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It gives me great pleasure to appear here at the BBA Seminar. In the five years during which I have been the Member of the European Commission responsible for Financial Institutions I have had frequent contacts with your Association. But this is, I think, the first occasion on which I have been able to address an event of this kind here in London. I am delighted that the Association has, in organising this Seminar, demonstrated the importance of the Community dimension to the work of the banking sector in the United Kingdom.

The Community's involvement in banking matters has of course been uneven. In the Community's early days banking was not the subject of much attention. During the 1960s and the first part of the 1970s, the Community concentrated its efforts on the development of the Common Agricultural Policy and on the establishment of a common market in goods through the Customs Union and the Common External Tariff. By contrast, very little progress was achieved in implementing the Treaty of Rome in the field of services, and certainly hardly any in that of financial services. We saw the first results for insurance in 1973, but nothing of any significance occurred in the banking sector until the end of 1977, when the so-called first coordination directive managed to get

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on the books of the Community. Thereafter the pace of Community activity in the banking field has considerably quickened. The first co-ordination directive was important not because it in itself brought about major changes but because it established the framework within which the development of banking coordination in the Community will take place. It may therefore be worth reiterating what this framework is.

The Treaty of Rome provides specifically, in Article 59, for the abolition of restrictions on the freedom to provide services. The Treaty goes on to specify that "services shall be considered to be 'services' within the meaning of this Treaty where they are normally provided for remuneration insofar as they are not governed by the provisions relating to freedom of movement of goods, capital and persons".

As applied to the banking sector, this means that only services which are not connected with the movement of capital are free. However, the European Court of Justice has interpreted this as meaning that all banking services are free if the capital movements to which they are connected are free. It is the direct implementation of Article 61, paragraph 2 of the Treaty which prevails whatever the national legal provisions may be. It is perhaps worth asking, in parenthesis, why banking institutions

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in the Community have not shown greater interest in availing themselves of this "jurisprudence" of the European Court. The Commission would have expected, in the light of our experience over the establishment of a common market in the field of goods, that banks, and other financial institutions, would have been demanding the practical implementation of the Court's interpretation of the Treaty by seeking to offer services directly in Community countries where they are not established and by seeking to bring cases of claimed discrimination before the Court itself when they thought they were prevented from being authorised to perform certain activities or operations allowed only to national institutions. It seems to me somewhat paradoxical that British financial institutions, who might have been supposed to be among the most sophisticated and competitive in the Community, have shown little disposition to try to prove their legal rights in order to open up the Community market in the financial services field.

In the Commission's view, this market must be opened up in the way that the market in goods has been, although we recognise that there are certain specific characteristics in the services field, and in particular in the field of financial institutions, of which account must be taken. As regards banking, the particular aspects which need to be resolved are the questions of licensing and of regular supervision.

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In both cases the first coordination directive, although it did not establish detailed uniform rules, did at least set out the basis on which coordination of practice in the Member States might take place.

The reason why coordination in these areas is important is that banks, like any other institution within the Community, must conform to the written and unwritten rules and regulations of the country in which they are operating. The practical impact of the removal of discriminatory provisions in national legislation is thus not in itself necessarily very great, because both the establishment of a bank and the direct provision of services from one country to another still remain very difficult. The banking regulations in the different Member States of the Community have in the past been so divergent in detail as well as, in some cases, in principle, as to constitute a serious practical limitation on the freedom of banks to compete with one another across national borders.

The Commission has sought therefore to establish a uniform system of supervision for all banks operating in the Community irrespective of their country of origin or of operation. We have sought this both in the interests of the banks themselves (in the sense that we do not wish to see any bank at a competitive disadvantage in this respect); and in the interests of their depositors (who need to be guaranteed that certain minimum conditions of prudence

/are being met.

are being met). To achieve this objective, we look to cooperation between existing national authorities. In our view, banking control has to be exercised, as far as the solvency and soundness in general of a bank are concerned, by the competent authority of the country where the head office is located. We call this the principle of "home country control".

As banks branch into other Member States we wish their home supervisory authority to be able to follow them since this is the most efficient way of obtaining an overall view of the credit institution. Of course, branches and other operations of the bank in question would continue to be subject to the monetary policies of the authorities of the countries where they are established. But for questions of liquidity solvency and the protection of depositors, only the authority of the head office would be involved in the control function and this function would cover the whole of the banks' network in the Community.

