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Sent: Wednesday 12 December 2012 13:04
To: 'jose.barroso@ec.europa.eu'
Cc: LAITENBERGER Johannes (CAB-BARROSO); SUTTON Michelle (CAB-BARROSO)
Subject: AFME letter on Single Supervisory Mechanism
Attachments: 121212_SSM_letter_final-Jose Manuel Barroso.pdf



Dear President Barroso,

Please find attached a letter on the Single Supervisory Mechanism from Simon Lewis, AFME CEO.

Best regards,
Giovanni Campi



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Mr. Jose Manuel Barroso
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12 December 2012

Dear President Barroso,

The Association for Financial Markets in Europe (AFME) represents a broad range of participants in European wholesale financial markets. Our membership includes European Banks (Eurozone and non-Eurozone) and non-European banks engaged in cross-border business in the Single Market. I am writing to you in the context of the legislative discussion on the European Commission's proposals for a Single Supervisory Mechanism and the important ECOFIN meeting taking place today.

AFME strongly supports proposals to establish a banking union in Europe. This major advance in market integration will permit the better functioning of the European financial system to support the economy. It is an essential step in resolving the Eurozone crisis, supporting the Euro, and developing a coherent architecture for Economic and Monetary Union.

On 18 October we issued an Initial Position Paper setting out an industry perspective on the main issues arising in the context of the proposals. For your convenience, please find here a link to that paper: <http://www.afme.eu/Banking-Union/>.

We are sending this letter now to provide an industry view on a small number of important issues that have arisen during the legislative process since that time.

Timetable

We recognise the challenge in establishing the SSM in the short timescale envisaged by the European Council and the Commission. Nonetheless we believe, given the expectations that have been created and the importance of credibility and strong momentum, that the need for progress remains urgent. While precise dates are not of the essence, a continued commitment to establish and implement a high-quality SSM to a clear and tight timeline, ensuring timely application of the new framework, remains very important.

Scope and powers

Concerning the scope of application of the SSM, AFME considers that while a range of workable possibilities exist, it is essential that certain objectives remain firmly in view and are achieved in the agreed approach.

It is important that systemic risk arising from financial firms whatever their size or complexity falls clearly within the responsibility of the ECB, and that the ECB not only has the tools to supervise effectively such risk wherever it arises in the banking system, but also faces no frictions, disincentives, or information deficits in taking necessary timely action in this regard. It is essential that roles and responsibilities are clear and unambiguous and that there are no mismatches in respect of authority to act on the one hand, and the responsibility to do so on the other.

It is important to avoid any system that produces different outcomes in the quality and effect of supervision as it is applied to different banks. To the extent that these were to arise it would create competitive distortions which over time would be likely to significantly undermine safety and soundness.

In the section below we identify the important benefits of a single supervisory handbook for the EU as suggested by the Commission in its 12th September Communication *A Roadmap towards Banking Union*. It is important to note that the greater the extent to which supervision of certain firms remains in the hands of national supervisors while others are subject to more direct and immediate supervision of the ECB, then the greater will be the benefits of such a single supervisory handbook for Europe. In particular, it will help achieve high quality outcomes in respect of the supervision of all firms and avoid weaknesses or gaps where systemic risk might re-emerge.

AFME believes that it is very important that the ECB have all of the powers necessary to carry out effective supervision including the power to withdraw a bank's authorisation without the risk of a potential time delay. This power is a linchpin of an effective supervisory system.

Single Supervisory Handbook

AFME has welcomed and very much supported the idea set out in the Commission's Communication, *A Roadmap towards Banking Union*, that the EBA should develop a single supervisory handbook for Europe to complement the single rulebook, and forming part of the Single Market regulatory framework.

Enhancement of the Single Market and realisation of the benefits of cross-border banking in Europe requires that there is a consistent approach to high quality supervision across the EU. Such a handbook, setting out an agreed approach and common supervisory practices at the European level, would provide the coherent basis for individual authorities' supervisory practices and day-to-day engagement.

We note that, in addition to forming part of the Commission's 12th September Communication, a requirement that the EBA should draw up a European supervisory

handbook to accompany the single rulebook also forms part of the compromise texts adopted by the Economic and Monetary Affairs Committee (ECON) of the European Parliament on 29 November.

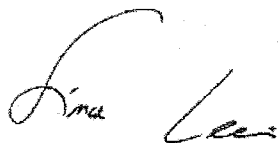
AFME very much supports this proposal for the reasons given above. We believe that the legislation finally adopted would be considerably enhanced by the inclusion of this provision.

Macprudential

Effective macro-prudential regulation will constitute a vital element of the banking union framework and the wider economic governance of the Eurozone. A specific challenge for macro-prudential oversight will be to ensure that policy responds to varying financial conditions and credit cycles across member countries while retaining overall coherence on policy objectives. We would underline the importance of developing a framework for macro-prudential regulation within banking union which is clear on basic policy objectives; roles and responsibilities; specific policy instruments; and methods of coordination.

We would of course be pleased to discuss these issues with you if you would find that helpful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Simon Lewis', written in a cursive style.

Simon Lewis
Chief Executive