

A brief guide to financial supervision

Who are the supervisors?

Supervision is carried out by Member-State public authorities whose status and competency guarantee that their work will be performed in an objective fashion and that the rules in force will be applied fairly to all agents operating in the market for financial instruments, in banking and in insurance. **In France, for example**, the supervisory bodies are the **Autorité des Marchés Financiers (AMF)**, in charge of markets for financial instruments, **the Banking Commission**, which is responsible for credit institutions and investment firms, and the **Autorité de Contrôle des Assurances et des Mutuelles (ACAM)**, which covers the insurance industry. Some countries have a single body handling these different areas, as in the case of the Financial Services Authority (FSA) in the United Kingdom.

What is the role of the colleges of supervisors?

Corporate supervision: a response to the growth in cross-border operations

Financial firms have experienced considerable growth in Europe, generating major cross-border business and establishing subsidiaries in several European countries. For major European firms, setting up colleges of supervisors could facilitate cooperation between supervisory authorities in the different European countries in which those firms are established. The ECOFIN Council will be considering ways of updating the supervisory system to keep abreast of these changes, including changes in the role of the colleges of supervisors and developing a more effective division of labour between country supervisors in the EU.

What are the Supervisory Committees?

These committees bring together the various Member-State supervisors in the interest of enhanced cooperation among supervisors across the European Union. There are three of them:

- **CESR** (Committee of European Securities Regulators) for financial markets
- **CEBS** (Committee of European Banking Supervisors) for banking
- **CEIOPS** (Committee of European Insurance and Occupational Pensions Supervisors) for the insurance sector.

Supervisory committees, also known as “Level 3 Committees”, reflect the four-level approach to rules governing the financial sector. Level 1 pertains to framework legislation. Level 2 involves technical measures for implementing that legislation. **Level 3 is where the supervisors come in. Their task is to interpret and implement that legislation and monitor compliance with it and with the related implementation measures.** They must also coordinate their efforts to ensure that Member-State regulations are as consistent with each other as possible. Level 4 is about enforcement of applicable legislation by the European Commission, which is empowered to take action for that purpose.



INFORMAL MEETING
OF THE MINISTERS
IN CHARGE OF ECONOMY
AND FINANCE

ECOFIN

Nice, France,
12 and 13 September 2008

FOCUS PAPER

Since 1 July 2008, Christine LAGARDE, France's Minister for the Economy, Industry and Employment, has been chairing the European Union's Economic and Financial Affairs Council (ECOFIN). This coming 12 and 13 September, she will be hosting an informal ECOFIN Council meeting in Nice, bringing together her counterparts from across Europe and the various central bank Governors, including the head of the ECB, to discuss economic and financial issues with a high priority for the EU.

Main topics at the informal ECOFIN meeting of 12 and 13 September 2008 in Nice

- Analysis of the economic situation
- Financial stability and supervision: building a sound financial system through convergence and cooperation

Reminder: On the morning of 12 September, there will be a meeting of the Eurogroup, an informal coordinating structure for euro zone Member Countries. It will be attended by the economy and finance ministers of the 15 countries involved; Slovakia, a future euro zone member as an observer; the Commissioner for Economic and Monetary Affairs, Joaquin ALMUNIA; and Jean-Claude TRICHET, the European Central Bank President.

Analysis of the economic situation



In the second quarter, GDP shrank by 0.1 percent in the European Union.

The French presidency will be suggesting that we arrive at a shared assessment of the situation.

The goal is to understand the main factors behind the current slowdown and analyze growth prospects for the coming months. This will be an occasion for the European Commission and the European Central Bank to present their latest growth forecasts.

The purpose is to work out a coordinated response to the slowdown in Europe.

A number of questions could be addressed:

➤ **What are the appropriate macroeconomic and structural policies in the current conditions?**


The task at hand is to determine what the various players can do to help restore strong, sustainable growth and what role the main macroeconomic policies can play

➤ **How can we make the financial system more stable and more sound to restore confidence?**

The Ministers and central bank Governors will be analysing the latest financial market trends and reviewing recent progress towards financial stability achieved in EU-level efforts undertaken at their behest

➤ **- How can we maintain favourable financing terms for business, particularly for Europe's Small and Medium-Sized Enterprises (SMEs)? What contribution can the European Investment Bank (EIB) make in this area?**

In the current period of slowdown, this is a crucial question, given that SMEs generate more than half of aggregate GDP and employment in Europe. Financing for SMEs is already a priority issue for the EIB. What needs to be discussed in Nice are possible further means of support for the financing of such companies



Financial stability and supervision: building a sound financial system through convergence and cooperation

Financial stability

To ensure financial stability, there is a need for management rules offering the guarantee that banks and insurance companies will honour their commitments. Such rules might revolve around capital adequacy requirements and risk management systems.

In banking, the Capital Requirements Directive (CRD) known as Basel II, adopted in 2005, sets forth a number of prudential rules, first and foremost capital adequacy requirements. Starting in 2000, securitisation—involving increasingly complex financial engineering—has taken on considerable proportions in Europe, and the subprime crisis highlights the risks it entails if we fail to lay down and enforce appropriate rules. The CRD is therefore slated for revision so that the prudential treatment of exposure related to securitisation can be improved. There is also a plan to establish guidelines on liquidity risk management at banks—in other words, to ensure that banks can maintain normal operations in any and all circumstances. This is in line with the efforts carried out by the Basel Committee, which brings together representatives of the world's leading central banks to work out common banking supervision standards.

Similarly, the proposed Solvency II directive is designed to update the prudential framework for insurance companies. The aim is to help European insurers become more competitive, while providing the insured with a high degree of security.

Financial supervision reform

The purpose of this reform is to enhance oversight over banking and insurance groups and improve their competitiveness. Supervision in Europe is currently fragmented. There is no single framework applied across Europe; supervisory practices diverge among Member States. For this reason, the French presidency would like for the ECOFIN Council to strive to achieve tangible progress towards the emergence of uniform financial legislation in the European Union and a European supervisory system that is organised more efficiently and is easier to understand, both for the industry and for non-Member countries.

The following points will be on the agenda:

- **How do we strengthen the "committees of supervisors"** so that they will be in a position to foster financial law convergence through their ability to generate shared practices?
 - **How can we strengthen the colleges of supervisors?** The goal is to enable them to function in a balanced, effective way, to enhance transparency and arrangements for exchanging information, and to foster convergence in the way that the colleges of supervisors function.
 - **How should we divide up the various roles among supervisors?** It is important to achieve a proper balance between the vital task of the "home" supervisor (i.e. in a given company's home country), a body responsible for setting and coordinating supervision of the company's activity and empowered to make decisions in the absence of a consensus, and the work of the "host" supervisors (in countries where the company has subsidiaries), above all in assessing the company's risk profile.
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