[Sabine Lautenschläger: Banking regulation and supervision – you can’t have one without the other]

The financial crisis showed what can happen when banks are not safe and sound. So the goal is to make banks safe and sound, and avoid future crises.

To that end, we have revamped regulation, and we have strengthened supervision. It’s indeed vital to work on both fronts. Without supervisors, rules would have little effect; without rules, supervisors would have no job – or at least no firm basis for doing their job. You can’t have one without the other: regulation and supervision need to be aligned.

But are they? Let us take a look at the euro area. In 2014, banking supervision was transferred from national to European level. And since then, we’ve achieved a lot. However, we could do more, and that brings me to regulation. How European is regulation? Well, it’s true, of course, that there is a single rulebook. But by and large, regulation in Europe remains fragmented to a degree that makes it hard to reap the full benefits of European banking supervision.

And the problem starts with the scope of that supervision. Large investment firms and third-country branches are still not covered by it. This situation should be changed to restrict regulatory and supervisory arbitrage. Then there are the options and national discretions contained in European regulation. Some of them are still exercised differently across the euro area. It’s up to legislators to harmonise them. The same is true for fit and proper assessments. The rules here are also very diverse. And finally there are the tools for crisis management. We still have no common approach to such things as insolvency laws and moratoriums. This too needs to change. Likewise, the rules for early intervention measures need to be streamlined.

All this begs the question: is the banking union living up to its full potential? I would say: it’s not, at least not yet. But it could if the rules were further harmonised.

Now let’s turn to the global level. With Basel III finalised, we have a global set of regulatory standards. As standards, they are not always detailed and they are not binding, of course. So they still need to be transposed into hard law. And this is crucial; the banking sector is global in scope, and the rules that govern it need to reflect that – at least so far as the big banks are concerned.

But as I said just now, rules can only work together with supervision. How effective global rules are also depends on how supervisors apply them. Supervisors must faithfully apply the rules which transpose the Basel standards. To do so, they need adequate resources and they must be shielded from political interference.

And there’s more. There is also a strong case for supervisors from around the world to exchange information, to cooperate and to coordinate. This would help to facilitate strong and effective banking supervision worldwide.

We have done a lot to make banks safer and sounder, both at European and global level. The important thing is that we keep working together – within Europe and around the world.

Thank you for your attention.