EUROPEAN COMMISSION

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Dear Mr Sobotka,

I would like to thank the Senate of the Parliament of the Czech Republic for sending its resolution regarding the Communication from the Commission on European financial supervision. They contain a large amount of helpful ideas and recommendations which I will ensure we take into consideration in developing our financial services reform agenda.

The EU's response to the global economic crisis has been a test of resilience and of speed of reaction. This situation has also presented challenges of co-ordination and reinforced the need for solidarity among the 27 Member States. The Commission and Member States have responded positively to the need to take measures to deal with the crisis and prepare for recovery.

A stable and sound financial sector is a prerequisite for building a sustainable recovery. Last autumn, coordinated European action to increase access to liquidity in the system, recapitalise and provide guarantees for banks liabilities across the EU prevented the meltdown of the European banking industry and helped restore liquidity in interbank markets. We must continue to ensure that these support packages are effectively implemented to secure financial stability and at the same time, they minimise distortions to competition.

In terms of regulatory reform, we have agreed an ambitious set of actions in the G20, and the EU is doing its part. The Commission has already presented a number of legislative proposals including those to improve protection for bank depositors, make credit ratings more reliable, get the incentives right in securitisation markets, and reinforce the solidity and standards of supervision at the European level.

Over the remainder of 2009 and beyond, the Commission will continue to implement the ambitious reform of the European financial system, set out in the Commission's 4 March

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President of the Senate
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Communication *Driving European Recovery*[1], taking account of the views from all stakeholders. The reform will set a clear course for the EU to lead and shape the process of global change in particular through the work of the G20. In parallel, the Commission will continue to apply the framework for urgent rescue relief as well as long-term restoration of viability in application of the existing state aid guidance.

In terms of supervision, we have brought forward proposals to provide the EU with a supervisory framework that detects potential risks early, deals with them effectively before they have an impact and meets the challenge of complex international financial markets. Following the broad endorsement given by the June European Council, we have recently adopted an important package of draft legislation to significantly strengthen the supervision of the financial sector in Europe.

The aim of these enhanced cooperative arrangements is to sustainably reinforce financial stability throughout the EU; to ensure that the same basic technical rules are applied and enforced consistently; to identify risks in the system at an early stage; and to be able to act together far more effectively in emergency situations and in resolving disagreements among supervisors. The legislation will create a new European Systemic Risk Board (ESRB) to detect risks to the financial system as a whole with a critical function to issue early risk warnings to be rapidly acted on. It will also set up a European System of Financial Supervisors (ESFS), composed of national supervisors and three new European Supervisory Authorities for the banking, securities and insurance and occupational pensions sectors.

We welcome your supportive comments about such a system, and in particular regarding the creation of a systemic risk monitoring body such as ESRB. We also note your concerns around ensuring that appropriate safeguards regarding fiscal responsibility are in place, that the scope of each new institution's powers are defined precisely and that adequacy of sectoral supervision and the interconnectedness of financial services and products is assessed.

We understand your concerns. The conferring of competences as outlined in our proposals are in full conformity with the Treaty. Without prejudice to the application of Community law, and recognising the potential liabilities that may be involved for Member States, our proposals also ensure that, in line with the June European Council conclusions, decisions under the above mechanisms do not impinge on the fiscal responsibilities of Member States. Moreover, any decision by the European Supervisory Authorities or the Commission is subject to review by the Community Courts. Additionally, the implementation of these arrangements will have to be monitored, and their effectiveness carefully assessed. We propose that the system should be reviewed within three years.

Cross-sectoral cooperation will also be fundamental. To the extent that the degree of convergence between sectors will continue, the three European Supervisory Authorities will increasingly need to evaluate the respective sectoral regimes to identify common principles and understand possible differences. An overarching steering committee introduced in the structure will ensure mutual understanding, cooperation and consistent supervisory approaches between the three new European Supervisory Authorities in addressing cross-sectoral challenges, including financial conglomerates, and in ensuring a

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[1] http://ec.europa.eu/commission_barroso/president/pdf/press_20090304_en.pdf

level playing field. In addition, each European Supervisory Authority should have the possibility to participate in meetings of the other European Supervisory Authorities as an observer.

We are committed to working with all concerned to build a stronger, more reliable financial system for the future

Yours sincerely,

Margot WALLSTRÖM
Vice-President of the European Commission