

New regulation and supervision for EU financial markets



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The regulatory answers

Five priorities

- Improve supervision structures
- Improve capital requirements
- Mitigate procyclicality
- Improve crisis management
- Extend the field of regulation



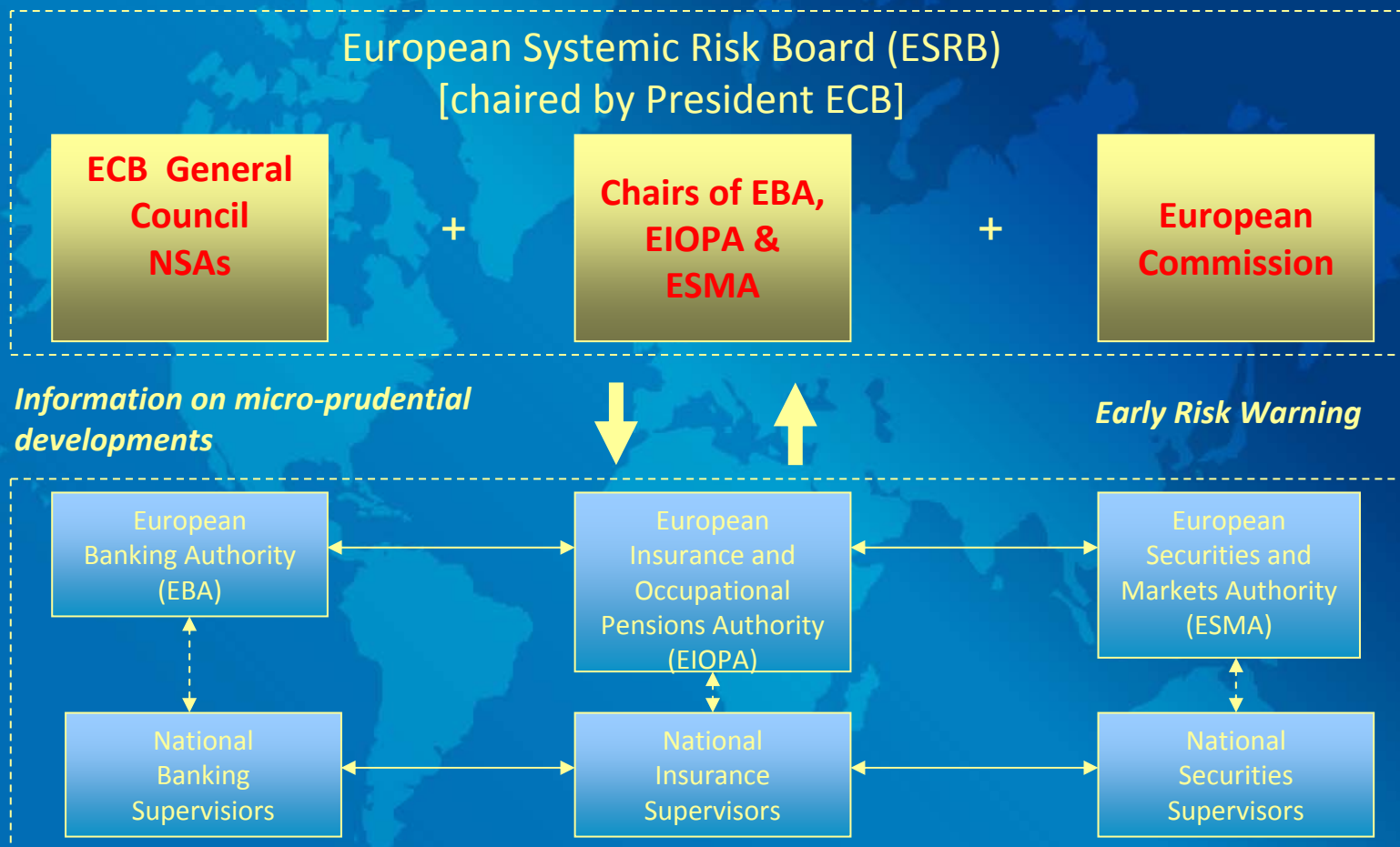
Improve supervision structures



- Larosière report, followed by Commission proposals :
 - A macro pillar: ESRB
 - A micro pillar : ESFS
- Day to day supervision remains at national level

