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Commission adopts legislative proposals to strengthen financial supervision in Europe

(see MEMO/09/404 and MEMO/09/405)

The European Commission has adopted an important package of draft legislation today to significantly strengthen the supervision of the financial sector in Europe. The aim of these enhanced cooperative arrangements is to sustainably reinforce financial stability throughout the EU; to ensure that the same basic technical rules are applied and enforced consistently; to identify risks in the system at an early stage; and to be able to act together far more effectively in emergency situations and in resolving disagreements among supervisors. The legislation will create a new European Systemic Risk Board (ESRB) to detect risks to the financial system as a whole with a critical function to issue early risk warnings to be rapidly acted on. It will also set up a European System of Financial Supervisors (ESFS), composed of national supervisors and three new European Supervisory Authorities for the banking, securities and insurance and occupational pensions sectors.

European Commission President José Manuel Barroso said: *"Financial markets are European and global, not only national. Their supervision must also be European and global. Today we are proposing a new European supervisory system, with the political backing of the Member States and based on the de Larosière report. Our aim is to protect European taxpayers from a repeat of the dark days of autumn 2008, when governments had to pour billions of euros into the banks. This European system can also inspire a global one and we will argue for that in Pittsburgh".*

Internal Market and Services Commissioner Charlie McCreevy said: "*This package represents rapid and robust action by the Commission to remedy shortcomings in European financial supervision and will help prevent future financial crises. I commend this package to the Council and Parliament for rapid adoption, so that the new structures can begin functioning in 2010.*"

"The creation of a European Systemic Risk Board to detect and prevent risks to financial stability in the EU and new arrangements to improve supervision at institution level will go a long way towards tackling the imbalances in our financial systems and solving the weaknesses in our financial supervision system that are at least partly to blame for the financial crisis." added Economic and Monetary Affairs Commissioner Joaquín Almunia.

The current financial crisis has highlighted weaknesses in the EU's supervisory framework, which remains fragmented along national lines despite the creation of a European single market more than a decade ago and the importance of pan-European institutions.

Today's legislative proposals address those weaknesses both at the macro- and micro-prudential supervision levels by creating:

- a **European Systemic Risk Board (ESRB)** to monitor and assess risks to the stability of the financial system as a whole ("macro-prudential supervision"). The ESRB will provide early warning of systemic risks that may be building up and, where necessary, recommendations for action to deal with these risks.
- a **European System of Financial Supervisors (ESFS)** for the supervision of individual financial institutions ("micro-prudential supervision"), consisting of a network of national financial supervisors working in tandem with new European Supervisory Authorities, created by the transformation of existing Committees for the banking securities and insurance and occupational pensions sectors. There will be a European Banking Authority (EBA), a European Insurance and Occupational Pensions Authority (EIOPA), and a European Securities and Markets Authority (ESMA).

The ESRB will have the power to issue recommendations and warnings to Member States (including the national supervisors) and to the European Supervisory Authorities, which will have to comply or else explain why they have not done so. The heads of the ECB, national central banks, the European Supervisory Authorities, and national supervisors, will participate in the ESRB . The creation of the ESRB is in line with several initiatives at multilateral level or outside the EU, including the creation of a Financial Stability Board by the G20.

Regarding micro-prudential supervision, currently there are three financial services committees for micro-financial supervision (supervision of individual financial institutions) at EU level, with advisory powers only: the Committee of European Banking Supervisors (CEBS), Committee of European Insurance and Occupational Pensions Committee (CEIOPS) and the Committee of European Securities Regulators (CESR).

The new Authorities will take over all of the functions of those committees, and in addition have certain extra competences, including the following:

- Developing proposals for technical standards, respecting better regulation principles;
- Resolving cases of disagreement between national supervisors, where legislation requires them to co-operate or to agree ;
- Contributing to ensuring consistent application of technical Community rules (including through peer reviews);
- The European Securities and Markets Authority will exercise direct supervisory powers for Credit Rating Agencies;
- A coordination role in emergency situations.

The proposals have been the subject of extensive consultation both after the publication of the recommendations by a group of experts mandated by President Barroso and chaired by former IMF Managing Director Jacques de Larosière and between the end of May and mid July, after the Commission outlined its proposals to the European Council. The June EU Summit endorsed the new supervisory framework and called for the rapid adoption of the necessary legislative texts.

More information is available at:

http://ec.europa.eu/internal_market/finances/committees/index_en.htm

http://ec.europa.eu/economy_finance/thematic_articles/article15861_en.htm