

# Financial markets: banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management

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The Council approved conclusions on the reform of the European supervisory framework for financial markets and agreed to submit them to the European Council (18-19 June) along with certain issues that remain outstanding.

The conclusions set out the Council's position on a communication from the Commission on the European financial supervision in Europe (see COM(2009)0252) which builds on the recommendations of the De Larosière group.

The new framework is aimed at strengthening the supervisory system and rebuilding trust in the financial system following the global financial crisis. It involves the creation of:

- a) a European Systemic Risk Board to continuously assess the stability of the financial system as a whole. Where necessary, it will issue risk warnings and recommendations to policy makers and supervisors, and monitor their follow-up;
- b) three European supervisory authorities, dealing with the banking, insurance and securities industries, working in a network with national supervisors, inter alia in preparing technical standards, ensuring the consistent application of EU law and resolving disputes between national supervisors.

**On the establishment of a European Systemic Risk Board:** the Council agrees that an independent macro-prudential body covering all financial sectors, the European Systemic Risk Board (ESRB), should be established - without legal personality - and charged with defining and analysing all the information relevant for identifying, monitoring and assessing potential threats and risks to financial stability in the EU that arise from macro-economic developments and developments within the financial system as a whole, without prejudice to the role and responsibilities of existing bodies.

**On the establishment of a European System of Financial Supervisors:** the Council agrees that the recommendation by the de Larosière Group to establish a European System of Financial Supervisors (ESFS) should be carried out and completed without delay. It recommends that a European System of Financial Supervisors be established as an operational European network with shared and mutually reinforcing responsibilities.

The Council considers that the ESAs should be entrusted with the following tasks and powers:

- ensure that a single set of harmonised rules and consistent supervisory practices is applied by national supervisors;
- draw up non-binding standards, recommendations and interpretative guidelines;
- ensure a common supervisory culture and consistent supervisory practices;
- collect micro-prudential information;

- ensuring consistent application of EU rules, in cases to be further clearly specified in Community legislation such as: (a) manifest breach of EU law or ESAs' standards; (b) disagreement between national supervisors or within a college of supervisors;
- use full supervisory powers for some specific pan-European entities;
- ensure a coordinated response in crisis situations.

The Council stresses that **ensuring the ESAs independence** vis-à-vis national authorities other than supervisors and vis-à-vis the European Institutions will be crucial. It supports the acceleration of work to build a comprehensive cross-border framework to strengthen the EU financial crisis management systems and calls on the Commission to bring forward appropriate proposals in this regard, including on guarantee schemes and winding up of financial institutions.

The Commission is invited to present **all necessary proposals by early autumn 2009 at the latest**. The draft legislation for the setting up of the ESRB and the ESAs should specify the organisational and structural aspects, and the mechanism through which the ERSB and the ESAs should work in close cooperation. The aim should be to have the new European Financial Supervision system, comprising both macro-prudential and micro-prudential components, **fully in place in the course of 2010**.