Cross-Border Financial Stability: Where Do We Stand?

Introductory Remarks at the IMF-CFS Conference on "A Financial Stability Framework for Europe: Managing Financial Soundness in an Integrating Market"
By Alessandro Leipold, Acting Director, European Department, IMF
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Ladies and Gentlemen:

It is a pleasure for me to join Prof. Krahnen in welcoming you at this conference.

Let me start by saying that the great timing of this conference—coinciding with such historic developments—is not the result of perfect foresight or some surefire early warning system we may have developed at the Fund. Simply, we planned it a long time ago because we have long been convinced of the importance of advancing the debate on the EU's cross-border financial stability arrangements and their shortcomings. We have ourselves contributed to this debate through various channels, and thought it would be useful to provide a forum at which a select group of bright minds could carry this debate further forward. With the turmoil unfolding, we were confident we would have a lot of interesting material to discuss. Of course, we did not however foresee that we would have so many fresh empirical observations on how to handle—or possibly *not* handle—failing systemic, highly-complex financial institutions. And how many questions there would be out there about Europe's readiness to respond.

Fortunately, as has often been observed, Europe has so far been spared from a major cross-border bank failure. But, still, the turmoil has illustrated that Europe is not immune to financial stress and bank failures. After the events of the past few weeks, many of the foundations of modern finance will be the subject of profound debate. Likewise, policymakers ought to turn this crisis into an opportunity to have an open, unconstrained debate about the EU's financial stability arrangements—a debate freed from long-standing national red lines and infused with a greater sense of multilateralism and urgency, and thus leading to policy action.

We have long taken the view that financial integration is crucial to the EU's growth prospects. We have argued that achieving and maintaining full financial integration requires some form of integrated financial stability framework. Thus far, we have not advocated any particular architecture for such a framework. Rather, we have argued that a suitable framework would need to deliver joint responsibility and accountability for financial stability. The key challenge is that national supervisors' fiduciary responsibilities remain toward national governments and parliaments, and this national anchoring of their responsibilities (and accountability) limits their incentives to work toward common EU objectives in crisis prevention, management, and resolution. This is an important factor in the continued absence, for example, of systems for routine sharing of supervisory data among supervisors and between supervisors and central banks, including the ECB. Lacking this, no one has a full and continuous overview of developments in Europe's increasingly numerous cross-border financial institutions.

What we hope to get from the conference is a debate on concrete steps on how to proceed, and an impetus for policy-makers to move forward. Before passing the floor to Professor Goodhart, I would like to touch upon the questions that we hope will be addressed in our discussions today.

First of all, how can we achieve the integration of financial systems rooted in very different legal systems? Second, how should financial stability be monitored and managed in the EU? And, finally, how should cross-border failures of financial institutions be handled?

Let me thank you in advance for your time and contributions here today, and I give the floor to Professor Goodhart.