This situation can only be achieved when the systems of supervision in all the Member States are sufficiently similar for a host supervisory authority to accept institutions operating on its soil, being subject only to supervision by the authorities of another Member State.

/Since the adoption

Since the adoption of the First Coordination Directive the Commission have concentrated on individual aspects of banking supervision separately rather than on a further all-embracing measure. Our policy has been to endeavour to make progress on several fronts at the same time. This has led to a very considerable increase in activity in this sector over the last couple of years; and has at times led to requests that work on one measure should await the outcome of work in another area. Whilst we do not dispute the validity of such an argument in an ideal world, the timescale of progress on harmonization is such that, if the Commission always waited for the final outcome of one stage before commencing the next, very little would be achieved in a lifetime.

One of the tasks which was provided for in the First Directive was the establishment of "observation ratios". The objective is to define ratios between various balance sheet items which could be used to monitor on a standardised basis the solvency and liquidity of Community banks. At this stage the ratios being considered are very simple and are being calculated as special exercises for a sample of banks in each Member State. It is hoped that they will be developed over time until they are sufficiently meaningful in themselves that all Member States will use them as their own measures of solvency and liquidity, thus bringing about a substantial degree of uniformity in the methods of supervision.

/To this end

To this end the Banking Advisory Committee have defined the following ratios:

For solvency, the ratio between own funds and risk assets, other liabilities, fixed assets and total large exposures.

For profitability, the ratio between gross profit and total assets.

For liquidity, the ratio between liquid assets and short term liabilities.

As you can imagine, it has not been easy to agree on uniform definitions for the individual components of the ratios which could be used in all Member States. The approach has therefore been to conduct a trial calculation based on a small number of banks in each Member State in order to assess the validity of the ratios as presently defined and to identify any practical problems in compiling the figures. These trial calculations have now been completed and we are now in the process of evaluating the results.

It should be emphasised that at this stage these ratios are to be used for observation purposes only. They are not to be regarded as forming a basis on which normative standards could be imposed.

/In addition

In addition to its work on observation ratios, the Commission has during the course of last year submitted two new proposals for Directives to the Council. The first concerned the annual accounts of banks.

This proposal is based on a draft of the EEC accountants' study group and takes also into account the views of the banking supervisory authorities of the Member States. We hope that it can be adopted by the Council fairly soon. It is in form and substance to be seen as a modification of the 4th Company Law Directive in respect of credit institutions. Its main points of interest are the particular lay-out of the balance sheet and of the profit and loss account. It also deals with some specific valuation rules, allowing the possibility of a limited undervaluation of claims on credit institutions and on customers in order to allow a certain smoothing of the published figures for loan losses. The Commission feels that this is necessary because of the importance of public confidence for credit institutions and because of the substantial uncertainties connected with the specific operations of credit institutions. In principle similar systems have proved useful in nearly all of the Member States for many years.

/The second proposal

The second proposal for a directive approved by the Commission last year concerns the supervision of credit institutions on a consolidated basis. The proposal will require the supervisory authorities in each Member State to supervise their credit institutions on the basis of the aggregation of all the credit or financial institutions within a group headed by a credit institution. The directive defines the methods and extent of consolidation required depending on the size of the participation and on whether, regardless of the size of the participation, one credit institution effectively controls another.

Supervision on a consolidated basis should not be confused with consolidated published accounts. Supervisory authorities base their work on information gathered on prudential returns specifically designed for the purpose. This allows the authorities to collect more information than would be available from published accounts and gives them a greater degree of flexibility in the treatment of minority interests than is either necessary or desirable for published accounts. This proposal therefore in no way impinges on the proposed seventh Directive on Group Accounts and does not pre-empt the subsequent coordination of consolidated published accounts for credit institutions.

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The proposal can, of course, only apply to institutions situated within the Community. It is, however, hoped that institutions situated in third countries can, where appropriate, be brought within the scope of consolidation by means of bilateral agreements between the supervisory authorities of the parent institution and those of the third country concerned. Such arrangements will be coordinated by the Banking Advisory Committee and the Commission.

The Commission are also trying to solve the problems which arises from the fact that branches of banks from third countries are not covered by the main proposal for a Directive on annual accounts. EEC banks which have branches in other Member States will be required to publish the accounts of their Head Office drawn up in accordance with the main proposal. But unless some additional provision is made branches of third country banks would not be covered by any Community legislation on the publication of accounts. The European Parliament has already indicated an interest in this possible discrimination against Community institutions in favour of branches of banks from third countries.

