

CCMF/CARTAC/Caricom Workshop on Regional Financial Stability

A Caribbean Architecture



The Regulatory Framework of the EU – Colleges and Financial Conglomerates

by

Nina Moss

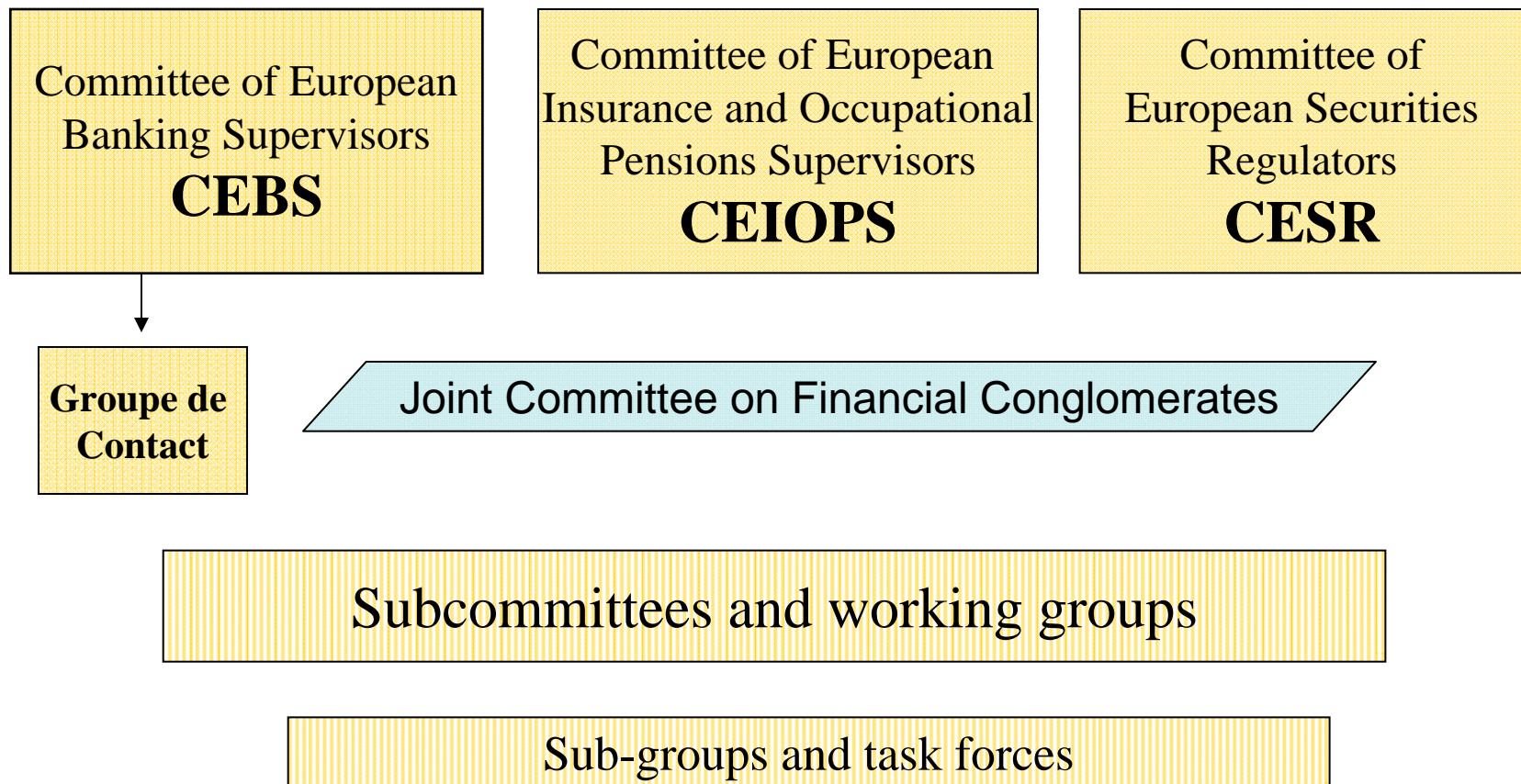
Head of International Relations

The Financial Supervisory Authority of Norway



Current supervisory structure in the EU

Coordination "3L3"

