European resolution framework provides that shareholders and creditors should bear the cost of resolution before any external funding is granted. And that private sector solutions should be found instead of using taxpayers' money.

- Finally, the single rulebook could include rules on the **structure of the banking sector.** The Liikanen report has proposed solutions to separate deposit taking from more risky activities. Our reflection in this field is still on-going.

2. Secondly - the Banking Union will also need a single resolution authority.

The SSM will help us prevent crises. But we also need to anticipate the cases where a crisis would nonetheless occur.

We of course need to ensure that each Member State sets up national funds for resolution and deposit guarantees.

But a fully-fledged Banking Union would require going even further and creating a single resolution authority.

In case of cross-border failures, it would be more efficient than a network of national resolution authorities. This is in particular needed so that we can ensure speedy and credible reactions to addressing banking crises.

Ladies and Gentlemen,

With last week's agreement, EU countries have fulfilled the commitment they made in June.
The SSM now has to be discussed in the European Parliament. The rapporteurs Sven GIEGOLD and Marianne THYSSEN have already done a great job.

I am confident that the final agreement will be reached soon. This would be good news for financial stability, for public finances in the Eurozone and for the world economy, which would get a boost from a return of full confidence in the Eurozone.

I am also confident that, in five years' time, the SSM will be considered as the key step to putting our financial house in order. And a milestone in a new phase of European integration, which should lead us to a genuine financial, budgetary, economic and political union.

Thank you for your attention.