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It was against this background the Commission issued a working paper on this topic last year. Since this has attracted rather negative comments in parts of the financial press here in London, I take this opportunity to stress the important difference between on the one hand a working paper which is intended to serve merely as a basis for discussion; and on the other hand a formal proposal for a directive which the Commission subsequently, in the light of such discussion, approves and transmits to the Council and Parliament. Since we have not yet reached a final decision on this issue, I shall confine myself to say on the substance that it is our longer term objective to do away with all branch accounts for banks in the Community. We shall therefore also endeavour to avoid the introduction of new obligations for branch accounts for banks with Head Offices in non-Member States.

/A further measure

A further measure which the Commission envisages in the accounting area is a proposal dealing with the production of consolidated annual accounts by banks. Work on this will not begin until the 7th Directive on consolidated company accounts has been adopted by the Council.

In order to facilitate our work on consolidated supervision and observation ratios the Commission have recently begun work on harmonization of prudential information collected by supervisory authorities. The present system whereby all Member States collect integrated statistics from credit institutions for prudential, monetary policy and balance of payment purposes means that it is not realistic at this time to attempt to harmonize the actual returns themselves. We have therefore set ourselves a more modest objective of establishing a list of prudential information, with agreed definitions and valuation rules, to be collected by all Member States. It is our hope that such a list could be based on the proposed directive on the annual accounts of banks so that all the statistical information to be supplied by banks could be drawn from a common data base.

This work is however in a very early stage and we expect that it will be several years before any tangible results can be achieved.

/Having addressed

Having addressed the problems of the prior authorization of banks and various aspects of their on-going supervision it is logical that we should also be concerned with their winding up.

In June 1980 a draft convention on bankruptcy, winding up arrangements, compositions and similar proceedings was presented to the Council. This convention, if adopted in its present form, would apply without exception to all credit institutions. The implications of the closure of a credit institution for the general public are such that most Member States have special powers to deal with the winding up of credit institutions. The Commission is therefore consdering requesting that the draft convention be amended so as to allow its application to credit institutions to be delayed until entry into force of a special directive on the winding up of credit institutions.

A first draft of such a directive has already been drawn up and discussed in the Commission's working party on banking legislation. It is envisaged that the Directive will cover not only the procedure on winding up a credit institution but also deal with various preventive measures which are available to the authorities when a credit institution is in difficulty.

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In general, therefore, our work in the field of banks and credit institutions consists of a steady development of a trend, which is already present, towards the alignment of banking practice within the Community. It does not mean the introduction of legislation involving drastic change in the way bankers or their supervisory authorities organize their affairs. This is a deliberate policy on our part. We do not believe that in the banking field it makes sense to try to impose new blueprints designed to overturn the current patterns of banking procedures. Nor do we believe that legislation is necessarily the only, or the most effective, means of attaining the goal of a true common market in banking. It is not the ambition of the Commission in any sense to assume any kind of supranational supervisory role in the banking sector. On the contrary, our policy rests specifically on the presupposition that the supervisory authorities in each Member State are the people best qualified to regulate banking matters there. What we seek to do is to introduce legislation where there is a clear and demonstrable requirement that certain common criteria should be laid down. But, perhaps more important, we seek to promote the development of working, and often informal, contacts between all the institutions in order that they may, in their own interests, coordinate and align their practices even when there is no legislative requirement for them to do so. The network of consultative committees and contact groups which we have set up, together with the close and

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regular contacts which the Commission's services have with banking organisations in all the member countries, have I think made a useful contribution in this respect.

For the future we will continue to press ahead with the matters in hand which I have just described to you. In particular the observation ratios exercise is likely to consume a good deal of the time of the Commission's services concerned.

There is one area, however, in the field of credit institutions where we would like to break new ground. It is our intention during the lifetime of this Commission to bring forward a draft directive on housing credit. This is an issue of direct importance and interest to ordinary citizens in the Community. It makes no sense for us to encourage, as we are doing, greater freedom and mobility of labour and to perfect the Community's internal market, unless at the same time we make it easier for people who have to change residence or job to take their housing loans with them. We realise of course that there are complex problems involved in this. Housing credit ties up significant sums of capital and there are several Members of the Community who, for understandable reasons, feel difficulties in liberalising too far or too fast the restrictions which they currently apply on capital movements. Nonetheless, we believe that this is an area where a start should be made. We do not think it is right simply to await the day when restrictions on capital movements have disappeared.