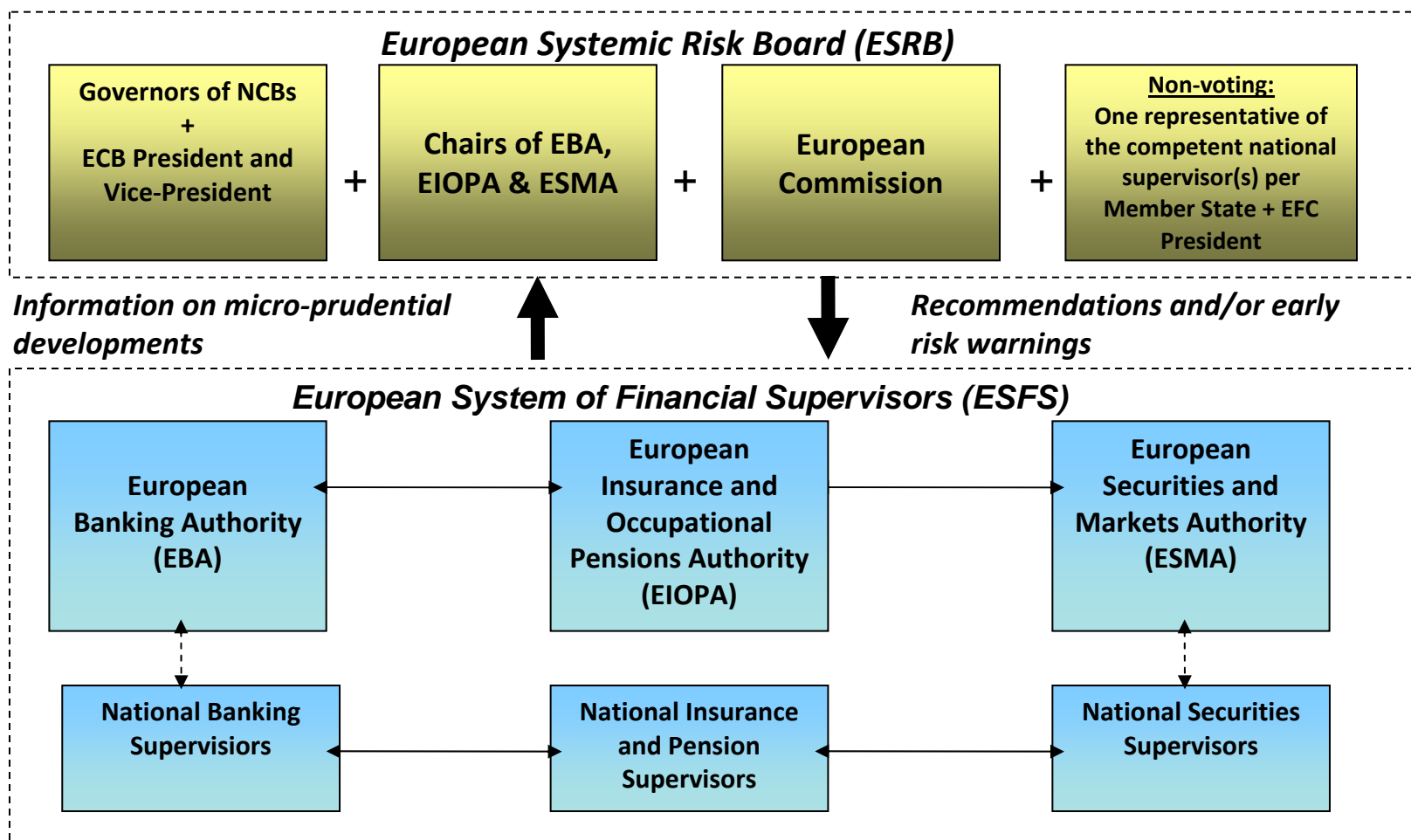


Shortcomings of the present system

According to the EU Commission:

- Lack of adequate macro-prudential supervision;
- Lack of early warning mechanisms;
- No means for supervisors to take common decisions;
- Lack of frankness and cooperation between supervisors;
- Failures to challenge supervisory practices on a cross-border basis;
- Lack of consistent supervisory rules, powers and sanctions across Member States;
- Lack of resources in the Level 3 committees

