Opening Remarks by Anneli Tuominen 25.1.2012

Minister Häkämies, dear guests, ladies and gentlemen,

You are all cordially welcome to this Conference on EU regulation and supervision.

When planning for this Conference, we at the FSA wanted to arrange an event where we could have a direct interaction between the key persons leading the work of the European Supervisory Authorities and the EU regulatory agenda, and the Finnish financial community – together with its relevant stakeholders.

The new EU regulatory and supervisory structure is now one year old. A lot has been achieved, despite the fact that much of everybody's time and energy has been dedicated to the continuing financial crisis.

In order to safeguard the health of the financial sector many issues of principle regarding the financial regulation and supervision have to be answered. Our Conference aims to address such questions.

The challenges faced by regulators and supervisors almost always involve significant trade-offs and balancing acts.

Let me start with the relationship between regulation and supervision.

I argue that no amount of regulation is enough without high-quality supervision and supervised entities' sound internal governance. We all know that before the financial crisis, supervisory practices and also expertise were not always in good shape and supervision failed in many, many instances.

Now, on the other hand, we must recognize that the European Supervisory Authorities will have to issue a very large amount of Binding Technical Standards (BTS) under the requirements of the EU regulation. These Standards will become directly binding for financial institutions, and in some instances for also listed companies, in all Member States. This means that limited time is available to develop common best supervisory practices. I do not think this is the right balance in the medium term. I also argue that there is the risk that sometimes we might not see the forest for the trees.

Another balance, which is also of a major importance for the viability of financial markets as a whole, is the one between detailed rules and need for flexibility. A typical, but sometimes maybe unfortunate, characteristic of EU regulation is the vast amount of detailed rules. In some cases the level of detail may be justified in order to ensure high-quality standards and a level playing field. However, in other cases, such detail may prove to be too burdensome especially for smaller entities, and the proportionality principle should to be applied.

Capital issuance is an area where more flexibility might be needed. For the sake of the economic growth we would to need to make stock exchange listings and capital markets not only accessible but also attractive for issuers of all sizes. One should e.g. assess whether the IFRS standards should be adapted for smaller listed companies.

Therefore, I do think that there is a need to have sufficient flexibility even within the EU Single Rule Book in order to support the vitality of markets. In areas like corporate governance, the approach should be rather principles- than rules-based. In listed companies' corporate governance there should continue to be room for functioning self-regulation. However, in certain areas we clearly need detailed and strong rules, for instance to secure the high-quality and comparability of capital levels of financial institutions. My question to the speakers is, whether they share these considerations?

Today we are discussing financial markets vis-à-vis economic growth. I am pretty sure that here the question arises about the impact of the regulatory tightening on the real economy. Concerns have been voiced that the new capital adequacy rules for both banks and insurance companies together with new liquidity rules for banks – and their timing - are pro-cyclical and deepen the current economic slowdown.

I think everybody has to recognize the need for tighter and more risk-based capital and liquidity regulations. Through a lower frequency of crises they will bring along major long-term economic benefits for the society. We should, however, be careful in adding even further regulatory burdens or costs without careful impact assessment. The main priority at the moment is to re-establish investors' confidence in the banking sector in order to allow banks to obtain market funding at a reasonable cost in order to provide finance for the real economy.

Maximum harmonization versus the need for special national rules to support the stability of the financial sector is at the moment a very much debated topic in Europe. For instance, Sweden and the UK have issued measures or plans for extra capital requirements above the EU ones, which is against the principle of maximum harmonization.

We have considered best to work in terms of the common EU rules as much as possible in the prudential supervision area. Hence, the EU legislation should, for example, include a clear and transparent framework to address Systemically Important Financial Institutions. It will be interesting to hear the speakers' views on the possibility to have special national requirements on top of the European ones.

Being a fairly recently established integrated authority, we often face the question whether we should take a sectoral approach or a common approach across the entire financial industry. For sure, there are clear specificities in each financial sector (banking, insurance and securities markets). The business models are different and to a significant extent also the risk profiles of the institutions.

However, there are many commonalities as well across sectors, and we should therefore be aware of the possibility of regulatory arbitrage, if the treatment of the same structure, risk or behavior is different.

I very much welcome the initiatives to harmonize the regulatory requirements in instances where retail-investors and consumers are offered similar type of products by firms from different sectors. Consumers should be in the position to easily compare the risks, costs and returns of such savings products. Here different sectors are competing of the savings of the same investor pool, and a level playing field between them should be established. Maybe we will today hear how these initiatives are proceeding.

The establishment of the ESAs and their new substantial powers in issuing binding regulations means a significant shift of power from national parliaments and supervisors in the regulatory area.

On the other hand, supervision has remained largely national. There have been talks about additional powers needed for the ESAs in the supervisory and crisis management area. One of the important issues for the future is whether we would need further centralization of supervisory powers at the EU level, especially concerning large cross-border financial groups. Maybe we today hear views about this as well.

I have been promised by the speakers also some critical views regarding the functioning of the new structures. The future actions to be taken in the regulatory field will create new expectations, but maybe also fears amongst the audience. Therefore, please use this unique opportunity to make questions.

The issues I have talked about deal with the theme we chose for the Conference: *How can we make regulation and supervision best support the health of financial markets*? We have the pleasure to hear first the views of Minister Häkämies on the topic “Financial Markets and Economic Growth.