Press release | 02.09.2010

EU financial supervision

Deal foresees important powers for new EU financial authorities but further reforms needed

European Parliament negotiators have reached a provisional deal with the Council on legislation setting out a new EU financial architecture in trialogue negotiations today. The legislation, which will now be formally adopted by the Parliament in the coming weeks, will set up three new European Supervisory Authorities (for Banking, Insurance, Pensions, Securities and Markets) and a European Systemic Risk Board (ESRB) to be up and running by January 2011. The new authorities will have binding rights to intervene in the markets and act vis-a-vis national supervisors.

Green MEPs have welcomed the agreement, as an important step forward but highlighted that further regulatory reforms for the financial sector are still badly need. **Sven Giegold**, German Green MEP and draftsperson (rapporteur) for the EU parliament on the European Securities and Markets Authority, said:

"This deal, which paves the way for a new EU financial architecture, is an important, if long-overdue, step in strengthening the regulation of Europe's financial markets. The ultimate goal must be to prevent a return to the financial chaos of the past few years but clearly more regulatory reform will be needed to guarantee this.

"The Greens are happy that the supervisory authorities will be more important than originally foreseen. At the insistence of the parliament, these authorities will now have real teeth. Importantly, with the risks of speculation on financial markets ever present, a Green proposal to ensure the authorities can suspend trading risky products in certain cases was accepted. In case of disagreements amongst national supervisors, the European authorities will provide binding mediation. In times of emergency, the authorities will also be able to address decisions directly to financial institutions. Furthermore, the authorities will monitor systemic risk and develop appropriate stress tests for institutions deemed at risk.

"It is a source of regret that the Council insisted on it having the right to declare an emergency. It is also unfortunate that the Council insisted on the illogical and inefficient proposal to spread the authorities across three cities (London, Paris and Frankfurt).

"Last but not least, to achieve more transparency in financial reporting, the Greens pushed for country-by-country reporting obligations for European Companies, which was regrettably not accepted by Council and Commission. However, we obtained a commitment by the Commission to adopt a communication on country-by-country reporting by September 2011, outlining ways forward to achieve maximum transparency".

Editors notes:

The legislation, as finalised by today's deal, will ensure the new authorities will be more important than originally foreseen in the De Larosière report or by the Commission and Council. A revision clause stipulates that in years time the effectiveness of the supervisory system needs to be assessed and accordingly reinforced. Among the key details of the legislation are:

1. The banning of financial products
The developments of the last months have once more made clear that in order to stop speculation on financial markets through short selling or other financial activities, the European Securities and Markets authority (ESMA) needs far reaching powers to suspend the trade of dangerous products in the internal market. An issue completely ignored by Commission and Council, upon a Green proposal the EP made this a key item for the negotiations. The ESMA, EBA und EIOPA will be invested with powers to suspend trading in cases where a) stipulated in upcoming legislation and when Council declares an emergency. Beyond this the ESMA will be in charge of assessing the need for further restrictions or prohibitions, which can be enforced by the Commission.

2. Consumer protection on financial markets
Also on a Green proposal, consumer protection has been enshrined as a key task for the new authorities. The authorities have a strong mandate and tasks to insure consumer protection in European financial markets.

3. Binding mediation in case of conflicts between national supervisors
In cases in which several national authorities have to coordinate or cooperate and fail to reach an agreement, the European Supervisory Authorities have binding power to settle the issue. The failure to cooperate and coordinate, in particular where cross-sectoral financial conglomerates are concerned, was a determining factor of the financial crisis.

4. Directly address decisions to financial institutions and national authorities
In case of emergency, if national authorities do not act appropriately, the European Authorities are be able to address binding decisions to national authorities, and if they still do not act, directly to the financial institutions concerned.

5. ESA in colleges of supervisors
To ensure a coherent and consistent functioning of supervisory colleges for cross-border institutions the EU authorities will be equal partners in those colleges of national supervisors, breaking the dominance of national supervisors.

6. Internalisation of Costs
Though not ready yet for a much needed EU recapitalisation fund, pre-financed by the financial sector, the authorities will play a leading role in designing a European system of deposit guarantee schemes and banking resolution funds.

7. Monitoring of systemic risk
The European authorities will be in charge of monitoring systemic risk and developing adequate stress testing for institutes which may pose a systemic risk to markets.
8. Future transfer of tasks to the authorities
An enabling clause makes sure that the authorities can assume additional supervisory powers for entities such as market infrastructure for derivate trading and credit rating agencies. It is now up to the Commission to invest ESMA with these powers in its upcoming legislation, in particular in the field of derivatives and market infrastructure, which potentially carry very high risks.

9. Involvement of non-profit sector
Another Green proposal, non-profit organisations will be invited to participate in advisory stakeholder

groups and adequate financial compensation is provided.

10. External experts as voting members
Following a Green amendment, external experts will become voting members in the European Systemic Risk Board (ESRB). This will for the first time open up the so far closed system of the ECB.

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