**Conference in memory of Tommaso Padoa-Schioppa**

**Speaking points**

Before entering into the issues we are supposed to address in this roundtable and the seminal contributions of Tommaso Padoa-Schioppa in the field of financial regulation and supervision, I would like to recall together with you the extraordinary personal experience that was working together with him. I believe three words summarise well this experience: **passion, analysis and civil service**. He was particularly able to contaminate his younger colleagues with the passion he had for a subject, bringing their productivity to the highest level. He kept at the same time a truly analytical attitude, free of any contamination or pre-judgement, open to debate and challenge, irrespective of the hierarchy. And of course, he involved all of us in a genuine search for the best solutions in the public interest, with the true attitude of a civil servant. The combination of these elements, and his unique human touch, made working with him a real privilege.

I believe my role in this panel is to elaborate on one of the key red threads in Padoa-Schioppa's thinking, the need for EU-wide arrangements for regulation and supervision. I will focus on three points: the **Single Rulebook**, the need for **coordinated policies in supervision and crisis management**, a **macroprudential framework** at the EU level that can contain procyclicality.

First, the **Single Rulebook**. Padoa-Schioppa noticed that we had the Single Market and the bulk of the rules banks have to comply with in the EU was stemming from Directives. However, he noticed that a good deal of flexibility was left to – and fully exploited by – national authorities in translating these directives into national rulebooks. As a consequence, the regulatory environment remained very diverse, with (i) ample space for regulatory competition, as we learned only too well in the run up to the crisis, (ii) inefficiencies in the compliance process, and (iii) sands in the wheel of a smooth supervision of cross-border groups. The rulebook that counted for banks was the collation of national rulebooks, the EU dimension got lost in implementation. He then proposed already in the early 2000s to move to a Single Rulebook, i.e. to adopt key technical rules at the EU level, through EU regulations directly binding in the whole Single Market, without need for national implementation. The idea was finally accepted a few days before Padoa-Schioppa died, but in these days several national authorities are having second thoughts, as they have lately realised what a momentous change this could be.

Three main arguments are used against the Single Rulebook. First, it is argued that all we need is minimum harmonisation – what harm can do the decision of a jurisdiction to be tougher on its banks? This argument forgets that we have already been living in a world of minimum harmonisation and this has not prevented regulatory competition. Financial regulation is now very complex and apparently higher standards could well turn out to be laxer because of different methodologies in applying the requirements. Second, it is suggested that the Single Rulebook would hamper the operation of macroprudential supervision, which needs flexibility to adapt the requirements to the specific conditions of markets in each country. But we may well leave room for flexibility in the Single Rulebook, in the same way as single national rules allow the supervisor to change the capital required to a bank if its specific risk profile so requires. This should however be done within a common EU framework of constrained discretion, with ex ante coordination and ex post review by the European Systemic Risk Board (ESRB), to ensure that the same build up of systemic risks gets an approximately similar macroprudential response. Third, it is argued that the Single Rulebook may harm small, local banks, especially cooperative and savings banks. But this can be dealt with through the notion of proportionality, exactly in the same way as it is done at the national level. So my conclusion on this point is that the arguments for the Single Rulebook are stronger than ever and these first months of work at the EBA have only reinforced by conviction that we should carry forward this seminal idea of Padoa-Schioppa.

The second point I would like to raise concerns the **need for coordinated policy action** at the EU level. Padoa-Schioppa has often been characterised as pushing for centralisation of supervision at the EU – or euro area – level. As a matter of fact, he always argued that centralisation would have been necessary only if national authorities failed to give real content to a key building block of the Single Market, supervisory cooperation. His argument has always been that there was no need for change in the Treaty, provided that national supervisors were able to connect to each other and provide a unified, EU response when needed, when the risks were European in nature; in a nutshell, the ability to join forces and act as a single supervisor when needed.

Are we passing this test? After the default of Lehman there was a political decision that bank rescues were the sole responsibility of national government. As a result, the market has started assessing banks on the basis of the credit quality of the sovereign providing them with the safety net. This has generated the interconnection between banks and their sovereign we are grappling with in this new phase of the crisis. The reaction of the European institutions after the first phase of the crisis was slow but promising. I remember Padoa-Schioppa calling for a significant strengthening of the institutional framework for regulation and supervision at an Ecofin meeting at the end of 2007. At the time, all finance ministers were listening very attentively to his proposals, but although their body langiage showed that they were sharing the basinc points of Padoa-Schioppa’s analysis they eventually voted for maintaining the status quo. But two years later the EU institutions acknowledged that a change in the institutional framework was needed and created new European authorities. No more “chacun pour soi" in a crisis, stated boldly the first page of the de Larosière report. Although it is not up to me to say, I believe that progresses have been made, and significant ones in these first months of operation of the new institutional framework. But now that we are getting close to the fire again, unilateral national responses start resurfacing: some national authorities are raising the capital requirements for their banks above the benchmarks indicated by the EBA, putting pressure on other authorities and using the regulatory lever to attract funding in their jurisdiction; some are ring-fencing activities and preventing transfers of assets, or limiting the banks' ability to expand their balance sheet in foreign jurisdictions. All this is segmenting the Single Market across national lines, hampering one of the major conquests of the European "adventure", as Padoa-Schioppa used to refer to it.

Finally, I do not want to enter into a detailed discussion of Padoa-Schioppa's contribution in the field of **macroprudential supervision**, as Jaime Caruana and Charles Goodhart are addressing this issue. However, there is a question that is particularly important to me at the current juncture: is it right to ask banks to raise their capital levels in the current market situation? Or is it going to be procyclical? I would like to stress the fact that the absence of a macroprudential framework during the run up to the crisis makes it unavoidable that buffers had to be raised during the crisis. It would have been surely better to have the buffers already in place and be in a position to release them if the crisis gets worse and losses materialise. However, both the IMF and the ESRB in September stressed, from their macroprudential perspective, the need to significantly strengthen the capital buffers of EU banks in front of the systemic risk generated by the sovereign debt crisis in the euro area. In the design of our requirements we have been quite careful in avoiding that they provide incentives to shrink the amount of credit provided to the real economy and to a fire sale of sovereign bonds. We are well aware that a massive deleveraging process is already under way as a result of the impact the sovereign debt crisis has had on bank funding markets. We are trying to rebalance the process, pushing banks to raise capital instead of simply cutting assets. More generally, however, I would say that the recent experience has made me more sceptical as to the possibility of releasing capital and liquidity buffers during a crisis, especially if this is of a systemic nature.