



Towards a new supervisory architecture. March 2010

The financial crisis has shown serious flaws in financial supervision: prevention and management of the crisis, cooperation, coordination, and coherence amongst supervisors. In November 2008 the Chair of the European Commission set up a group chaired by Jacques Larosière with the aim of assessing and proposing a new model of financial supervision in Europe. The group published its conclusions in February 2009 (Larosiere Report). The European Commission, in May 2009, proposed an ambitious overhaul to the European financial supervision framework which followed the recommendations of the Larosiere Report. The European Council in June 2009 approved the main Larosiere proposals which required that the European Commission prepare a bill to set up a new supervisory architecture to begin in January 2011. The EU launched its draft in September 2009.

The bill was debated among the European Member States and the ECOFIN approved a modified version on 2 December 2009. The European Parliament is discussing the Council bill; it is expected that the EP will approve a text in summer 2010. The model will be based on four new pan-European institutions responsible for financial supervision. One will focus on macro-prudential aspects and the other three will be in charge of coordinating the supervision done at the local level of credit institutions, insurance companies and securities markets respectively.

Macro-prudential supervision

The vulnerability of the financial sector to the systemic risk can come from one of its sectors or cross sectors, its complexity and interconnections, its incorrect identification, gauge and control.

The European Systemic Risk Board (ESRB) will be set up to face these problems and oversee and assess the potential threats that the evolution of the macroeconomic situation and financial system could create.

The ESRB will gather and analyse all the pertinent information in order to identify and evaluate the global risk of the financial sector. The ESRB will issue early warning on the risks that could affect the whole financial system, and, if it is necessary, the ESRB will make proposals/recommendations to deal with these risks.

These recommendations could impact all of Europe or only some countries, authorities or entities. The latter will have to put in practice the proposals or explain publicly their reasons for not fulfilling them.

Sectorial supervision

The aim of the overhaul is to promote a higher convergence, cooperation and coordination among local supervisors. To reach this target the EU will set up a network of supervisors called European System of Financial Supervisors, ESFS, divided into two levels:

1) The current committees of level 3 (CESR, CEBS, CEIOPS) will be replaced by three new European Supervisory Authorities, which will have higher competencies. These Authorities will be able to overrun the national authorities in some situations. Their main functions will be: mediation among local supervisors; issuing binding technical standards through an endorsement procedure by the European Commission; the coordination and control of college of supervisors; and the authorization and supervision of credit rating agencies.

2) The national financial supervisors (local supervisors) will continue the daily supervision of the national entities because they are closer to the local financial entities and, if it is necessary, the taxpayers of each European member state will rescue these entities.

There will be strong coordination and collaboration among the Authorities and the ESRB, as well as a mechanism for dealing with the follow up and fulfillment of their recommendations. The new supervisory model should begin in January 2011, once the legal reform is approved.

This model will be reviewed in three years.

You can read the different bills in the following links:

Proposal for a regulation of the European Systemic Risk Board. [ESRB](#).

Propuesta de regulación de la Autoridad de Supervisión Bancaria. [EBA](#)

Propuesta de regulación de la Autoridad de Supervisión de los Mercados de Valores, [ESMA](#).

Propuesta de regulación de la Autoridad de Supervisión de Seguros y Pensiones, [EIOPA](#).