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**"A Financial Stability Framework for Europe,
Managing Financial Soundness in an Integrating Market"**

Panel discussion on

"How to Strengthen Europe's Financial Stability Framework?"

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Thank you for giving me this opportunity to present my own views, and those of the European Parliament, on "Practical Steps Forward in Supervision, Crisis Management and Resolution".

Supervision, crisis management and resolution are issues that have been and are still intensely debated in the European Parliament. In fact we are preparing a report on "Lamfalussy follow-up: future structure of supervision". This report will outline some very practical steps that can be taken to ease the current crisis and prepare ourselves to handle the next one.

Before addressing the issue of supervision, we need to restore.
I would like to address intervention and regulation. In recent months, central banks have intervened to improve liquidity conditions in global financial markets. Just a week ago, the Bank of Canada, Bank of England, European Central Bank (ECB), Federal Reserve, Bank of Japan and the Swiss National Bank injected $180 billion into the inter-bank markets.

Such interventions are necessary in the short term to ease the liquidity pressure that the crisis has put on many financial institutions. However, it is questionable whether such interventions alone can prevent the liquidity squeeze turning into a solvency problem for financial institutions; especially as some financial institutions seem to be playing the system in order to profit from such interventions.

Larger scale plans may be necessary to clean out the 'toxic products' that still sit on most financial institutions books. For me, it is obvious that a core element must be to ensure that financial institutions cannot "play-the-system".

Another core element in such plans must be to protect the "woman-in-the-street". It cannot be that, through taxes or lost savings, she, in the end, shall pay for the large bonuses extracted from financial institutions by their managers and inventive traders.

That is to me where regulation should kick in. Tough regulation on disclosure of remuneration schemes and transparency in investment positions and fee structures could have helped. That is why the Rasmussen report adopted this week in the European Parliament calls for better and more harmonised regulation in this field.

I would even say that disclosure and transparency should be combined with a requirement for supervisors to look into remuneration packages of financial institutions – and if necessary require the supervisors to act.

What I have commented on above are all what could be called classical measures. Perhaps such measures should be complemented by regulating the functioning of markets.

Take leverage for instance. Financial institutions - and many companies for that matter - engage in leverage. They may individually take decisions that for them are rational. But the sum of these individual decisions may not necessarily be rational for the economy as a whole. Therefore, the Rasmussen report calls for an appropriate regulation of leverage, irrespective of the legal form of an entity. And for limited leverage of target companies, which have been bought by investment vehicles such as private equity funds.

Another example is capital charges. It is essential - as pointed out in the Rasmussen report - that these are counter-cyclical. Meaning higher during booms - and perhaps even so high that the charges can contribute to preventing artificially prolonged booms – as the one recently experienced.

Consider also how financial institutions have approached risk. In the 90-ies, it was considered prudent banking to retain a portion of the securities you originated on your balance sheet. Now it is not considered prudent, because you do not want to sit on the high risks your own securities carry. This cannot be. Therefore the Rasmussen report also calls for the originator to keep a portion of his invented securities on his books. This would be an issue that could be included in Solvency II and easily included in the Commission's upcoming CRD-proposal.

Take also credit-rating agencies. Their role has been extensively debated. Whilst Commissioner McCreevy has only been keeping an eye on them, the European Parliament already a long time ago urged him and the Commission to act – indeed, long before this crisis broke out. At last, he seems to be taking action.

But, as you well know, action is not the trademark of Mr. McCreevy. I think it is time that this Commission wakes up, faces reality and starts doing what is necessary. The Commission should contribute towards easing the current crisis and ensure that European financial market regulation and supervision can cope with the next up- and downturn.

This brings me to the supervision of European financial markets. Experience has shown that the current set up does not function optimally. I still do not see any valuable alternative to a European approach.

Take "short-selling" as an example. Almost all CESR members have regulated this by now, but they have all done it slightly differently and at different paces. In an ever more integrated European financial market, this simply cannot be. Such action should be initiated and coordinated at European level.

Let me outline some ideas on supervision. In the short term, the so-called level 3 committees should be given a proper legal status and their own budget. And within CRD and Solvency, the level 3 committees should be given the power to make a difference, and the concept of colleges should be established.

In the short to medium term, the Commission should require that the 40 – 50 biggest financial institutions are subject to supervision by colleges composed of relevant national authorities. The Commission should also propose some form of coordination between the colleges and the level 3 committees.

Moreover, there must be a better link between micro and macro-prudential supervision. This will enormously facilitate crisis management and resolution. In the extreme, all financial institutions may, at micro level, individually live up to all requirements, but looked at together they may pose a risk to financial stability.

Therefore, there should be formalised cooperation between the micro and macro supervisors, which would also beef up the European capacity to manage crises.

For the longer term, I consider that there ought to be a Committee of Wise Men and Women, that can guide us in the direction of a more European approach to supervision, crisis management and resolution. This Committee's mandate should be to work on three issues that I believe to be crucial: the role and place of the ECB in the supervision framework, the idea of a European system of national supervisors, based on the example of the success of the ESCB and finally the creation of a deposit guarantee scheme. I can only urge the Commission and the Council to be as bold as the European Parliament – put some ideas on the table and let us then develop sustainable solutions.

Finally, I only want to remind the Commission that all the reports prepared by Rasmussen, Lehne, van den Burg and Daianu were prepared under article 192 of the treaty and therefore the European Parliament expects the Commission to act as requested.