

Reform of financial supervision

The economic and financial crisis highlighted the importance to the European Union of strengthening its financial supervision mechanisms. In 2008, the European Commission appointed Jacques de Larosière to chair a high-level group and to submit a report on proposed improvements to supervision of the financial system in the European Union. Following this report, the Commission proposed a legislative package leading to the creation of a European Systemic Risk Board and a European System of Financial Supervisors. One of the priority objectives of the Belgian Presidency will be to ensure that the new European financial supervision structure is up and running by the end of the year.

De Larosière report

In July 2008, the President of the European Commission, José Manuel Barroso, asked Jacques de Larosière to chair a high-level group on financial supervision in Europe.

Jacques de Larosière submitted his report in February 2009. He proposed correcting weaknesses in current regulations and financial supervision by taking action at all levels (global, European and national) and in all financial sectors. He proposed working with EU partners (IMF, Financial Stability Forum, Basel Committee, G20) in order to move towards strict global standards. However, the implementation and enforcement of these standards will only be effective and lasting if the European Union, with the biggest capital markets in the world, has a strong and integrated **European system of regulation and supervision**. The EU's regulatory rule book and supervisory structures remain seriously fragmented.

The financial supervision legislative package

On 27 May 2009, the Commission adopted a communication setting out the actions which it intended to take in order to implement the recommendations of the de Larosière report. This communication was followed in September 2009 by a series of legislative proposals: four proposals for regulations and one proposal for a decision.

This legislative package proposes:

- a new **European Systemic Risk Board (ESRB)** responsible for macro-prudential oversight of the financial system throughout the European Union, in order to prevent or mitigate systemic risks;
- a new **European System of Financial Supervisors (ESFS)** in charge of micro-prudential supervision. It will have the task of harmonising supervision standards and practices and will comprise a network of national financial supervisors working in tandem with three new European Supervisory Authorities created by transforming existing European supervisory committees.

European Systemic Risk Board

The purpose of macro-prudential supervision is to identify systemic risks (i.e. those that threaten the entire system), linked not only to the situation of systemic actors but also to more general market develop-

ments. The need for a European body in charge of macro-prudential supervision is a lesson learned from the economic crisis, which illustrated the importance of having macro-prudential supervision that can send out necessary warnings to other actors, such as the micro-prudential supervisory authorities.

Under the Commission proposal, the European Systemic Risk Board will have two tasks:

- to collect, process and exchange information on systemic risks; this implies broad access to all the information needed in order to perform this task;
- to identify risks with a systemic dimension and issue warnings, in order to prevent or mitigate their impact on the financial system in Europe, and to formulate recommendations which will not be binding but to which the addressees would be expected to react.

The Board will have several bodies, including a General Board responsible for adopting warnings and recommendations and a Secretariat appointed by the ECB to provide statistical, administrative and logistical support.

European System of Financial Supervisors

The Commission has proposed three new European Supervisory Authorities:

- European Banking Authority
- European Insurance and Occupational Pensions Authority
- European Securities and Markets Authority

These three authorities, together with the national supervisors, constitute the European System of Financial Supervisors.

As with the existing system, direct supervision will be exercised by the competent national authorities, except for credit rating agencies, which will be supervised directly by the European Securities and Markets Authority. The three new authorities will replace the current national supervisors' coordination committees and will have substantial new powers, namely to develop technical standards with the force of law, to identify and correct cases in which Community law has been applied incorrectly, to take specific measures in emergencies, to act as mediators and issue binding awards in the event of disagreement between national authorities, and to participate in the work of colleges of supervisors for cross-border groups. The European Securities and Markets Authority will directly supervise credit rating agencies.

A safeguard clause has been included, allowing a Member State to contest a decision by a European Supervisory Authority if it considers that the decision encroaches on its own budgetary competences.

Each authority will have a Board of Supervisors, a Management Board, a Chairperson and an Executive Director.

