

# Procedure file


## Basic information

INI - Own-initiative procedure	<a href="#">2002/2061(INI)</a>	Procedure completed
Prudential supervision rules in the European Union		
Subject 2.50.10 Financial supervision 5.10 Economic union		

## Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	<b>ECON</b> Economic and Monetary Affairs		15/04/2002
		PSE <a href="#">VAN DEN BURG Ieke</a>	

## Key events

16/05/2002	Committee referral announced in Parliament		
05/11/2002	Vote in committee		Summary
05/11/2002	Committee report tabled for plenary	<a href="#">A5-0370/2002</a>	
20/11/2002	Debate in Parliament		
21/11/2002	Decision by Parliament	<a href="#">T5-0568/2002</a>	Summary
21/11/2002	End of procedure in Parliament		
29/01/2004	Final act published in Official Journal		

## Technical information

Procedure reference	2002/2061(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Initiative
Legal basis	Rules of Procedure EP 54
Stage reached in procedure	Procedure completed
Committee dossier	ECON/5/16210

## Documentation gateway

Committee report tabled for plenary, single reading		<a href="#">A5-0370/2002</a>	05/11/2002	EP	
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Text adopted by Parliament, single reading	<a href="#">T5-0568/2002</a> OJ C 025 29.01.2004, p. 0224-0394 E	21/11/2002	EP	Summary
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## Prudential supervision rules in the European Union

The committee adopted the own-initiative report by Ieke van den Burg (PES, NL) on prudential supervision rules in the EU. In the wake of recent financial scandals (such as Enron and WorldCom), it called on the EU to strengthen its financial regulation and supervision systems but in a proportionate, risk-based and targeted way. The committee emphasised the need for enhanced cooperation and coordination of national supervisors, believing that this would ultimately lead to the creation of one or several integrated European supervisors. However, it was still too early to determine the optimum future structure of financial supervision in the EU and Ecofin should therefore avoid any premature decision on this matter. In any case, the committee believed that small domestic-based financial institutions should still be supervised at national level, and it also strongly opposed allowing institutions to choose the regulator that suits them best. The report also dealt with the Ecofin suggestion of extending the Lamfalussy procedure to cover the banking and insurance sectors. The committee questioned the urgency of this proposal but said that, under certain conditions guaranteeing democratic accountability and providing Parliament with a call-back procedure, it "would welcome the extension of the Lamfalussy procedure". According to the rapporteur, lax and complacent practices in some companies, especially in the United States, had considerably damaged investor confidence. She suggested that there was insufficient competition between auditing firms and rating agencies and recommended that auditors and rating agencies should not seek alternative sources of income which generate conflicts of interest. The report also noted that executive compensation schemes in financial institutions, such as aggressive bonus or stock option policies, had fuelled reckless behaviour and increased riskier positions, contributing to the volatility of the financial markets. The committee also suggested placing full-time teams of independent supervisory specialists on-site at the largest European banks, insurance companies and financial conglomerates and urged Member States to set up special units of judges and prosecutors with expertise in financial market issues.?

## Prudential supervision rules in the European Union

The European Parliament adopted its own-initiative report drafted by Ieke van den Burg (PES, NL) on prudential supervision rules. (Please refer to the document dated 5/11/02.) It felt that insurance and pension fund supervision ought to be brought under one roof without prejudice to their specific characteristics. Cooperation between existing insurance and banking supervisors should be stepped up, especially where the supervision of financial conglomerates is concerned. Parliament made several recommendations on supervision for different sectors but stressed that the need for adequate financial resources for the national supervisors is currently more important than the format of national financial architecture. The resource issue is a strategic priority which would enable supervisors to carry out their tasks adequately. A single financial market needs skilled regulatory and supervisory authorities in all Member States, in order to ensure a level playing field and avoid regulatory and supervisory arbitrage. As well as independent supervisory examiners on site, Parliament commented that increased disclosure to shareholders by financial institutions could constitute another line of defence against excessive exposure to risk and lower the risk of financial instability. It welcomed the inclusion of such an approach in the draft Basle II Accord. Parliament went on to note that hedge funds are booming and called on the Commission and national supervisors, in close cooperation with the American authorities, to carry out a census of these unregulated funds. Parliament would be ready to examine proposals for a regulation defining minimum prudential rules applicable to hedge funds, in particular rules governing leverage and short selling. It also noted that the current crisis highlights the part played by accounting practices and standards in the volatility of the financial markets. Some IAS accounting standards which the European Union is required to adopt such defects and threaten to exacerbate banking instability. Parliament drew particular attention to the IAS 39 standard. Parliament noted the reluctance of national authorities to cooperate with each other in the fight against white-collar crime and called on national supervisors to develop an active policy of exchanging personnel with each other. This secondment policy should be extended to the United States and to any country which hosts major financial markets. Parliament went on to make several recommendations for a more active Commission in this area and for enhanced parliamentary oversight in banking and financial regulation and supervision. It would support the establishment of an EU-wide forum of financial authorities at the highest level, with the participation of the ESCB and the ECB, the latter of which should be responsible for upstream analysis and warnings, in order to deal with changes in systematic weaknesses and risks. This could permit the establishment of links between banking, insurance and securities supervision, particularly as regards macro-prudential supervision. Finally, Parliament expressed its concern about attempts by Ecofin to control the functioning of the whole Lamfalussy procedure by having a strong grip on the FSPG and made several recommendations in this regard.?