EU supervisory response

A new supervisory framework



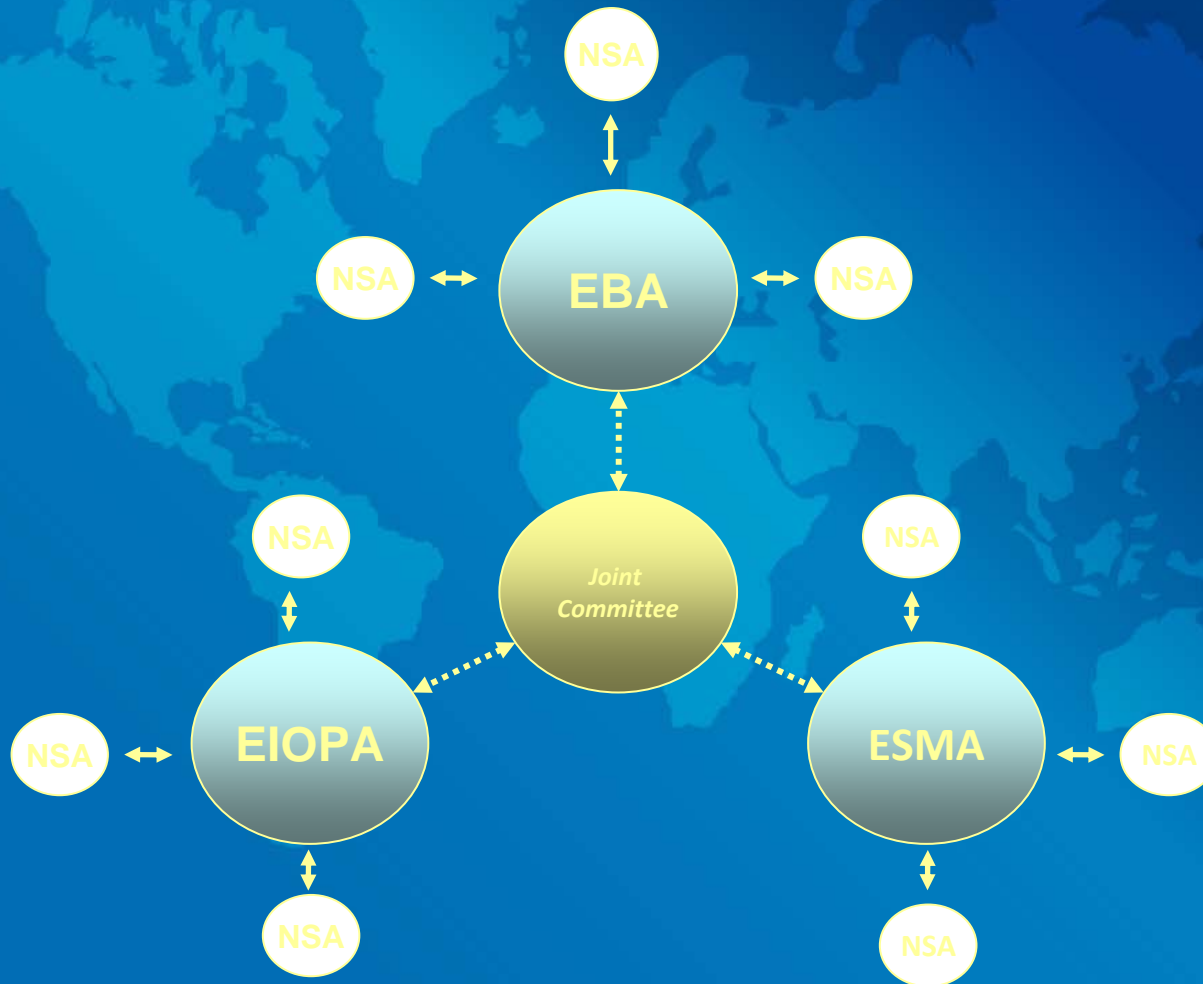
A Macro-prudential watchdog : the ESRB



- Collect and analyse all information relevant for monitoring and assessing potential threats to financial stability that arise from macroeconomic developments and developments within the financial system as a whole
- Identify and prioritise such risks
- Issue risk warnings where risks appear to be significant
- Where necessary give recommendations on the measures to be taken in reaction to the risks identified
- Monitor the required follow-up to warnings and recommendations and
- Liaise effectively with the IMF, the FSB and third country counterparties

EU supervisory response

Micro prudential supervision European System of Financial Supervisors (ESFS)



EU supervisory response

Micro prudential supervision European System of Financial Supervisors (ESFS)

- Ensure a single set of harmonised rules
- Ensure consistent application of EU rules
- Ensure a common supervisory culture and consistent supervisory practices
- Ensure a coordinated response in crisis situations
- Collect micro-prudential information
- Undertake an international role
- Be given the responsibility for the authorisation and supervision of certain entities with pan-European reach, e.g. credit rating agencies and EU central counterparty clearing houses

Improve capital requirements

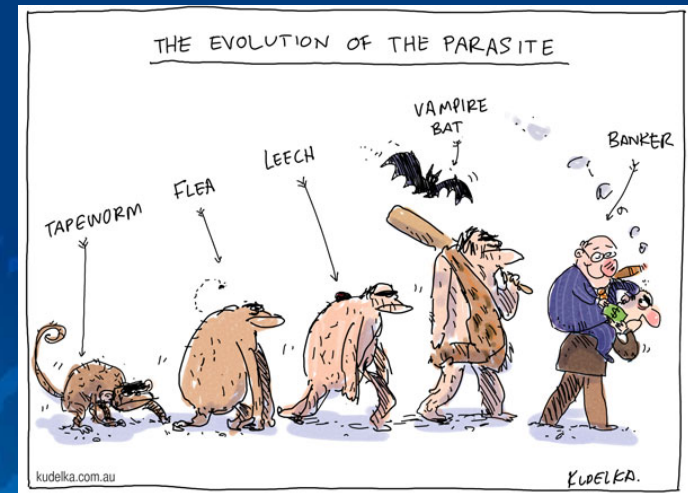


CRD 2 (adopted May 2009): colleges of supervisors, better risk management for securitised products (obligation to retain a 5% exposure when repackaging loans into tradable securities), new rule on the eligibility of hybrid capital

