Prudential supervision rules in the European Union

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The committee adopted the own-initiative report by Ieke van den BURG (PES, NL) on prudential supervision rules in the EU. In the wake of recent financial scandals (such as Enron and WorldCom), it called on the EU to strengthen its financial regulation and supervision systems but in a proportionate, risk-based and targeted way. The committee emphasised the need for enhanced cooperation and coordination of national supervisors, believing that this would ultimately lead to the creation of one or several integrated European supervisors. However, it was still too early to determine the optimum future structure of financial supervision in the EU and Ecofin should therefore avoid any premature decision on this matter. In any case, the committee believed that small domestic-based financial institutions should still be supervised at national level, and it also strongly opposed allowing institutions to choose the regulator that suits them best. The report also dealt with the Ecofin suggestion of extending the Lamfalussy procedure to cover the banking and insurance sectors. The committee questioned the urgency of this proposal but said that, under certain conditions guaranteeing democratic accountability and providing Parliament with a call-back procedure, it "would welcome the extension of the Lamfalussy procedure". According to the rapporteur, lax and complacent practices in some companies, especially in the United States, had considerably damaged investor confidence. She suggested that there was insufficient competition between auditing firms and rating agencies and recommended that auditors and rating agencies should not seek alternative sources of income which generate conflicts of interest. The report also noted that executive compensation schemes in financial institutions, such as aggressive bonus or stock option policies, had fuelled reckless behaviour and increased riskier positions, contributing to the volatility of the financial markets. The committee also suggested placing full-time teams of independent supervisory specialists on-site at the largest European banks, insurance companies and financial conglomerates and urged Member States to set up special units of judges and prosecutors with expertise in financial market issues.