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not an attempt to harmonize housing credit techniques, but measures which would give borrowers a free choice in the methods of financing.

In addition we have come to the conclusion that the time has come to review in a more general way our priorities in the banking sector. We are therefore considering the possibility of a second coordination directive embracing a wide number of questions either left open by the 1977 directive, or which have arisen since its adoption.

We see a need for such a directive for two reasons: first of all because the First Coordination Directive was construed in such a way that it deliberately left the coordination of various aspects incomplete, pending further measures. This is the case for instance with the open list of licensing conditions as well as for conditions of withdrawal of authorization. The second reason is the need to deal with a number of aspects where we feel progress could be made but which are not sufficiently significant in themselves to justify separate measures. These include such miscellaneous items as the definition and qualification of managers of a credit institution, various conditions relating to the establishment and supervision of cross border branches, and the treatment of representative offices. I think it is obvious that we cannot introduce an endless flow of individual small Directives on such matters which would all involve separate legislative procedures both in the Community and subsequently in National Parliaments.

/The most important

The most important aspects which we would like to see covered by a comprehensive Directive arise however from those incomplete provisions in the First Directive to which I referred earlier. In particular we would like to establish comprehensive and exclusive lists of conditions for the granting of authorization to a credit institution and for its withdrawal. The First Directive set out certain minimum conditions which need to be met but these were fairly basic and not very precisely defined; for example there is a requirement to possess adequate minimum own funds without any indication as to how one determines what constitutes a satisfactory minimum. Moreover, the list was not exclusive in that it allowed national authorities to impose additional conditions if they so wished.

We also feel that it is important at this stage to formulate a comprehensive definition of own funds. If we can agree on a single definition of own funds for all supervisory purposes including the observation ratios, we will have taken a very significant step forward.

We hope the Second Coordination Directive could help to reduce the administrative burden faced by credit institutions establishing or providing services in other Member States.

/I am aware

I am aware that some of our proposals hitherto may have tended if anything to increase the administrative burden; I am thinking in particular of the proposals on annual accounts and consolidation. But after a certain point the tendency should go in the opposite direction. We would for example like to see branch accounts for Community banks, which are required in certain Member States, disappear. And the formulation of a common definition of own funds would represent an important step towards the establishment of a common data base for prudential reporting throughout the Community.

The Commission services have discussed their ideas for such a Directive with the Supervisory Authorities in the Banking Advisory Committee and with the European Credit Associations. Our thoughts are still at an early stage and we are therefore very open to comments and suggestions. The Credit Associations have been asked for their initial views by 28 February 1982 and I have no doubt that the BBA will be playing a very active role in the formulation of the reaction of the European Banking Federation to this proposal as I know they have on other matters.

/Before finishing

Before finishing I would just like to mention another area of the Commission's work which is of relevance to you, that is in the relationships which we maintain with the banking authorities in various third countries. In recent times this has particularly centred around the changes in the requirements for European banks in Canada, and the USA and on the position of European banks in Japan. I cannot alas claim that the Commission was any more successful than others in trying to persuade the US authorities, for example, to change their minds on the additional information requirements which they imposed. But I do believe that it has proved helpful to bring the Community aspect into contacts with third countries and that this has proved a worthwhile supplement to the bilateral negotiations on the position of European banks conducted by each of the ten Member States individually.

In conclusion I would like to say how pleased we are that the Banking Federation have taken such a constructive approach to the Commission's work in this sector over the last year. That is not to say that they always agree with our proposals. But that the comments we receive from them clearly reflect a thorough and competent appraisal of the proposal and usually include suggestions for alternative ways of dealing with points with which they do not agree.

/The direct contact

The direct contact between the Commission and the Chairman of your executive Committee, often acting on behalf of the Banking Federation has been extremely valuable in this context. On such complicated and technical matters the input of the Banking Industry is very important if we are to achieve our main objective of a harmonized system of banking supervision. Clearly it is the supervisory authorities who must dictate the system of supervision to be used. But it is important that maximum use is made of the expertise available, and due account taken of the opinions expressed in the industry concerned, in order to ensure that the measures which are imposed are practical and do not cause unnecessary work for the banks.