



# Achieving the Integration of EU Financial Markets in a global Context

EU Regulation and Supervision:  
*Isn't maintaining the status quo the  
worst option?*

EUROFI CONFERENCE 2007

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**CEBS**

Committee of European  
Banking Supervisors

# Outline

## **1- Policies for integration: the Lamfalussy approach**

### **2- Success:**

- Better rule making process,
- New tools for convergence and networking.

### **3- Pressure points:**

- Gap between policy design and delivery of convergence in day-to-day practices,
- Complexity for cross-border groups (normal times and crisis situations).

## **4- Outlook: strengthening the European dimension**

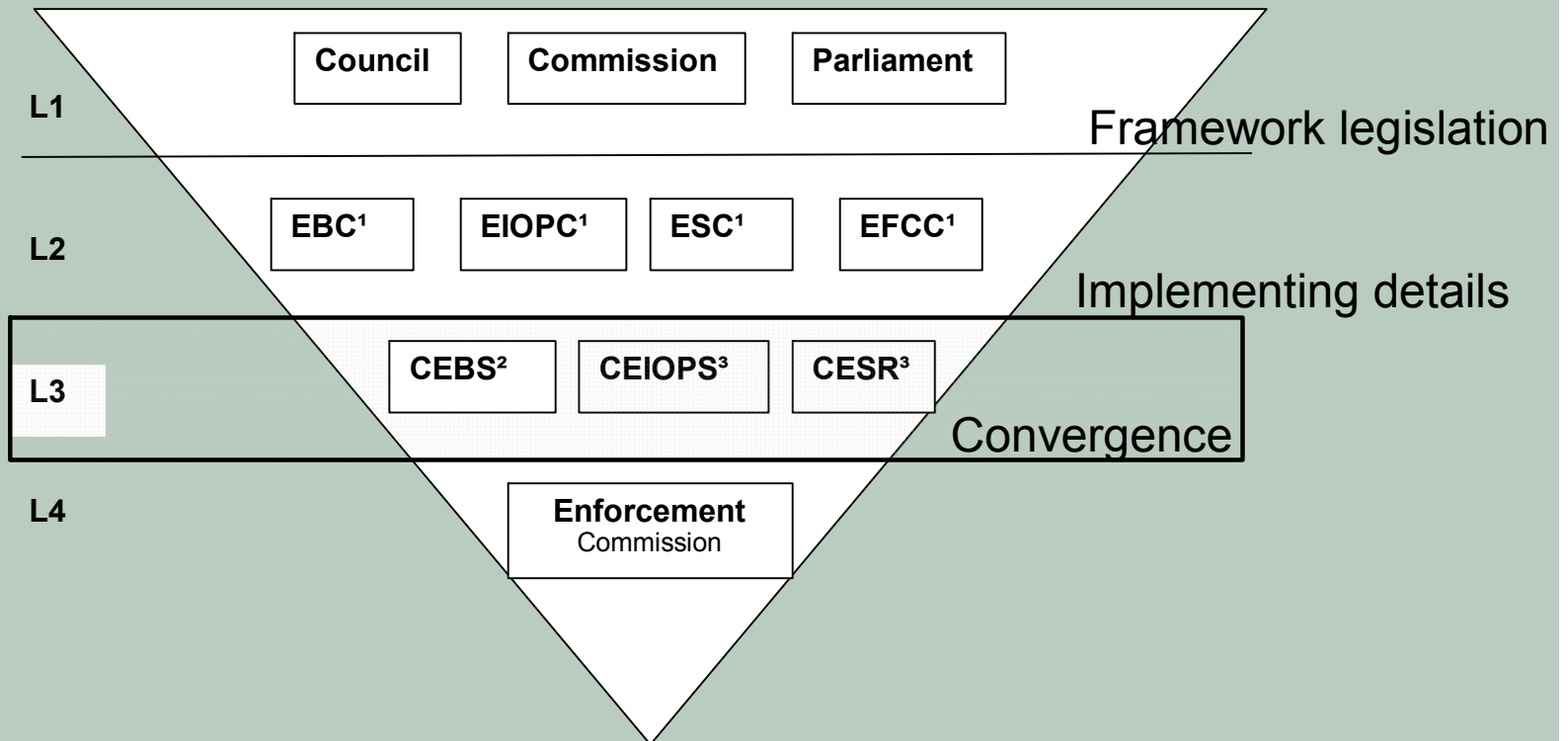
# 1- Policies for integration: Lamfalussy approach

## The objectives of the Lamfalussy approach:

- a) Increased flexibility and ability to react to market developments,
- b) Better regulation: extensive consultations and dialogue with market participants, impact assessments, ...
- c) Greater consistency in rules and convergence in supervisory practices across the Single Market.

