

Supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate

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PURPOSE: to lay down rules for supplementary supervision of regulated entities which have obtained an authorisation pursuant to Article 6 of Directive 73/239/EEC, Article 6 of Directive 79/267/EEC, Article 3 (1) of Directive 93/22/EEC, or Article 4 of Directive 2000/12/EC, and which are part of a financial conglomerate. It also amends the relevant sectoral rules that apply to these regulated entities. **CONTENT :** the Lisbon Council has taken a strong commitment to integrate European financial markets by 2005 at the latest. A single financial market will be a key factor in promoting the competitiveness of the European economy, lowering the cost of capital for large and small companies. The aim of this Directive is therefore to ensure the stability of European financial markets, to establish common prudential standards for the supervision of financial conglomerates throughout Europe, and to introduce level playing fields and legal certainty between financial institutions. In doing so, the Directive will implement the recommendations of the G-10 Joint Forum on Financial Conglomerates. It will also meet the recommendations of the "Brouwer group" on stability in the financial sector which were endorsed by the Ecofin Council in Lisbon. The existing European legal framework for the supervision of financial institutions is incomplete.

"Homogeneous" groups of financial institutions are already covered by EU-directives for specific prudential purposes. Directive 2000/12/EC relating on the taking up and pursuit of the business of credit institutions and Directive 93/6/EEC on the capital adequacy of investment firms and credit institutions provide for the consolidation of banking groups, investment firm groups and bank/investment firm groups, whereas Directive 98/78/EC on the supplementary supervision of insurance undertakings in insurance groups applies additional group supervision over insurance groups. "Heterogeneous" financial conglomerate type groups combining institutions from the different sectors are only covered to a limited extent, and basically a comprehensive set of rules on the prudential supervision of financial conglomerates is lacking. The present EU prudential framework shows important overlaps and lacunae in respect of the regulation of financial conglomerates. Some Member States have acknowledged the imperfection of the present EU legislative framework for financial conglomerates and have either introduced or are planning to introduce national legislative measures on their own accord to address the supervisory concerns arising from the group structures described above. The proposal seeks to introduce specific prudential legislation for financial conglomerates. Furthermore, it takes the first necessary minimum steps to align the directives for homogeneous financial groups and for financial conglomerates (i.e. eliminating some of the major inconsistencies) in order to ensure a minimum equivalency in the treatment of these groups.