Press release

Financial regulation and supervision under the spotlight at EP special committee

A wide range of major financial issues thrown up by the economic crisis were aired at a hearing held on Thursday by Parliament's Special Committee on Financial, Economic and Social Crisis (CRIS) with Bank of France governor Christian Noyer and other experts.

Calls for strengthening banks' capital requirements, the idea of setting up a European guarantee fond, issue of institutions that are "too big to fail", the new supervisory architecture, consumer protection and the need to overhaul international accounting rules were amongst the key questions raised at the committee's Public hearing on financial regulation and supervision.

Introducing the debate, which focused on the degree to which financial regulation and supervision failed in preventing the crisis and on future models for Europe, Special Committee chair Wolf KLINZ (ALDE, DE) said that in the EP Economics Committee, which is also discussing this issue, there "seems to be a cross-party view that financial markets need supranational supervision". However, Member States' reservations on this were "natural" as "we are transferring their competences from national to European level".

The session's keynote address was delivered by Mr Christian NOYER, Governor of the Banque de France, who pointed to the need to update capital requirements, reform credit rating agencies and harmonise definitions of several financial instruments.

He stressed the need to find a way "how to measure liquidity risks and how to calibrate these measures" which he saw as "very sensitive". Re-nationalisation of the banking system was not a step in the right direction, in his view, and caution was needed so as "not to kill off banking activity". In any case, "we need to test the macroeconomic outcome of measures that are being proposed", so as "to find the right balance".

Capital requirements and European guarantee fund

To a question by Pervenche BERÈS (S&D, FR), the committee's rapporteur, who asked about the optimal result to be achieved as regards capital requirements for banks, Mr Noyer judged that "we can't avoid strengthening own capital of banks as this would strengthen the financial system". But again this should be "well calibrated" so as not to undermine banking activity. Bettina CORVES-WUNDERER, Chief Financial Officer at Allianz Spa (Italy), supported this idea and stressed the need to strike a balance between capital requirements and the long-term competitiveness of financial institutions at international level.

There was a lack of "certain protection for deposits" during the crisis, said Mr Noyer, so better harmonisation of deposit guarantees "might be useful". Furthermore, in times of need the Deposit Guarantee Fund should be triggered at the demand of regulators.

'Too big to fail'

“To draw up a list of systemic financial institutions could be counterproductive,” warned Mr Noyer, as “this would institutionalise moral hazard. I am extremely doubtful about this”. Jochen SANIO, President of the Federal Financial Supervisory Autority (BaFin), underlined the need to “limit moral hazard at international level as the respective financial institutions operate globally”.

Nonetheless, Avinash PERSAUD, Emeritus Professor of Gresham College, Chairman of the Warwick Commission and of the regulatory sub-committee of the UN High Level Task Force on Financial Reform, pointed out that “in crisis, what is ‘too big to fail’ is actually quite small”. He explained that “if small banks are doing things in more correlated manner” it represents risk. He therefore called for “more competition” on the financial market.

Supervisory architecture and consumers’ protection

The European supervisory architecture proposed by Jacques de Larosière represented ,for Mr Noyer, “a very responsible response to the crisis”.

Replying to Othmar KARAS (EPP, AT), who wanted to know how Mr Noyer envisaged European and global supervision, the governor said that “supervisors need to be close to banks”. In this context he noted that in the United States there was not a single supervisor in Washington but there was one “in each Federal Reserve Bank”.

Sven GIEGOLD (Greens/EFA, DE), however, thought this was not the best idea and underlined that “closeness as well as distance must be well balanced”. Mr Noyer nonetheless reiterated his conviction that “the closer the supervisor is the better” which, of course, did not mean having 300 supervisory authorities in Europe but rather avoiding their concentration. “Let’s keep the supervisors where they are and integrate them in a system,” he urged.

Bettina Corves-Wunderer insisted that supervision at European and national level must “interact in a harmonised manner”, an idea supported by Avinash Persaud, who advocated “national macro-prudential supervision with oversight at European level”.

“Is there a risk that we are doing too much in Europe? That we are solving the USA's problems?” asked Olle SCHMIDT (ALDE, SE). “Yes, this is correct interpretation of what I was saying,” said Mr Noyer. “All guidelines are good in themselves but if there is not an adequate procedure, they might be excessive,” he warned.

According to Jochen Sanio, the real problem for supervisors was “knowledge”. Responding to questions by Sergio Gaetano COFFERATI (S&D, IT) and Thomas MANN (EPP, DE), who quizzed the experts on the need to manage the information, Mr Sanio admitted there was “a terrible information problem about things that aren’t happening under our eyes. But to be honest, I don’t know what to do about this,” he admitted.

For Bettina Corves-Wunderer, the “inherent part” of supervision should be consumer protection. Unfortunately “consumers are not sufficiently organised”, she believed.

Accounting standards

Mr Noyer recalled the G-20's demand to work towards convergence of different accounting systems in order to have standards that “truly fit the system”.

In reply to Mario BORGHEZIO (EFD, IT), who asked about a shadow banking system and urgent measures to avoid future financial bubbles that are already emerging, Mr Noyer stressed the need for accounting standards to take account of the real risks.

According to Bettina Corves-Wunderer, “untransparent and insufficiently harmonised accounting standards had also led to procyclical behaviour”.

Next steps

The experts' conclusions will serve as a basis for the final report by Special Committee rapporteur Pervenche Berès. The first discussion on the draft report is scheduled for 20 May, to allow time for amendments before the final report is adopted in committee on 13 July. The CRIS report than will be put to a vote by Parliament as a whole at the September II plenary session.

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