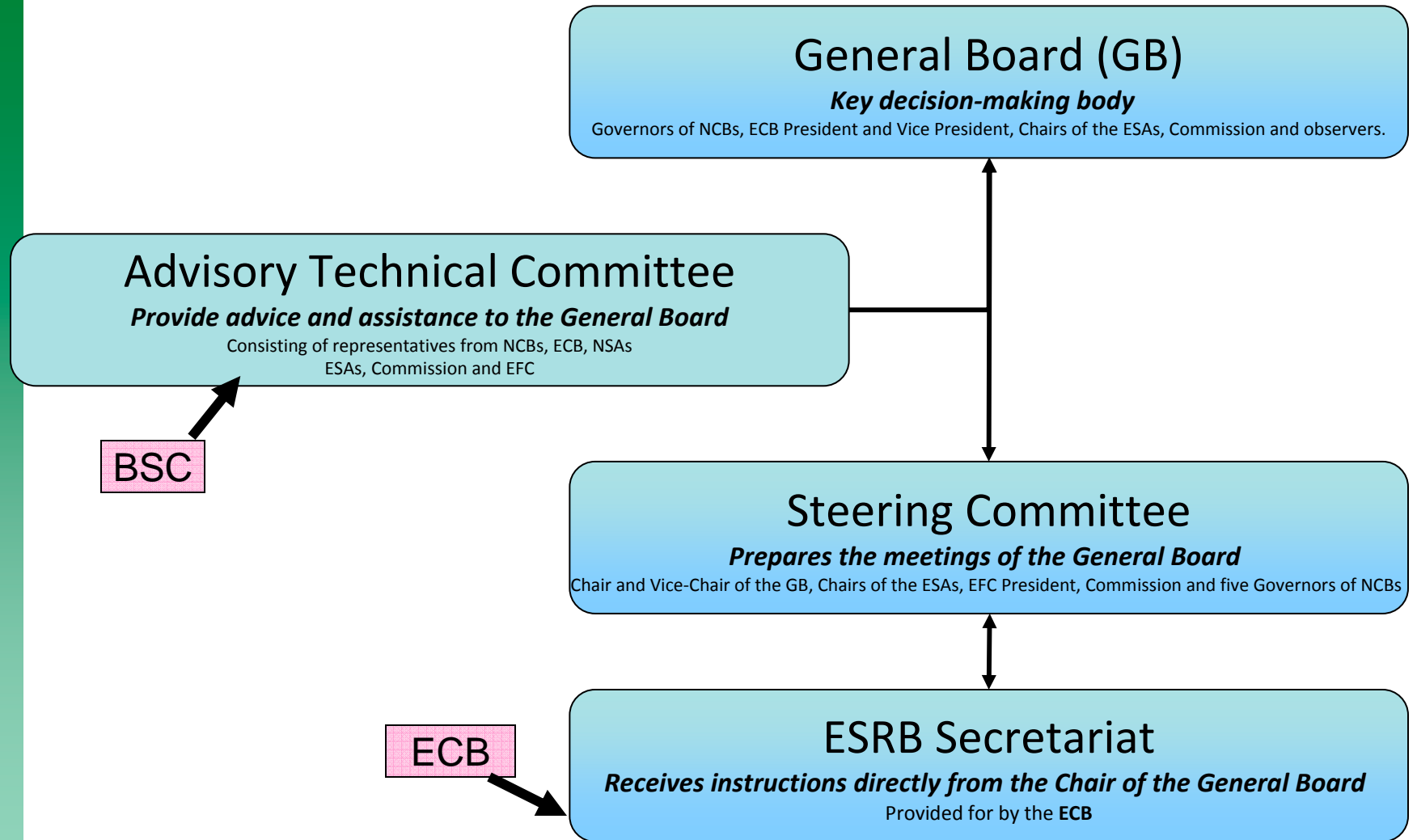
The proposed new supervisory architecture



