

Assessment of the Lamfalussy architecture

*3L3 meeting of the European
Financial Regulators*

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CEBS

Committee of European
Banking Supervisors

Outline

1. Policies for integration: the Lamfalussy approach

2. Successes

- Better rule making process
- New tools for convergence and networking
- Progress in integration

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. Way forward : strengthening the European dimension

1. Policies for integration: Lamfalussy approach

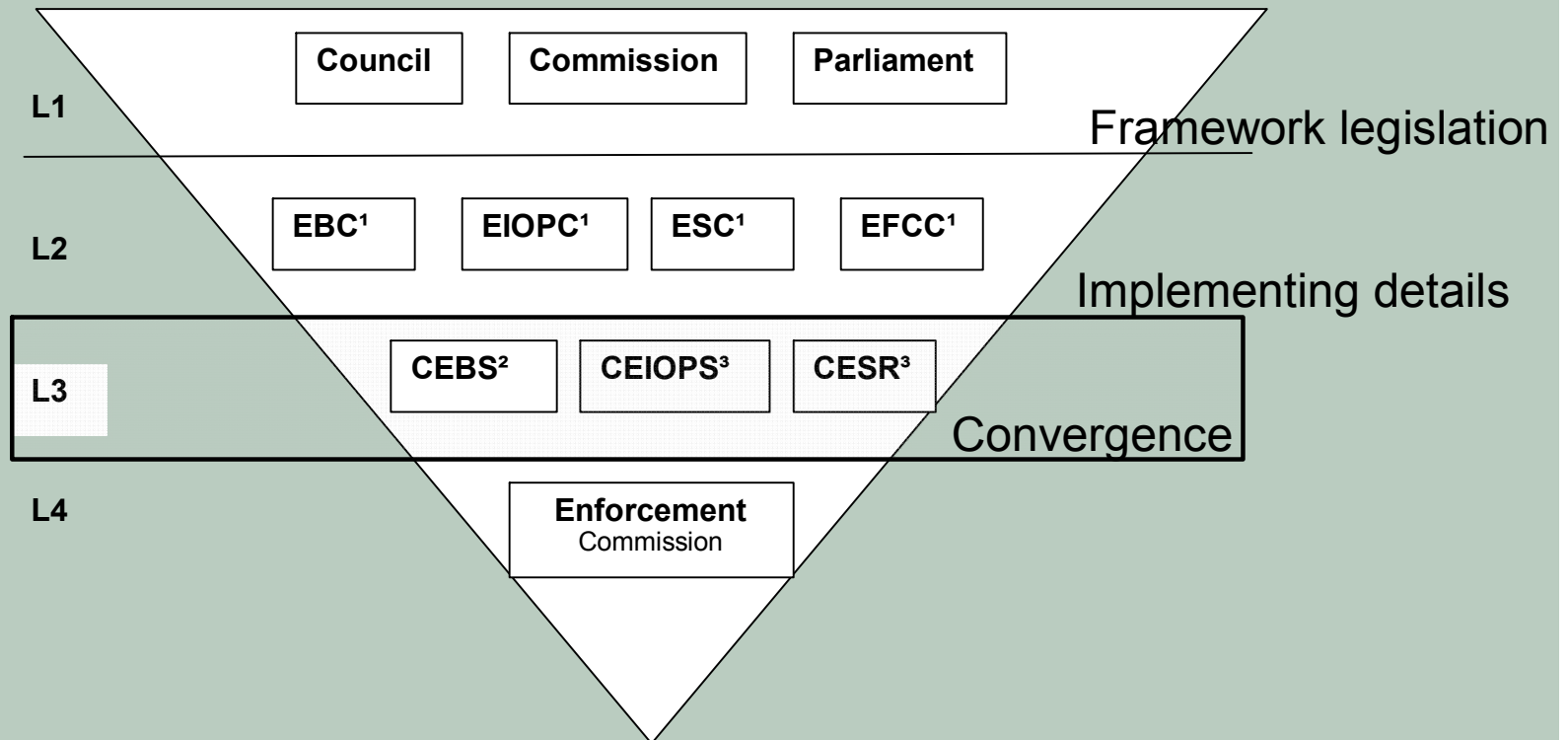
The objectives of the Lamfalussy approach:

