



EUROPEAN COMMISSION

Brussels,  
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Dear President,

I would like to thank the Chamber of Deputies of the Italian Parliament for sending its comments regarding the Communication from the Commission on European financial supervision, COM (2009) 252 final of 27<sup>th</sup> May 2009 ("the 27<sup>th</sup> May Communication"), to the Commission. It contains a large amount of helpful ideas and recommendations which constitute a much-welcome contribution to the development of our financial services reform agenda.

In line with the Commission's decision to encourage National Parliaments to react to its proposals to improve the process of policy formulation, we welcome this opportunity to respond to your comments. I enclose the Commission's response, and I hope you will find this a valuable contribution to your own deliberations.

I look forward to continuing this fruitful exchange of information,

Yours sincerely,

Margot WALLSTRÖM  
Vice-President of the European Commission

Mr Gianfranco FINI  
President of the Chamber of Deputies  
Italy



EUROPEAN COMMISSION

Brussels, December 2009

## **COMMENTS OF THE EUROPEAN COMMISSION ON AN OPINION FROM THE ITALIAN CHAMBER OF DEPUTIES**

**COM (2009)252 - COMMUNICATION FROM THE COMMISSION EUROPEAN FINANCIAL SUPERVISION {SEC(2009)715}, {SEC(2009)716}, SEC(2009)717}.**

A stable and sound financial sector is a prerequisite for building a sustainable recovery after one of the deepest and longest and most far reaching financial crises in recent times. As part of its strategy to rebuild trust in the financial markets, the Commission, following an intensive work of consultation of all stakeholders and the broad endorsement given by the June European Council to the general principles of a new supervisory architecture proposed by the Commission in the 27<sup>th</sup> May Communication, adopted its legislative proposals on the future set-up of European financial supervision on 23<sup>rd</sup> September 2009.

The reform will entail the creation of a new European Systemic Risk Board (ESRB) to detect risks for the financial system as a whole and to ensure the critical function of issuing 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 (ESAs) for the banking, securities and insurance and occupational pensions sectors.

The ESRB will have the power to issue recommendations and warnings to the Community as a whole, to Member States (including the national supervisors) and to the ESAs, on a "comply or explain" basis. The heads of the ECB, national central banks, the ESAs and national supervisors will participate in the ESRB. The creation of the ESRB is in line with several initiatives at multilateral level outside the EU, including the creation of a Financial Stability Board by the G20.

As far as the ESFS is concerned, it will consist of a network of the existing national financial supervisors working in tandem with three new ESAs. This network will be based on the principles of partnership, flexibility and subsidiarity. It should work to enhance trust between national supervisors by ensuring, for example, that host supervisors have an appropriate say in setting financial stability and investor protection policies so that cross-border risks can be addressed more effectively.

Day-to-day supervision will remain at the national level and the new ESAs will act as coordinating bodies, replacing the existing Level 3 Committees with new powers and responsibilities including:

- Developing proposals for technical standards to ensure that the EU is equipped with high quality, consistent regulation and loopholes and that discretions are reduced as much as is possible;
- Resolving cases of disagreement between national supervisors, to ensure decisions of one supervisor cannot adversely affect the others;
- Ensuring consistent application of Community rules, including through peer review of national authorities;
- Fulfilling a co-ordination role in emergency situations, with the possibility to take certain decisions.

In our view this package provides for a rapid and robust action to remedy shortcomings in European financial supervision and will help to prevent future financial crises. It will substantially contribute to reducing the patchwork of regulatory and supervisory requirements and to establishing a single set of harmonised rules for European financial institutions. To this end the legislative package has been followed by the adoption on 26<sup>th</sup> October of a new legislative proposal, the so called 'Omnibus Directive', to make targeted changes to existing financial services legislation to ensure that the new ESAs can work effectively. The areas in which amendments are proposed fall broadly into the following categories:

- Definition of the appropriate areas in which the ESAs will be able to propose technical standards as an additional tool for supervisory convergence and with a view to developing a single rule book;
- Incorporation in an appropriate manner of the possibility for the ESAs to settle disagreements between national supervisors in a balanced way, in those areas where common decision making processes already exist in sectoral legislation; and
- General amendments which are necessary for the Directives to operate in the context of new authorities for example, renaming the level 3 Committees to the new ESAs and ensuring the appropriate gateways for the exchange of information are present.

Further proposals for technical amendments to sectoral Directives are envisaged by the Commission early in 2010, in particular in the insurance sector, which is not covered by the "Omnibus Directive".

We welcome your support for the general thrust of the system we have announced in the 27<sup>th</sup> May Communication. We also take careful note of your concerns around certain aspects of the proposed arrangements.

As regards the composition of the ESRB, we consider that the prominent role of national central banks is fully justified since they have always played a key role in macro-prudential supervision and in many countries are responsible fully or in part for the supervision of individual institutions. Being at the heart of the EU monetary system and having wide ranging expertise in the macro-prudential field, the European System of Central Banks (ESCB), which includes all 27 national Central Banks of the European Union, holds a unique and privileged position for analysing and assessing the linkages between developments in the financial sector and the macroeconomic performance of EU economies. It is therefore appropriate for the ESCB to have a prominent role in the ESRB.

We are fully aware that the ESRB, with around 60 members, might be perceived as too cumbersome. However a broad representation of institutions within the ESRB is necessary to ensure a global macro-prudential perspective in the ESRB's risk assessments. The ESRB must include all those who have relevant information and expertise to contribute. These include, as said above, the governors of national central banks, the new ESAs, and national supervisors. However, a Steering Committee (consisting of the ESRB chairperson and vice-chairperson, five central bank members, the chairpersons of the new ESAs, the President of the EFC and the Commission member) will prepare and ensure efficient ESRB operations.

The presence of the national supervisors will enhance the flow of information and allow a constant exchange of views between the actors having a macro-prudential point of view (the ECB, the National Central Banks, the Commission, etc.) and those working with a micro-prudential perspective. As a result the ESRB will be able to monitor all potential threats to the soundness of the whole financial system.

As regards the involvement of Ministries of Finance and the Council of Ministers in the ESRB, we believe that their role has been acknowledged. Indeed, the President of the Economic and Financial Committee (EFC) of which all top officials from EU Ministries of Finance are members will also have a seat on the Steering Committee of the ESRB, which will fulfil important tasks in the decision-making process of the General Board, (it will prepare the meetings of the General Board, review the documents to be discussed and monitor the progress of the ESRB's on-going work). Moreover all warnings and recommendations must be transmitted to the Council of Ministers, in order to increase the moral pressure on the addressee to act or explain.

Turning to your concerns on the ESFS we think that our proposal is fully consistent with the subsidiarity principle. Indeed we consider that day-to-day supervision is best done at national level, close to the ground, where there are strong local traditions and that there will always be a pivotal role for national supervisors. The proposed system is a "hub and spoke" type of network of EU and national bodies. The new authorities will act only where there is clear added value, such as the development of technical standards which will apply throughout the EU, and settlement of disagreements between national supervisors on matters which require co-operation.

We fully share your call for an increasing harmonisation of the rules concerning financial services and we are convinced that the new authorities will play an important role in working towards a common rulebook by developing technical standards where necessary, in the areas defined in legislation, and by drawing up interpretative guidelines to assist national authorities in taking individual decisions.

We are committed to working with all concerned stakeholders to build a stronger, more reliable financial system for the future, and we have commended this package to the Council of Minister and European Parliament for rapid adoption. In this respect we welcome the agreement reached by the Council on a general approach on the whole package that will let negotiations with the European Parliament start soon.

We are looking forward to your continued views and contributions to the debate.