Resolution:
The provision of an ECB eurozone-wide banking regulator

Adopted at the YEPP Seminar in Madrid on 29th September 2012

Recognising:

- That membership of the euro area has also provided considerable stability during this crisis period. Most directly, eurozone banks have heavily relied on the liquidity provided by the European Central Bank as a substitute for the loss of access to private wholesale funders. In addition, highly indebted households have benefited from low European Central Bank interest rates during the crisis to allow them to avoid default on borrowings.

- A primary source in a number of European members states banking crises was the failure to regulate the banking sector to guard against systemic risk factors. Overall, it can be argued that the lack of effective action by national regulators was a main source of the recent crisis.

- That banking regulation in many European Union member states failed to correctly and effectively act to prevent a large number of European banks, particularly for banks involved in real estate based lending. This was especially problematic for member states under the EMU, since access to the area-wide financial markets meant that the scope for banks to take on too much risk was amplified.

Acknowledging:

- That European Union leaders agreed in June 2012 to set up a single banking supervisor in Europe as a pre-condition to letting the euro zone rescue funds directly inject cash into struggling lenders, without lending to a government first. This is part of a wider EU effort to stop the banking and euro zone debt crisis feeding each other.

- That in recent weeks, The Association of German Banks (BDB), which represents big lenders like Deutsche Bank and Commerzbank, has added its weight to proposals that would place national bank supervisors under ECB authority in each eurozone member state.

- That the introduction of a financial regulator, independent to the political system, in each member state to promote consistent regulation could be put in place quickly with little difficulty.

- That national banking supervisors in the countries outside the 17-member eurozone could maintain their independence and current structures, while providing the flexibility to allow for an opt-in so that countries would be free to place their banking systems under ECB supervision voluntarily.

- That a number of legal issues would need to be legislated for on a national basis (particularly in common law countries) to overcome the lack of administrative law giving the ECB powers to enforce its decisions over banks, and to draw up a mechanism for banks to appeal ECB rulings they found unfair.

YEPP calls on:

- The European Central Bank to set up an independent unit for banking supervision with clear separation from its monetary policy duties, such as setting interest rates, and the supervision of the regulatory and financial framework of the activities of banks and financial institutions in the Eurozone

- The establishment of broad regulatory powers to the ECB over all eurozone banks, to eliminate interference by politicians in banking supervision.

- Through the above noted mechanism, the ECB to examine taking sole responsibility for supervising all eurozone banks. The ECB could use the former national regulators as "ECB national offices", delegating powers to make checks on smaller banks, and implement 'stress tests' so as to assess the banks' minimal risks weighted capital adequacy ratios, according to the Basel III requirements.

- As qualified by the above statement, it would be necessary to delegate supervisory powers to national level, as there are an estimated 6,000 lenders operating in the eurozone, of which only around twenty would need super-national supervision, as these banks are considered of systemic importance to the currency union. The smaller lenders could have supervision undertaken by ECB-delegated national regulators. This set-up would run alongside existing national regulators, rather than replacing them.