

# Financial markets: banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management

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The Committee on Economic and Monetary Affairs adopted the report drawn up by Othmar KARAS (EPP-ED, AT) amending, under the first reading of the codecision procedure, the proposal for a directive of the European Parliament and of the Council on amending Directives 2006/48/EC and 2006/49/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management.

The main amendments are as follows:

**Supervision - a temporary step:** the committee voted to establish the colleges of supervisors to facilitate cooperation among national authorities dealing with cross-border financial institutions. It considers, however, that the proposed colleges of supervisors should only be a temporary step towards a new system of supervision. The financial crisis has highlighted weaknesses in EU supervision and in the consolidating supervisor model. MEPs therefore consider that **further supervisory integration is necessary** in order to establish a decentralised European System of Banking Supervisors, building on the model of the **European System of Central Banks**.

The Commission should, by 31 December 2009, report to the European Parliament and the Council any findings in this respect and put forward any **legislative proposal** needed to tackle the shortcomings identified regarding the provisions related to supervisory cooperation arrangements. It should also take into account the outcomes of discussions by expert groups on these issues, in particular, those of the **High Level Group** on cross-border financial supervision (Larosière Group) and the lessons from the financial crisis.

MEPs also call on the Committee of European Banking Supervisors to report to the Council, the European Parliament and the European Commission on the progress made towards supervisory convergence every year starting from 1 January 2011.

**Large exposures - more transparency:** the committee supports reinforcing the existing rules on the large exposure regime, including interbank trading. Member States will have to require all credit institutions to report to the supervisory authorities on their large exposure.

MEPs also call on the competent authorities, from 1 January 2013, to apply uniform formats, frequencies and dates of reporting. To facilitate this, the Committee of European Banking Supervisors shall, by 31 December 2011, elaborate guidelines to introduce, within the Community, a **uniform reporting format**. The reporting formats shall be proportionate to the nature, scale and complexity of the credit institutions' activities

**Securitisation:** MEPs welcome stricter rules on securitisation. They believe it is also important to **distinguish** securitisations where the interests of the originator or sponsor and the interests of investors are aligned, because, for example, the originator or sponsor retains a significant interest in the underlying assets, from those where they are not aligned.

Moreover, MEPs propose an **explicit and unconditional warranty** by the originator, a sponsor or original lender, as the case requires. The warranty should indicate that the securitised exposures and the obligors meet the asset and obligor criteria in the transaction documentation, and that due diligence was carried out by the originator, sponsor, or original lender in respect thereof, including the risk profiles thereof. This would work as an alternative solution to the 5% retention limit, to ensure the retention of an economic interest by the institution.

The Commission's proposed penalty for non-compliance with disclosure and due diligence obligations should be scaled according to the gravity of the failure and reflect the relevant supervisor's judgement. By 31 December 2009, the Commission should report to the European Parliament and the Council on the appropriateness and expected impact of requiring institutions to retain a material net economic interest in their securitisations in the light of international market and policy developments.

**Credit Default Swaps:** according to the committee, Credit Default Swaps (CDS), the most traded derivative in recent years, also need to be regulated. In order to ensure financial stability, the Commission should review and report on measures to enhance the transparency of over-the-counter markets, such as by requiring the processing of credit default swaps through a **central clearinghouse counterparty**, established, regulated and supervised in the European Union, to mitigate the counterparty risks and more generally to reduce the overall risks, ensuring effective supervision of those entities. The Commission shall submit that report, by 31 December 2009, to the European Parliament and the Council together with any appropriate proposals.

**Response to macro-prudential problems:** the crisis has revealed a need for better analysis of and response to macro-prudential problems - problems which lie at the interface between macro-economic policy and financial system regulation. This will include a need to examine:

- policies that exacerbate the ups and downs of the business cycle (including, possibly, exacerbating financial crises by requiring excess capital in downturns and inadequate capital in upturns), and whether banks should build strong capital buffers and make provisions through-the-cycle that can be used during a downturn;
- assumptions concerning correlations that underlie the methodologies for calculating regulatory capital;
- introducing a leverage ratio for banks.

By 31 December 2009, the Commission should therefore review the Directive as a whole to address those issues and present a report to the European Parliament and the Council and any appropriate proposals.

**Transposition:** MEPs call on the national governments to transpose the proposed legislation by 31 October 2010 and apply the new provisions from the beginning of 2011.