Macro-prudential oversight of the financial system and establishing a European Systemic Risk Board (ESRB)

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The Committee on Economic and Monetary Affairs adopted the report drawn up by Sylvie GOULARD (ALDE, FR) on the proposal for a regulation of the European Parliament and of the Council on Community macro prudential oversight of the financial system and establishing a European Systemic Risk Board. It recommended that the European Parliament's position at first reading under the ordinary legislative procedure (formerly known as the codecision procedure) should be to amend the Commission proposal as follows:

Establishment and seat: the ESRB will have its seat in Frankfurt. It will be part of the European System of Financial Supervision (ESFS), the purpose of which is to ensure the supervision of the Union's financial system. Members stress the principle of sincere cooperation and state that the parties to the ESFS shall cooperate with trust and full mutual respect, in particular to ensure that appropriate and reliable information flows between them.

'Systemic risk' : this defined as a risk of disruption in financial services, including bubbles related to the financial markets, which: (i) is caused by an impairment of all or parts of the Union's financial system; and (ii) has the potential to have serious negative consequences for the internal market and the real economy. All types of financial intermediaries, markets and infrastructure are potentially systemically important to some degree.

Tasks: Members add that the ESRB must (a) identify and/or collect the relevant data from financial institutions and through the ESAs; (b) declare the existence of an emergency situation, where appropriate; (c) issue warnings where risks are deemed to be significant and, where appropriate, make them public; (d) develop a common set of quantitative and qualitative indicators (risk dashboard), which will serve as the basis to assign a supervisory rating to cross-border institutions that potentially could pose a systemic risk.

Structure: there will be an Advisory Scientific Committee, as well as a General Board, Steering Committee and Secretariat.

Chairperson: Members state that this newly designed system of macro supervision requires credible and high profile leadership. Therefore, given its key role and its international and internal credibility, and in the spirit of the de Larosière Report, **the President of the ECB should be the Chair of the ESRB**. Before taking office, the Chair and first Vice-Chair shall present to the European Parliament, during a public hearing, how they intend to discharge their duties under this Regulation. The second Vice-Chair shall be heard by the European Parliament in his or her role as Chair of the Joint Committee.

General Board: in additions to persons stated in the proposal, Members want six independent persons appointed by the Members of the General Board with voting rights on the proposal of the Joint Committee. The nominees must not be Members of the ESAs and shall be chosen on the basis of their general competence as well as for their diverse backgrounds in academic fields or other sectors, in particular in small and medium size enterprises, trade-unions or as providers or consumers of financial services; at the time of their nomination, the Joint Committee shall indicate which persons are designated

also to serve on the Steering Committee. In carrying out their responsibilities, the persons nominated shall neither seek nor take instructions from any Government, institution, body, office, entity or private person. They shall refrain from any action incompatible with their duties or the performance of their tasks.

There is also provision for high-level representatives from international institutions and a third country, in particular a member country of the European Economic Area or the European Free Trade Association.

A majority of two-thirds of the votes shall be required to make a warning or recommendation public.

Members also made amendments to the composition of the **Steering Committee and the Advisory Scientific Committee**.

Collection and exchange of information: if information referred to in this Article is not made available or in the event of an emergency, the General Board may call on the European Parliament and the Council to act in an appropriate way. Members also imposed additional obligation of data provision on financial institutions at the request of the ESRB.

Colour code: in order to enhance the awareness of risks in the European economy and to prioritise such risks, the ERSB, in close cooperation with the ESFS, shall elaborate a colour-coded system corresponding to situations of different risk levels.

Emergency situation: new provisions in the text state that if the ESRB detects a risk which may seriously jeopardise the orderly functioning and integrity of financial markets or the stability of the whole or part of the Union's financial system, it should issue a **warning declaring the existence of an emergency situation**. In such a case the ESRB should promptly inform the European Parliament, the Council, the Commission and the European Supervisory Authorities (ESAs) of its warning. In the event of an emergency, the ESRB should issue an emergency warning.

Follow up to recommendations: the text enhances the significance of the European Parliament and states that where the ESRB decides that an addressee of one of its recommendations has failed to follow or has inappropriately followed that recommendation, and that the addressee has not justified such failure, it shall inform the European Parliament, as well as the Council, the Commission and, where relevant, the European Supervisory Authorities concerned. It may invite the addressees to be questioned by its competent Committee.

Public warnings: any data on which the General Board of the ESRB bases its analysis before issuing a warning or a recommendation shall be made public in an appropriately anonymous form. In the event of confidential warnings, information shall be made available within an appropriate period of time, to be defined in the ESRB's rules of procedure.

Reports: at least annually, but more frequently in the event of widespread financial distress, the ESRB Chair shall be invited to an annual hearing in the European

Parliament, marking the publication of the ESRB's annual report to the European Parliament and the Council. Those hearings shall be made in a different context from the monetary dialogue between the European Parliament and the President of the ECB.

Lastly, the Commission’s report must assess whether:

- it is appropriate to simplify and reinforce the architecture of the ESFS in order to increase the coherence between the macro and the micro levels as well as between the ESAs;
- it is appropriate to increase the regulatory powers of the ESAs;
- the evolution of the ESFS is consistent with that of global developments in this area;

- there is sufficient diversity and excellence within the ESFS ;
- accountability and transparency in relation to publication requirements are adequate.