

Mr H.J. Muller  
Directeur

Datum  
- December 7, 1988

Confidential

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Ref. Prudential Supervision of Banks in the European Community


At the request of one of the Governors and with the agreement of Governor Godeaux a change has been made in the procedure regarding the note for EC Governors: the note will be addressed to the EC Governors rather than serve to inform the Delors Committee.

It is the intention of Governor Godeaux to discuss the note at the meeting of EC Governors on December 13, 1988. If the Governors so desire, the matter will then be raised in the Delors Committee that same day.

Accordingly I have changed § 4 of the note for EC Governors and § 3 of the procedural note.

The amended documents, dated December 6, 1988 are annexed with this message. I would appreciate it if you could hand over this version of the documents to your Governor and explain the procedural change made, so that the documents can be discussed at the meeting of the EC Governors on December 13, 1988.

With kind regards,



Huib J. Muller

Telefax 203426

Enclosures: 2

Mu/6

De Nederlandsche Bank

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Note for EC-Governors

PRUDENTIAL SUPERVISION OF BANKS IN THE EUROPEAN COMMUNITY

1 Against the background of the work of the Delors Committee on Economic and Monetary Union in the European Community, a group of senior representatives of EC central banks with responsibility in the area of banking supervision met in Brussels at the time of the November meeting of the Banking Advisory Committee to discuss the evolution of prudential supervision in a single European market in banking services. These discussions covered the existing arrangements for prudential supervision in European countries. (Participants are listed at the end of this note).

2 The group considered that the current arrangements for drawing up and enacting legislation in the area of banking supervision work well. The responsibility for formulating legislative proposals in this area lies with the European Commission - advised and assisted by the Banking Advisory Committee - in the form of directives and recommendations. Once approved, Community instruments are translated into the domestic legal system of Member States which determine the allocation of responsibility for prudential supervision and establish the detailed supervisory framework in each country. Similarly, the execution of prudential supervision is the responsibility of national supervisors. The group felt that this model was consistent with the further evolution of a single European market in banking services.

3 However, there was agreement that the existing arrangements for the formulation of policy in the area of prudential supervision were not structured in such a way as to take full account of contemporaneous developments in the structure of the financial system in Community countries. In particular, the group noted the issues raised by the growing interdependence in recent years between the banking systems of different countries and between the banking system and other financial markets. These close links, assisted by product innovation and technical developments, are creating risks for banks and for the financial system which pose challenging questions for the central banks which have special responsibilities for dealing with disturbances in financial markets. All EC central banks already have a direct or indirect involvement in the supervision of banks in their countries. The group agreed that progress toward economic and monetary union would be very likely to increase the degree of interdependence between national banking systems in the Community and would strengthen the need for central bank involvement in the prudential supervision of banks and other closely related financial institutions.

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4 Given the establishment and terms of reference of the Delors Committee, the group considered it timely to inform the Committee of EC Governors of its feeling that - if and when the creation of a European monetary authority were to take place - responsibilities for supervisory policy matters concerning the European Community should be vested in a European monetary authority. In such a framework, banking supervisors in the Member States would continue to conduct prudential supervision at the national level under the aegis of a European monetary authority.

5 The group considered that there is already a perceived need for a forum in which representatives of EC central banks might meet regularly to discuss matters of policy which have implications for the central banks of the Community in the area of prudential supervision. For example, new issues arise in the development of banking groups with ownership located in more than one EC country (eg Amro-Société Générale). The appropriate policies for the supervision of EC universal banks and financial conglomerates containing a banking entity represent another area where particular issues could arise for EC central banks.

6 Senior representatives of EC central banks therefore propose to meet regularly in the future to discuss such matters at the time of the meetings of the Banking Advisory Committee. If agreeable to the Committee of EC Governors, the group would take the form of a sub-committee of the Committee of EC Governors, who would receive reports of its deliberations. It is important that the work of such a group does not operate to weaken the functioning of the G10 Committee on Banking Regulations and Supervisory Practices.

7. It is clear that some central banks can only participate in a forum referred to under points 5 and 6 to the extent that the matters dealt with are within the competence of these central banks.

Jean-Jacques Rey  
Jorn H. Kjaer  
Johann Wilhelm Gaddum  
Brian Quinn  
Miguel Martin  
Jean-Louis Butsch  
Nikolaos Koumbis  
Padraig McGowan  
Tommaso Padoa-Schioppa  
Jean-Nicolas Schaus  
Huib J. Muller  
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PROCEDURE REGARDING NOTE FOR EC GOVERNORS

The following procedure will be followed:

- 1 Participants will give their comments on the draft note to EC Governors and on this procedural note to Huib Muller with a mandate to finalise these documents.
- 2 After both documents are finalised each participant will hand a copy to his Governor.
- 3 The documents will be discussed by the EC Governors prior to the meeting of the Delors Committee on December 13, 1988. If the Governors so decide, the matter will then be raised in the Delors Committee that same day.
- 4 After December 13, 1988 the note for EC Governors will no longer be confidential, although it will not be published and no active publicity will be given to it. After December 13, 1988 the Belgian Banking Commission, the Danish Financial Supervisors and the German Bundesaufsichtsamt will be informed of the note by their central bank colleagues; Huib Muller will inform Geoffrey Fitchew, Director General of the DG XV of the European Commission. After December 13, 1988 other central banks may inform their non-central bank colleagues on the Banking Advisory Committee at their discretion.
- 5 A group of senior representatives of central banks will meet again on Monday evening, March 6, 1989 for a Working Dinner. Mr Ray of the Belgian National Bank has kindly invited the group (telex with data will follow in due course). At that meeting the group will consider whether the three non-central bank supervisors should be invited for future meetings.