

## **CFS-IMF Conference**

# ***A Financial Stability Framework for Europe: Managing Financial Soundness in an Integrating Market***

**How to strengthen Europe's Financial Stability Framework?**

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# Outline

**For bank supervisors, focus on practical steps forward, regarding:**

- 1.Home/host cooperation within colleges,
- 2.Strengthening colleges' functioning,
- 3.Strengthening CEBS,
- 4.Developing an EU supervisory culture,
- 5.Crisis management and resolution.

# 1 • Home/host cooperation within colleges

## → Colleges of supervisors are key to deliver an efficient and safe supervisory environment in EU

- Main element for the supervision of cross-border banking groups
  - Enhanced cooperation between home and host supervisors, with stable and trustful connections between national line supervisors;
  - Bottom-up process, dealing with real and concrete issues (pragmatic approach);
  - Going concern supervision, but also preparedness to crisis situations.
- Already a lot of experience gained: first colleges in 2006 !
- With positive results... but still significant challenges ahead:
  - ECOFIN conclusions of the Lamfalussy review;
  - CEBS and European supervisors working to improve and strengthen colleges.

# 1 • Home/host cooperation within colleges

## → French experience so far with colleges of supervisors

- Colleges of supervisors in place for the 3 major French groups (all of them involved in CEBS operational networking project);
- Regular and periodical meetings of the colleges (at least twice a year);
- Permanent dialogue : bilateral exchanges among home and hosts between colleges' meetings;
- Two tier approach : tier 1 is "*the family*": the European hosts, and tier 2 are "*the friends*", third countries hosts of significant entities;
- Issues dealt with within colleges cover (but are not limited to):
  - Basel 2/CRD implementation (Pillar 1 and Pillar 2),
  - Annual on-site inspections program,
  - Reporting requirements,
  - General information exchanges: assessment of risks, situation of the institutions, update on recent developments...,
  - Sessions with institutions' representatives to allow direct contact, ...

# 1 • Home/host cooperation with colleges

## → Key outcome of colleges : Pillar 1 approval process

- Colleges useful to:
  - Discuss the allocation of tasks for model examinations (delegation between supervisors – central versus local models),
  - Review the key findings of the various examinations performed and exchange views on the situation of the institution,
  - Analyze the application packs submitted,
  - Prepare and draft the joint decisions (for EU supervisors, according to Article 129 of the CRD).
- Extensive dialogue between supervisors resulted in joint decisions (obtained within the 6 month Period), some of them including specific terms and conditions proposed by host authorities and endorsed by the Commission Bancaire.

## 2 • Strengthening colleges' functioning

### → Colleges need clear and well-defined internal decision-making process

- 3L3 committees currently working on “operational guidelines” following ECOFIN conclusions;
- Pillar 1 approval process based on a well-defined legal framework (CRD, Article 129) : explains part of its success, together with incentives provided;
- Other important decisions concerning groups need to be taken in a near future: Pillar 2, reporting...
  - Home supervisor should have a strong coordinating role, to ensure the effectiveness and consistency of supervision at the level of the group.
  - It should also have the final say regarding the most important decisions at the group level, while preserving of course the dialogue with other authorities.

## 2 • Strengthening colleges' functioning

### → The need for “horizontal convergence” of colleges

- Individual colleges of supervisors are crucial to improve the efficiency of the supervision of cross-border banking groups ...
- ... But for level-playing field reason, convergence of supervisory practices is crucial at the EU level,
- ... Hence, CEBS' role and its operational networking project:
  - Now 17 groups part of the project,
  - Bottom-up approach: identification of key issues and pragmatic solutions
  - Dialogue with the industry,
  - Outcomes: “Range of practices”, template for “Multilateral Cooperation and Coordination Agreement”.
- CEBS' template and operational guidelines should improve harmonization of the functioning of colleges in the near future.

## 3 • Strengthening CEBS

### → CEBS' key role to promote convergence

- CEBS' role to promote convergence of supervisory practices is not limited to colleges and should be further developed.
- Various interesting initiatives are taking place in the context of the implementation of the ECOFIN roadmap (e.g. modification of the mandates of the national authorities, ...).
- The revision of the CRD, currently under discussion, should be another opportunity:
  - to emphasize CEBS objective of promoting supervisory convergence within EU,
  - To develop CEBS mediation role together with the obligation for national supervisors to explain why they do not follow CEBS' advice (the “comply or explain” principle).



## 4 • Developing an European supervisory culture

### → Learning to “work together” (1)

- Colleges have contributed to the emergence of a common EU culture by “working together”,
- Various initiatives are also fostering the development of such a common supervisory culture:
  - Common training (both at CEBS level and at national level, where some training is now in English and open to other authorities);
  - Staff exchanges (in France, already several short or medium-term exchanges with other authorities, either host supervisors of French banks or home supervisors of foreign banks in Paris).
- ... But should be further developed and enhanced.
- Most of these issues also have a cross-sectoral perspective; so, the 3 level 3 committees are working jointly on these issues.

## 4 • Developing an European Supervisory culture

### → Learning to “work together” (2)

- The Commission Bancaire invited EU supervisors to participate in the on-site examination of the economic capital model of one of the largest French banks:
  - 7 hosts joined the BNPP mission (Spring 2008).
- Extremely positive experience:
  - Great opportunity for all participants to better understand each others' methods and supervisory approaches;
  - Very useful contribution to the building of a common assessment of the institution and for the implementation of the Pillar 2.
- Other supervisors accepted to take the same step, with CEBS being the coordinator of this initiative ... And France will do the same for Société Générale in a few weeks, and Crédit Agricole just after.

# 5 • Crisis management and resolution

## → Reinforcement of the European framework

- New tripartite MoU for crisis management signed in 2008:
  - Involves all the financial authorities of the EU (supervisors, central banks and Ministries of Finances);
  - Clarifies the operational responsibilities at each phase of a crisis (preparedness, alert, assessment, resolution and communication);
  - Defines the role of the coordinating authority at cross-border and national levels;
  - Relies on cooperation networks at national (Domestic Standing Committee) and cross border levels (Central banks and Supervisory colleges).
- Introduction of an EU dimension in the mandate of national supervisors : need to take into account the effect of national decisions on the financial stability of other Member-States.
- Increased informative rights of supervisors of systemically relevant branches (in the framework of the revision of the CRD).
- Next step : further harmonization of the Domestic Guarantee Schemes? 11

## 5 • Crisis management and resolution

### → Colleges are also the appropriate networks to address crisis issues

- Crisis management requires to have ex ante practical arrangement in place, while allowing for flexibility;
- Colleges are the right fora for crisis cooperation:
  - to facilitate exchange of information,
  - to reach a common understanding of a potential crisis situation,
  - to identify possible remedial measures, and
  - to coordinate external communication.
- ... With “Variable geometry”: the supervisory colleges can be easily adapted according to the features of a specific crisis, with possible extension to other relevant financial authorities.