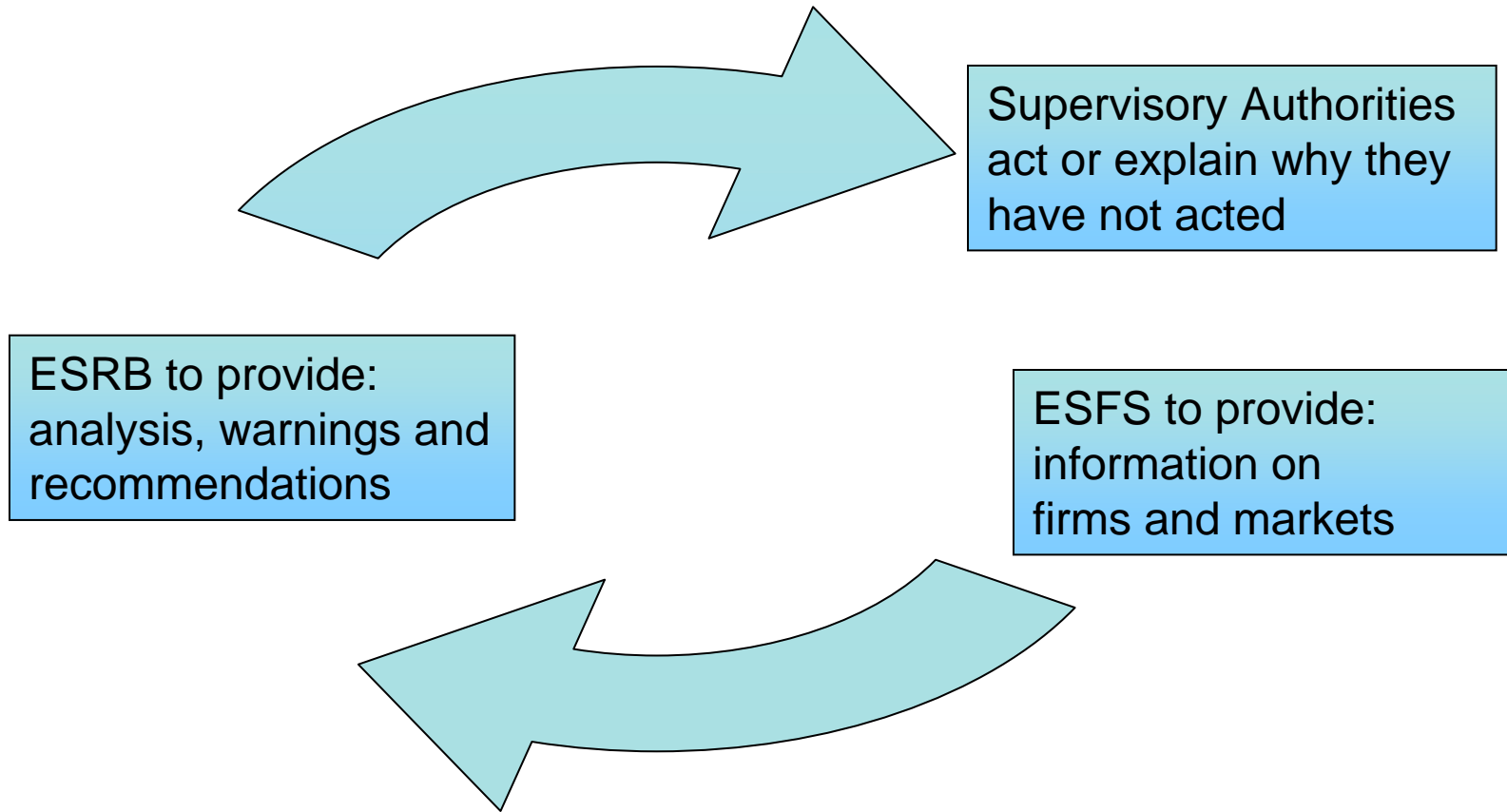
Objective of the ESRB

- Develop a European macro-prudential perspective
- Enhance the effectiveness of early warning mechanisms
- Improving the interaction between micro- and macro-prudential analysis
- Allow for risk assessments to be translated into action by the relevant authorities