# 1- Policies for integration: Lamfalussy approach

## The Lamfalussy approach: how does it work?



EBC = European Banking Committee

EIOPC = European Insurance and Occupational Pensions Committee

ESC = European Securities Committee

FCC = Financial Conglomerates Committee

CEIOPS = Committee of European Insurance and Occupational Pensions Supervisors

CESR = Committee of European Securities Regulators

<sup>1</sup> Finance ministries

<sup>2</sup> Supervisors and Central Banks

<sup>3</sup> Supervisors

## 2- Success: Better rule making process

- **Transparency and consultation:**
  - Public consultation,
  - Consultative Panels,
  - Informal dialogue.
- **Impact assessments at all levels**
- **Peer and market pressure: supervisory disclosure**
- **Better accountability**
- **Regulatory dialogue, within and beyond EU (e.g., with US)**

# 2- New tools for convergence and networking

The screenshot shows the CEBS website interface. The main content area is titled "Options and national discretions" and includes a "Demo version" notice and a "Latest updates" section dated 20.10.2005. A "Tables of information" section lists two categories: "COMPARATIVE TABLES TO SH... OPTIONS AND NATIONAL DISC..." and "MUTUAL RECOGNITION TABLE OF A MEMBER STATE IN RESPE...".

The "Options national discretions" table is displayed, showing a grid of information for various member states. The table has columns for Country (E7, AT), Denomination, Description, and specific national discretions (AT, BE, CY). The table is filtered for "AT".

	E7	AT				
	B	C	D	E	F	G
1	Dir. 2000/12 (unless indicated 93/6)	Denomination	Description	AT	BE	CY
2	<a href="#">Article 57 (last para.)</a>	Inclusion of interim profits*	Member States may permit the inclusion of interim profits before a formal decision has been taken on the accounts, subject to conditions.			
3	Article 58	Waiver on certain deductions*	Shares in another credit institution, financial institution, insurance or reinsurance undertaking may not be deducted if held temporarily for the purposes of a financial assistance operation designed to reorganise and save the entity.			
4	Article 59	Alternatives to deductions*	As an alternative to deductions of participations and capital instruments held in other financial institutions, credit institutions may be allowed to apply, with the necessary changes, any of the methodologies set out in the Annex 1 to the Conglomerates Directive.			
	Article 60	Deductions for stand-alone requirements	For the purposes of the calculation of their stand alone requirements, institutions may be not required to deduct holdings and			

A callout box with the text "Links to national websites for more detailed information" points to the "AT" column in the table, indicating that the links in that column provide more detailed information for Austria.

## 2- New tools for convergence and networking

- **Implementation guidelines**
  - CEBS: since 2004 14 guidelines covering a number of areas (in particular regarding Basel II implementation).
- **Peer review and “comply or explain principle”**
- **Mediation**
- **Delegation of tasks:**
  - Standard delegations,
  - Division of labour within supervisory colleges / joint inspections,
  - Joint assessments (e.g. ECAIs – rating agencies; economic capital models).
- **Common training and staff exchanges**

## 2- New tools for convergence and networking

### Operational networking

- Test phase until end-2007, with focus on a sample of 10 EU cross-border groups.
- Objective: creating a stable connection between national supervisors for identifying and addressing practical issues in a bottom up fashion:
  - Line function: connection between colleges of supervisors,
  - Support function: networks of experts on specific topics.
- Deliverables: good practices papers (e.g., on colleges practices), catalogue of pragmatic supervisory solutions (Q&As).
- Dialogue with the industry platform.



## 3- Pressure points: Gap between policies and practices

### CEBS online survey:

- Good quality of products, positive contribution to market integration, correct approach to convergence, but...
- Limited change perceived in national day-to-day practices.

### Delivering convergence in day-to-day practices is difficult due to:

- Regulatory constraints (The options and national discretions in the CRD),
- Different supervisory traditions.

**→ Perception of inefficiency: heavy process failing to deliver results for end-users**

## 3- Complexity for cross-border groups

### Reshuffling of business, with functions centralised at group level or outsourced

- Potential mismatch between the legal setting – on which the organisation of supervision is based – and the internal distribution and management of risks.

### Challenges to supervisory cooperation

- Effectiveness of risk-based supervision in a cross-border context,
- Cost efficiency of arrangements,
- Complexity in crisis management.

**→ *Industry proposal for lead supervisor vs. operational networks***

## 4- Outlook: strengthening the EU dimension

**CEBS has issued proposals for strengthening the Lamfalussy approach through:**

- regulatory convergence
- supervisory convergence
- role and working procedures of EU committees

## 4- Outlook: strengthening the EU dimension

### Regulatory convergence

- **options and national discretions as transitional tools (“sunset clause”)**
- **own initiative advice:**
  - Use of the supervisory disclosure framework to identify differences in national rulebooks hampering the Single Market,
  - Impact analysis,
  - Possible proposals for legislative changes.

## 4- Outlook: strengthening the EU dimension

### Supervisory convergence

- **Better (*ex ante*) definition of the convergence targets:**
    - A. “Soft convergence”: convergence in principles, with some flexibility,
    - B. “Vertical convergence”: group convergence (as a “plug adaptors” for cross-border business),
    - C. “Hard convergence”: country neutral approach, complete uniformity.
  - **New tools for practical convergence and strengthened cooperation (consistency across supervisory colleges)**
- *Developing CEBS as “virtual organisation”***

## 4- Outlook: strengthening the EU dimension

### Role and working procedures of EU committees

- Reviewing the mandates (EU and national) and Community legislation;
- Possibility for majority voting, coupled with peer review and “comply or explain”;
- No EU-wide legally binding tool at supervisory level, but guidelines, standards and recommendations linked to different convergence targets;
- Learning from the US model: the FFIEC.

**→A decentralised, but integrated system; the status quo is not an option, CEBS is interested in the debate; and the framework needs to be improved**



**CEBS**

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