

Supervision of the future

Progress in the commission and parliament has paved the way for an integrated European financial supervisory system, writes **Sylvie Goulard**

On 1 January 2011, an independent European body responsible for macro financial supervision, the European systemic risk board (ESRB), and three sectorial supervision authorities – European banking authority, European securities and markets authority and European insurance and occupational pensions authority – were established. Six months later, it is time for an initial evaluation.

The supervisory package led to the creation of a European system of financial supervision (ESFS). This is no small innovation. The economic crisis dramatically illustrated that the prevailing system was insufficient. Before the crisis, Europe had no macro supervision and 27 micro financial supervisory authorities making decisions independently, some of whom were reluctant to regulate (the light touch was in). On the basis of the report by the high level group chaired by Jacques de Larosière, the European commission drafted its regulations. The European parliament fought hard to maintain the commission's level of ambition for a European solution for a European single market of financial services. A number of these battles were won.

The ESRB, created to detect risks which may threaten the financial system and raise the alarm, has been placed under the

auspices of the ECB and the organisations share a president. This will lend political weight to its recommendations, which are not legally binding. Composed mainly of central bankers and supervisors it has also been opened by the MEPs to independent personalities and an advisory scientific committee has been created in order to increase its independent expertise.

The European supervisory authorities were given three important tasks. First, they have to elaborate single rule books for better coordination of national regulators' actions and to monitor their implementation. Second, they have extended mediation powers in case of divergence between national supervisors. Last, but not least, they were given the prerogative to temporarily ban toxic products in case of an emergency. The way has been paved towards an integrated European supervisory system. Further steps will be needed, but it is a quantum leap. Sectorial legislation needs to be improved in order to create the direct supervision of systemic cross-border financial institutions. Also, the link with the new instruments for surveillance of macroeconomic imbalances being created in the framework of the economic governance package needs to be established. The team of rapporteurs has been very careful to avoid any overlap and to ensure an adequate coordination between the ESRB and the new procedures.

The greatest challenges lie ahead, in the way the new authorities will use the powers given to them to combat systemic problems. The single rule books are currently being elaborated. Their efficiency will depend on their content, precision, and their implementation at national level. A series of banking stress tests are being carried out. These new tests are tougher by stressing and disclosing exposures to sovereign debt, which is vital. Importantly, their results will be made public. Stress tests must be reliable, transparent, and credible. Member states will have to take into account the stress tests results and take the necessary backstop measures to address any revealed weaknesses. Member states should not use the budgetary guarantee clause to avoid any restructuring, or even recapitalisation, in the case of bad results. Andrea Enria and Mervyn King, vice presidents of the ESRB were perfectly clear on that point during their address to the Econ committee. Other questions remain, notably regarding shadow banking. Parliament must and will be demanding. When MEPs work with team spirit, a lot can be achieved. ★

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