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

→ *Importance of 3L3 cooperation in this respect*

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

¹ Finance ministries
² Supervisors and Central Banks
³ Supervisors

1. Policies for integration: Lamfalussy approach

Its implementation in the three financial sectors followed different paths

- The Lamfalussy process was launched at different times across sectors
- Its development in the three sectors did not put the emphasis on the same tools
 - e.g. : Level 1 Directives are to be found mainly in the securities sector

2. Successes: better rule making process

- **Consultation with the industry:**

Public consultation / Consultative Panels / Informal dialogue

→ *CEBS has published 16 consultative papers and held more than 30 meetings with the industry*

- **Transparency : “supervisory disclosure”**

Web-based tool to support peer and market pressure towards regulatory convergence

- **Technical advice to the European Commission**

13 Calls for advice have been sent to CEBS

- **Impact assessments at all levels**

- **Better accountability**

- **Regulatory dialogue, 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. Below this is a 'Tables of information' section with two bullet points: 'COMPARATIVE TABLES TO SHOW THE EFFECTS OF THE RECAST 2000/12/EC AND 93/6/EEC ON NATIONAL CIRCUMSTANCES' and 'MUTUAL RECOGNITION TABLE OF A MEMBER STATE IN RESPECT OF'. The table below lists various articles and their descriptions, with columns for country codes (E7, B, C, D, E, F, G). A callout box points to the table with the text 'Links to national websites for more detailed information'.

	E7	B	C	D	E	F	G
1	Dir. 2000/12 (unless indicated 93/6)	Denomination	Description	AT	BE	CY	
2	Article 57 (last para.)	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				

2. Successes: new tools for convergence

- **Guidelines, standards and recommendations**

- CEBS: since 2004, 12 guidelines covering a number of areas (mainly implementation of the CRD)

- **Delegation of tasks**

- “hard” delegation (e.g. for liquidity risk management of EU branches)
- “soft” delegation (close cooperation and joint inspections within supervisory colleges; joint assessments on ECAs – rating agencies or economic capital models)

- **Peer review** and “comply or explain”

- **Mediation**

cf CESR mechanism

- **Common training and staff exchanges**

2. Successes: new tools for convergence

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*

A gap between policies and practices difficult to bridge due mainly to:

- *Regulatory constraints (national options)*
 - *Different national supervisory traditions*
- } True also outside the banking sector

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

3. Pressure points: complexity for cross-border groups

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

- Potential mismatch between 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. Way forward: strengthening the EU dimension

- **CEBS has issued proposals for strengthening the Lamfalussy approach by improving:**
 - regulatory convergence
 - supervisory convergence
 - role and working procedures of L3 committees
- **Broadly in line with CEIOPS' published proposals**
- **Joint 3L3 letter to FSC**

4. Way forward : strengthening the EU dimension

Regulatory convergence

- **Phasing out of options and national discretions**
- **Enhanced efforts at Level 4 to ensure consistent implementation of EU Law**
- **Proper enforcement of the Lamfalussy structure in banking**
- **Development of own initiative advice**
 - Use of supervisory disclosure framework to identify differences in national rulebooks hampering the Single Market
 - Impact analysis
 - Possible proposals for legislative changes

4. Way forward : strengthening the EU dimension

Supervisory convergence

- **Better *ex ante* definition of convergence targets and *ex post* assessment of the results**
- **New tools for practical convergence and strengthened cooperation (consistency across supervisory colleges)**

common teams of experts providing support to line supervisors, web-based facilities for questions on the implementation of the L3 guidelines, joint assessment teams in selected areas

- **Development of the operational networks**

specific proposal to be made once the

- **Pursuance of hard convergence in a few areas**

e.g. in the definitions and formats of supervisory reporting

⇒ *Developing CEBS as "virtual organisation"*

4. Way forward : strengthening the EU dimension

Role and working procedures of L3 committees

- Reviewing the mandates (EU and national) and Community legislation
- Accountability and independence (joint 3L3 letter to the FSC)
- Consensus decision making, but 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**

⇒ **Status quo is not an option, CEBS is interested in the debate and the mechanism needs to be improved**

What comes in the future?

- **Evolutionary nature of the Lamfalussy process**
 - No specific end point
 - Flexibility: ability to give EU-wide responses when needed, as well as to leave scope for national adjustments to account for specific features of local markets
 - **A decentralised system of supervision is already in place**
 - High degree of regulatory harmonisation
 - Common supervisory standards and culture in the make
 - Increasing ability to network between authorities, to provide a more interconnected
- ***The optimal balance between the national and the European dimension has to be found through time, through continuous dialogue between all stakeholders***



CEBS

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