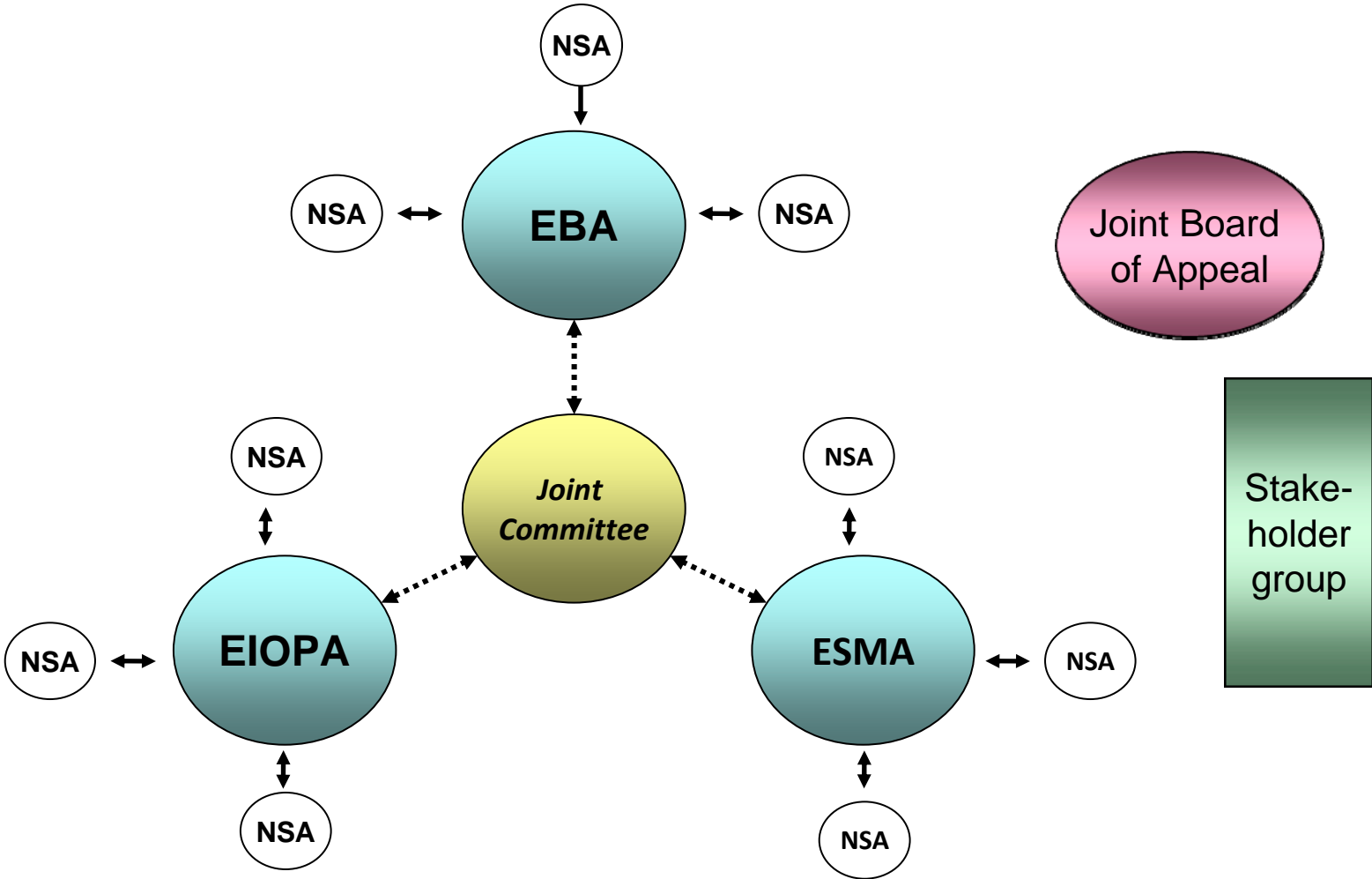
ESRB European Systemic Risk Board



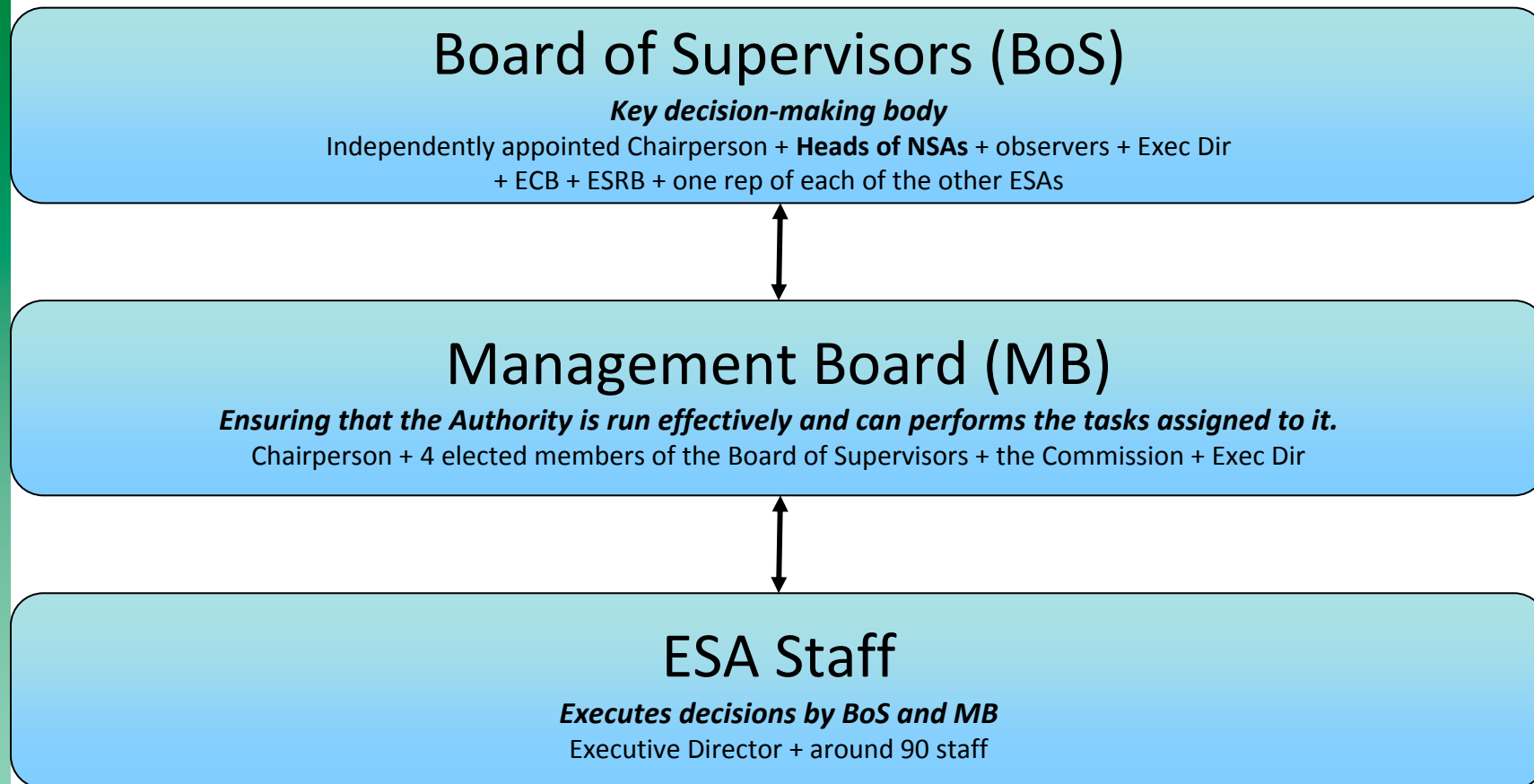
Relation between ESAs and ESRB



European System of Financial Supervisors



The ESAs - European Supervisory Authorities



ESAs - Main tasks and powers

- Development of technical standards
- Ensure consistent application of EU law
- Resolving disagreements
- Action in emergency situations

With:

- Colleges of supervisors remaining lynchpin
- Individual firm supervision remaining at the national level

Benefits of the proposed system

- Fully connected macro-micro supervisory framework
- Strong cooperation and enhanced trust
- Reinforce colleges of supervisors
- Move towards harmonised rules and powers
- Reinforcement of supervisory resources
- New procedures for supervisors to take common decisions
- Comprehensive means to challenge cross-border decisions
- Quick mechanism allowing for collaborative decisions in emergency situations

Further process

- Council has presented amendments
 - ↳ *watering down of Commission proposal?*
 - The EU Parliament is currently discussing the proposals and has presented draft reports with suggestions for amendments
 - ↳ *taking the Commission's proposal even further*
- The new structure planned for 2011