- CRD 3 (proposed July 2009): tougher requirements on re-securitisation, more capital needed against risks in the trading book
- CRD 4 (third quarter 2010): further harmonisation of the definitions of the capital

Mitigate procyclicality

- CRD 3: remuneration schemes
- CRD 4: 4 actions
 - 2 liquidity ratios:
 - Short term: LCR (liquidity coverage requirement)
 - Medium Term: NSFR (net stable funding requirement)
 - Capital buffers:
 - Capital conservation buffer
 - Counter-cyclical capital buffer
 - Leverage ratio
 - Dynamic provisioning



Improve crisis management



- **Crisis management**

- ✓ Special arrangements for the cooperation
- ✓ Reflexions on burden sharing with ex ante agreements, bank resolution (EU framework being discussed), living wills, EU intervention fund, possible EU resolution agency for cross-border groups

- **Deposit guarantee schemes**

- ✓ Temporarily raised from 20 000 to 100 000 euros with reduction in the payout period from 3 months to 3 days.

Extension of the regulatory field



- Directive on alternative investment funds (hedge funds), covering funds bigger than 100 million euros
- Regulation on credit rating agencies (registration, rules for limiting conflicts of interest, for increasing transparency of the methodology used...)
- Possible future measures on derivatives

Conclusions

- Aim is not to solve problems but to prevent them
- The whole framework is being changed
- Need to endeavour to have a consistent approach with the US
- Risk of excessive regulatory speed on complex issues: need of a systematic approach of systemic risk

Thank you
for your attention !

