

Financial conglomerates: supplementary supervision of financial entities

2010/0232(COD) - 05/07/2011 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 642 votes to 18, with 9 abstentions, a legislative resolution on the proposal for a directive of the European Parliament and of the Council amending Directives 98/78/EC, 2002/87/EC and 2006/48/EC as regards the supplementary supervision of financial entities in a financial conglomerate.

Parliament adopted its position at first reading, under the ordinary legislative procedure. The amendments adopted in plenary are the result of a compromise negotiated between the European Parliament and the Council.

They amend the Commission proposal as follows:

Supplementary supervision: it is appropriate to ensure consistency between the aims of Directive 2002/87/EC on the one hand, and Council Directives 73/239/EEC (taking-up and pursuit of the business of direct insurance other than life assurance), 92/49/EEC (third non-life insurance Directive), 92/96/EEC (third life assurance Directive), and Directives 98/78/EC (supplementary supervision of insurance undertakings in an insurance group), 2002/83/EC (life insurance), 2004/39/EC (markets in financial instruments), 2005/68/EC (reinsurance), 2006/48/EC (taking up and pursuit of the business of credit institutions), 2006/49/EC (capital adequacy of investment firms and credit institutions), 2009/65/EC (undertakings for collective investment in transferable securities (UCITS)), 2009/138/EC (taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)) and 2011/61/EU (Alternative Investment Fund Managers), in order to enable appropriate supplementary supervision of insurance and banking groups, including where they are part of a mixed financial holding structure.

Identification of a financial conglomerate: is necessary that financial conglomerates are identified throughout the Union according to the extent to which they are exposed to group risks, based on common guidelines issued by the European Supervisory Authority (European Banking Authority ([EBA](#)), the European Insurance and Occupational Pensions Authority ([EIOPA](#)) and the European Securities and Markets Authority ([ESMA](#)), following cooperation within the Joint Committee of the European Supervisory Authorities (**Joint Committee**).

Joint committee: the supplementary supervision of large, complex, internationally operating conglomerates requires coordination throughout the Union, in order to contribute to the stability of the internal market for financial services.

In order to ensure appropriate regulatory oversight, it is necessary that the legal and operational structure, including all legal entities, of banks, insurers and financial conglomerates with cross-border activities are monitored by EBA, EIOPA, and the Joint Committee as appropriate, and that information is made available to the relevant competent authorities, the Commission and the European Systemic Risk Board ([ESRB](#)) and, where appropriate, made public.

In order to ensure effective supplementary supervision of regulated entities in a financial conglomerate, in particular where the head office of one of its subsidiaries is in a third country, the undertakings to which this Directive applies should include any undertaking, in particular a credit institution which has its registered office in a third country and which would require authorisation under that Directive if its registered office were in the Union.

The comprehensive and adequate monitoring of group risks in large, complex, internationally operating conglomerates, as well as the supervision of the group-wide capital policies of such groups, is only possible when competent authorities gather supervisory information and plan supervisory measures beyond the national scope of their mandate. It is therefore necessary that competent authorities coordinate supplementary supervision on international conglomerates among the competent authorities which are regarded as most relevant for the supplementary supervision of a conglomerate.

the colleges of financial conglomerates' relevant competent authorities should act in accordance with the supplementary nature of this Directive, and as such should not duplicate but, rather, add value to the activities of existing colleges relevant to the banking and insurance subgroups within those conglomerates, without duplicating or replacing them.

A college should be set up for a financial conglomerate only where neither a banking nor an insurance sectoral college is in place.

Definition and inclusion of financial holding companies: it is appropriate to ensure consistency between the aims of Directive 2002/87/EC and Directive 98/78/EC. Directive 98/78/EC should therefore be amended to define and include mixed financial holding companies. In order to ensure timely coherent supervision, Directive 98/78/EC should be amended, notwithstanding the imminent application of Directive 2009/138/EC, which should be amended to the same effect.

Alternative investment fund manager has also been added to the scope of the Directive.

Improved transparency of financial conglomerate monitoring: the name of each regulated entity which is part of a financial conglomerate shall be entered in a list, which the Joint Committee shall publish on its website and keep up to date. The Joint Committee shall also establish and regularly update a database with details on the legal and operational structure of all financial conglomerates, including all legal entities established by the financial conglomerate, to be made available to relevant competent authorities, the European Systemic Risk Board and to be published on the Joint Committee's website.

Stress testing: according to the amended text, Member States may require the coordinator to ensure appropriate and regular stress testing of financial conglomerates. They shall require the relevant competent authorities to cooperate fully with the coordinator. For the purpose of Union-wide stress tests the ESAs may, through the Joint Committee, in cooperation with the ESRB, develop supplementary parameters that capture the specific risks associated with financial conglomerates. The results of the stress test shall be communicated to the Joint Committee.

Common guidelines: a new provision provides that the ESAs shall, through the Joint Committee, develop common guidelines on how risk-based assessments of conglomerates are to be conducted by the competent authority. Those guidelines shall, in particular, ensure that risk-based assessments include appropriate tools in order, to assess group risks posed to the conglomerates.

The ESAs shall, through the Joint Committee, issue common guidelines aimed at developing supervisory practices allowing for supplementary supervision of mixed financial holding companies to appropriately complement the group supervision under Directive 98/78/EC and Directive 2009/138/EC or, as appropriate, consolidated supervision under Directive 2006/48/EC. Those guidelines shall allow all relevant risks to be incorporated in the supervision, while eliminating potential supervisory and prudential overlaps.

Convergence of equivalence assessments: to avoid an overlap between those provisions and to ensure the effectiveness of top-level supervision, supervisors should be able to apply a particular provision only

once, while complying with the equivalent provision in all applicable directives. To this end, the ESAs, through the Joint Committee, should develop guidelines aimed at the convergence of equivalence assessments and work towards issuing binding technical standards.

Delegated acts: the Commission shall be empowered to adopt, by means of delegated acts, measures concerning the technical adaptations to be made to this Directive.

Review: the Commission shall fully review Directive 2002/87/EC, including the delegated and implementing acts adopted pursuant thereto. Following that review, the Commission shall send a report to the European Parliament and to the Council, by 31 December 2012, addressing, in particular, the scope of the directive, including whether the scope should be extended and the application of the directive to non-regulated entities, in particular special purpose vehicles.

The report shall also cover the identification criteria of financial conglomerates owned by wider non-financial groups, whose total activities in the banking sector, insurance sector and investment services sector are materially relevant in the internal market for financial services.

The Commission should also consider whether the ESAs shall, through the Joint Committee, issue guidelines for the assessment of this material relevance. In the same context, the report shall cover systemically relevant financial conglomerates, whose size, inter-connectedness or complexity make them particularly vulnerable, and which are to be identified in analogy with the evolving standards of the Financial Stability Board and the Basel Committee on Banking Supervision. In addition, that report shall review the possibility to introduce mandatory stress testing. The report shall be followed, if necessary, by appropriate legislative proposals.

Transposition: the amending Directive should be transposed into national law from 1 January 2013 (date of application of Solvency II) or 18 months after the date of the date of entry into force of this Directive, whichever the later or at the latest 22 July 2013 according to certain provisions.