Press release | 22.09.2010

EU financial supervision

EP succeeds in giving financial authorities real teeth, insists authorities given sufficient means

The European Parliament today adopted legislation creating new EU financial supervisory authorities (for Banking, Insurance, Pensions, Securities and Markets) and a European Systemic Risk Board (ESRB). After the vote, Green MEP **Sven Giegold**, who was the EP draftsman/rapporteur for the legislation on the European Securities and Markets Authority (ESMA), said:

"Today's vote not only establishes EU-level financial supervision, it also represents a landmark for the creation of a new EU financial architecture and stronger regulation of Europe's financial markets. Europe-wide regulation is the only viable response to the financial challenges we face and to preventing a return to financial chaos. This underlines the relevance of the EU at a time when renationalisation is raising its head.

"The supervisory authorities will be more important than originally foreseen and have real teeth due to the insistence of the EU parliament. A cross-political alliance of MEPs worked to ensure the authorities were given real powers (*) in the face of opposition from some Member States that refused to acknowledge lessons from the financial crisis.

"Unfortunately, it seems the parliament will have to continue to fight to ensure the new authorities are able to provide meaningful supervision. This means ensuring that the new authorities are sufficiently staffed and that they will have direct supervisory powers over market infrastructure (such as central counter parties and trade repositories). The Greens are already working with the other main political groups to this end."

* Further details:

The legislation 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 3 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 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 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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Sven Giegold

Member

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