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Panel: Coordinating Crisis Prevention

Panel Chair's Introduction

'Crisis Prevention' is an ambitious target if stated in absolute terms. What we are here to discuss now, is probably some close qualification of that.

The European Presidency Conclusions of the EU Council dated 13/14 March 2008 in response to the financial turmoil, stated that "*early warning systems at the EU and international level should be enhanced, including by strengthening the role of the IMF in overseeing macro-financial stability.*" The Conclusions also urged that "*authorities in the EU stand ready to take regulatory and supervisory action where necessary*".

The Council's 'Financial Markets Stability Roadmaps" of 15 May 2008, were extensive. They sought implementation of the Memorandum of Understanding dated that month by relevant EU bodies, tasks to be done by the EU Commission, an EU Economic and Finance Committee Crisis Simulation Exercise EU-wide, ongoing discussions by the ECOFIN Ministers, and review by the EU Financial Services Committee and the Commission of the availability of tools for EU Crisis Management and Resolution.

With that level of political and institutional attention, crisis prevention, or best efforts towards it, heads financial agendas throughout the EU. The same has become true for the Level 3 Committees, CEBS, CEIOPS and CESR. They have been very actively involved.

The Committees have obtained all their EU Supervisory Authority Members' signatures to the latest Memorandum of Understanding. They will continue to participate in Crisis Simulation Exercises, whether by way of individual Members, or as organizational Observers. They operate their own sector MoUs and Protocols between Supervisors for cooperation and exchange of information, including over what and by when.

The 3 Committees also work jointly, under what is abbreviated to "3L3". Improved financial stability underlies many aspects of their activities. It is one of their significant aims. They have a joint "3L3 MoU". They develop and carry out published joint Work Programmes, both annually and for the medium-term. These contain prudential and market conduct elements. EU supervisory reports by the Committees on risk and stability are regularly submitted to the EU political level. They also report on an ad-hoc basis as and when wanted and possible, in between.

New tasks are constantly being undertaken where feasible and appropriate for Supervisors, to reflect financial market changes and political need. The calls for early warning systems for example, have prompted an early 3L3 response. It has taken the form of a new Expert Group, which is being convened as a Workshop for analysis and possible reporting, whether by individual Member State Authorities, individual Committees, or by 3L3. They are pleased to be invited to the main EU fora to explain where they are and to receive and discuss requests going forward.

There are limits. They may stem from EU legislation, diversities in supervisory cultures and local markets, or sheer 3L3 capacity. Where possible, these are being addressed. The climate of supervisory convergence and cooperation has improved dramatically over the recent past. Cooperative occasions are occurring today in the supervisory world which would have been unthinkable a few years ago. Tools and practices are changing under political and industry focus, at a remarkable rate.

However the first questions for supervisory coordination of crisis prevention always are: is this enough? Can we do more and better? If so, where and how? To help us all explore these boundaries and share views, we are lucky enough to have with us:

Part I:

One precondition for the effectiveness of information sharing between industry and supervisors and between supervisors in a cross-border context is a correct and accurate <u>identification of risks</u>. Both industry and supervisors have a responsibility in the proper identification and measurement of risks. Public disclosure of risks should foster market discipline in all areas of business conduct, including risk quantification. However:

- *How effective and satisfactory are current arrangements for information sharing and monitoring? How can they be improved?*

In addition to the identification and monitoring of risks, internal risk management and control processes should be geared towards the steering of risks and where appropriate the mitigation of risks. Such management and control processes should also allow for the proper functioning of early warning signals and early intervention mechanisms, as well as the prompt implementation of pre-crisis measures and supervisory toolsets. From an industry perspective, there should be in place a link between the strategy of crisis prevention and the type of business models used. In this regard, we should ask ourselves:

- *How satisfactory and coherent is the current toolset for the prevention and management of cross-border crises, including pre-crisis sanctions and remedial actions?*

Roles and responsibilities at micro-level, or the level of a financial institution are not always commensurate with maintaining financial stability and preventing crises at a macro-level, although everyone is better off by preventing a crisis and the contagion of risks. In the absence of such auto regulation there is definitively a role to be played by central bank and supervisors. So the question I would like to put to the panel is:

- *What are the roles of central banks and supervisory agencies in monitoring financial stability and preventing crises? How can the micro- and macro-financial stability challenges be bridged?*

Part II:

At this stage I think it would be a good idea to have the audience involved in the discussion. A couple of questions that come to mind are in the areas of financial stability, cooperation with the industry and supervisory cooperation within colleges. First of all:

- *Has cooperation between supervisory bodies as well as between the industry and supervisors been sufficiently effective so far, during the current market turmoil?*

- *If not, have we drawn crucial lessons from the situation and are there essential weaknesses in managing financial stability which have not been addressed yet?*

- *Under current supervisory arrangements there appears to be a gap between on the one hand how multinational groups operate, communicate and manage cross border risks and on the other hand how supervisors operate and communicate within the context of cross border supervision. How can supervisors and the industry cooperate better in order to strengthen the management of cross border risks?*

- *Will the future framework of group supervision and the functioning of colleges of supervisors become a major milestone towards increased financial stability, future crisis prevention and prompt crisis remediation?*

- *From an industry perspective, is there now increased cooperation within international fora and platforms, and has the industry developed common positions or measures to prevent crisis situations?*