Financial conglomerates: supplementary supervision of financial entities

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The Committee on Economic and Monetary Affairs adopted the report drafted Theodor Dumitru STOLOJAN (EPP, RO) on the proposal for a directive of the European Parliament and of the Council amending Directives 98/78/EC, 2002/87/EC and 2006/48/EC as regards the supplementary supervision of financial entities in a financial conglomerate.

It recommended that the European Parliament's position at first reading, under the ordinary legislative procedure, should be to amend the Commission proposal.

The main amendments are as follows:

Identification of a financial conglomerate: is necessary that financial conglomerates are identified throughout the Union according to the extent to which they are exposed to group risks, based on common guidelines issued by the European Supervisory Authority (European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA),following cooperation within the Joint Committee of the European Supervisory Authorities (**Joint Committee**).

Joint committee: the supplementary supervision of large, complex, internationally operating conglomerates requires coordination throughout the Union, in order to contribute to the stability of the internal market for financial services.

In order to ensure appropriate regulatory oversight, it is necessary that the legal and operational structure, including all legal entities, of banks, insurers and financial conglomerates with cross-border activities are monitored by EBA, EIOPA, and the Joint Committee as appropriate, and that information is made available to the relevant competent authorities, the Commission and the European Systemic Risk Board (ESRB) and, where appropriate, made public.

Definition and inclusion of financial holding companies: it is appropriate to ensure consistency between the aims of Directive 2002/87/EC and Directive 98/78/EC. Directive 98/78/EC should therefore be amended to define and include mixed financial holding companies. In order to ensure timely coherent supervision, Directive 98/78/EC should be amended, notwithstanding the imminent application of Directive 2009/138/EC, which should be amended to the same effect.

Alternative investment fund manager has also been added to the scope of the Directive.

Improved transparency of financial conglomerate monitoring: the name of each regulated entity which is part of a financial conglomerate shall be entered in a list, which the Joint Committee shall publish on its website and keep up to date. The Joint Committee shall also establish and regularly update a database with details on the legal and operational structure of all financial conglomerates, including all legal entities established by the financial conglomerate, to be made available to relevant competent authorities, the European Systemic Risk Board and to be published on the Joint Committee's website.

Common guidelines: a new provision provides that the ESAs shall, through the Joint Committee, develop common guidelines on how risk-based assessments of conglomerates are to be conducted by the competent authority. Those guidelines shall, in particular, ensure that risk-based assessments include

appropriate tools in order, on the one hand to assess group risks posed to the conglomerates – including leverage and solvency ratios – and, on the other, to guarantee full disclosure of the on and off-balance sheet exposures of conglomerates.

Stress testing: Members propose introducing stress testing at the level of each financial conglomerate. It is necessary that, in the context of Union-wide stress tests initiated by the ESAs, specific parameters for the testing of financial conglomerates are developed by the Joint Committee. In particular, stress tests should take account of liquidity and solvency risks of the conglomerates and should cover not only assets in their available-for-sale (AFS) books, but also assets held-to-maturity.

Review: Members consider that the Commission should further develop a coherent and conclusive system of supervision of financial conglomerates. The upcoming complete review of Directive 2002/87/EC should cover non-regulated entities, in particular special purpose vehicles, and should diminish the waivers available to supervisors in determining what is a financial conglomerate. The review should also include the impact on financial stability of systemically relevant financial conglomerates and providing the right incentives, as some of these may be considered "too big to fail" or "too big to supervise". Regulatory action should be considered.

Delegated acts: the Commission shall be empowered to adopt, by means of delegated acts, measures concerning the technical adaptations to be made to this Directive.

Implementation: the deadline of 1 July 2011 is too short to allow for national-level implementation of a directive, given the length of time needed for transposition. According to Members, the provisions shall apply from 31 October 2011.