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**Intervention at the Conference on the  
Missing pieces of SME lending  
CEPS-Brussels,  
December 4<sup>th</sup> 2013**

I would like to use my 8-10 minutes to make 6 points:

1. The focus of policy making in the €area should move from crisis and demand management to supply and long term growth,
2. Banks and the capital market are not in a position to fund an adequate growth for the €-area economy,
3. A revitalised ABS market is not a solution to the insufficiency of the banking and capital market, but there cannot be an adequate solution without a revitalised <abs market,
4. But a revitalised ABS market must learn the lessons of the crisis and what we need is a High Quality Securitisation,
5. Drawing lessons from the crisis we can operationalize the concept of a HQS,
6. An operational definition of HQS must inform all different pieces of regulation impacting on the ABS market.

On my first point, I would take the opportunity to see whether you would agree with a somewhat **provocative conclusion** I recently reached, according to which EU, and in particular the €-area, has to move the focus of its attention **from “saving the €”** and demand management to improving its **long term growth prospects**. Of course, when formulated so sharply the conclusion gives rise to objections, and I would agree that there is **still quite a lot which has to be done** to put the €-crisis definitely at rest. In particular **banking union**, with its component of common supervision, common resolution mechanism and, eventually, common deposit guarantee, has to be finalised before we can say that, once more, according to Monnet’s prediction, Europe was further built during a crisis.

Still, I think we have to **start moving away from crisis management** into actions that can avoid the prospects of anaemic long-term growth. And **banking union** is indeed an appropriate **hinge** between crisis management and long term growth: as I said, there will not be a definitive exit from the crisis without a banking system re-established in its ability to intermediate large amounts of funds at reasonable cost but neither we can have better growth prospects without it.

My second point about the insufficiency of the banking system and the capital market to adequately fund the growth of the €-area economy is based on the view, illustrated in a recent white PCS paper that, even in the **most optimistic scenario**, the banking system will **suffer from the lingering effects of the crisis**. These aggravate a **structural limitation** of the European economy, in particular of continental Europe: an **insufficient development**, as compared to the US, **of its capital market**. The dominating role of banks in funding the economy is a vulnerability that has transformed itself into an actual damage with the crisis. **Small and medium size enterprises and households** borrowing to purchase their houses are the clear victims of this negative development. I take it that this is one of the motivations of the EIB-Commission initiative on SME funding.

But as many have noted, **crisis and opportunity are bordering, indeed overlapping concepts**: you surely have heard the story that the two words are represented by the same

Chinese ideogram. It is my sense that the Commission Green Paper on long term funding is inspired by this idea.

My third point, about the necessary contribution of a re-born ABS market to a financial system better able to support growth fits well with all the **work the Commission** is doing to put the financial market on a better regulatory and structural footing to **progressively surpass the limitations** of a financial system with a weak market leg. Indeed I always believed that the **ABS** have the potential to act as a **bridge between the banking and the capital market**, in a way surpassing the antinomy between a bank dominated and a market dominated financial system. SME and households are the sectors that would most benefit from the creation of such a bridge.

My fourth point is that, of course, we are **too aware of the problems of ABS** during the crisis to deny that we need more than just getting back to the situation prevailing before the crisis, even if there is a **confusion** in many circles between the dismal credit developments of ABS in the US and the impeccable developments in Europe.

I think the critical change with respect to the situation before the crisis is the **generalized awareness that what we need is High Quality Securitization**, not just a re-launch of a generic ABS market. I think that the **statements of a number of policy makers and regulators**, such as Mr. Barnier, the President and other members of the Executive Board of the ECB and the IOSCO show the increasing awareness of this crucial point.

An example validating my fifth point, that the concept of High Quality securitization can be operationalized, is the work that PCS has made to translate into 144 criteria, which an ABS must respect to be awarded the PCS label, an assurance that the problems with ABS Mark 1 will not reappear in HQS:

1. No skin in the game,
2. Leverage (re-securitization),
3. Embedded maturity transformation,
4. Lack of transparency.

My sixth, and final point, is that we need a holistic approach to the different pieces of regulation affecting the ABS market. The same operationalized concept of HQS must inform all pieces of regulation impacting the ABS market to come to a differentiated regulation of High Quality with respect to other securitization. I believe the role of the Commission is crucial in this respect as the sole institution that can help the different regulators to pull their action together and come to consistent approaches, recognizing the difference between HQS from other securitization.