Colleges of Supervisors

- Home Supervisor
 - The supervisor of the head of a group that has subsidiaries abroad
 - The supervisor having licensed an individual undertaking that operates on a cross border basis
- Host Supervisor
 - The supervisor having licensed an individual undertaking which has its parent company abroad
 - The supervisor in the country in which an undertaking operates on a cross-border basis (without being domiciled)
 - ➔ *Degree of involvement in decisions according to relevance in each country and to the group*

Development of Colleges of Supervisors

- Coordination Committees "Co-Co's" in insurance
 - started in 2000 following the "Helsinki Protocol"
 - 102 Co-Co's today (not all equally active)
- Colleges for the 36 largest banking groups
 - Most established in 2009. The rest to be established in 2010.
- Colleges for Financial Conglomerates – around 59

Standard MoUs and Guidelines

- CEBS: SON – Subgroup on Operational Networking
- Guidelines for the operational functioning of colleges
- Guidelines for the joint risk assessment and joint decision on the risk based capital adequacy
- Template for written agreements and Guidelines on cooperation

www.c-ebs.org

Colleges - Composition

- Core college
 - Supervisors of parent and main subsidiaries
 - generally meets 4 times pr year
 - Technical colleges (subgroups)
- General college
 - Supervisors of all subsidiaries
 - Supervisors of significant branches may also participate
 - meets at least once pr year
- Challenges:
 - Language (Communication within college, with group, reports, inspections...)
 - Different supervisory methods, culture, and traditions
 - Still differences in legal framework

→ Forces convergence

The Nordea example

- Longest standing college - since 1999
- Nordic example of supervisory cooperation
- MoUs – General Nordic MoU + Specific MoUs
- Language issue (*corporate language: English*)

The Nordea example

- Core college meets 4 times pr year
- Meets with high level representatives from the bank/group
- Various sub-colleges meet on respective risks
- Group (consolidated) supervision with participants from core college
- Joint on-site inspections
 - Plans for the group and various subsidiaries
 - Avoid double-inspections (national/sub-level and group level)
 - Home supervisor of the parent in the lead (Sweden)
 - Typically 2-3 days for on-site visits (joint off-site preparations beforehand and joint reporting afterwards)
 - Report to the Board

The Nordea example

Nordic Supervisory College for Nordea
Core college:

Sweden

Denmark

Finland

Norway

General College:
+ Poland, Luxembourg
and Baltic states

National representatives/experts for each country:

Key Supervisor

Credit risk

Operational Risk

Market/liquidity risk

Insurance

Capital adeq.

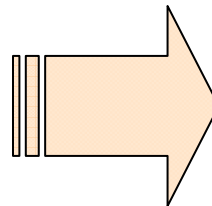
Securitiesmarket

AMLTF

Financial reporting

Legal

Macro-analysis



Joint risk and
capital assessment

Financial Conglomerates in the EU

- European Financial Conglomerates Committee ("level 2" - ministries)
- JCFC – Joint Committee on Financial Conglomerates ("level 3" – supervisors)

Financial Conglomerates Directive
(2002/87/EC)

Financial Conglomerates Directive

- Identifies a financial conglomerate as a group operating in both sectors:
 - insurance and
 - banking/investment
- The smallest of the two must represent 10%+ or 6+ bn euro
- Capital requirements – no double counting
- Intra group transactions and exposures
- Risk management

Changes to Financial Conglomerates directive

- On the table of the new EU Commission
 - Only minor adjustments related to
 - More flexibility in identification of a conglomerate
 - Avoid gaps and inconsistencies between sectoral regulations
- ⇒ Not yet moving to a framework based on Basel 2 / Solvency 2

Why Group Supervision?

- Avoid
 - Risk contagion and Risk concentration
 - Regulatory arbitrage
- By focusing on
 - Double gearing
 - Intra group exposures
 - Intra group transactions
 - Risk-measurement and supervision with a group-wide perspective

Challenges for Supervisors

- Groups and financial conglomerates no longer restricted to national borders
- Stand alone companies vs. cross-sectoral financial conglomerates
- Domestically oriented vs. internationally active companies and groups
- Cross-border activities both through subsidiaries and branches



Co-operation between supervisors at national as well as international level

Still a long way to go to reach full convergence



Thank you!

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