

Background information

The fragmentation of the banking supervision system at the national level is inadequate given the current situation of pan-European groups and represents one of the key obstacles slowing European integration. The internationalisation of financial activities has indeed created a strong interdependence between major banking groups.

The current financial crisis, which can only be resolved at the international and European levels, illustrates even further the need for a supervisory system capable of covering pan-European groups. At the meeting of the European Council in March 2008, the European heads of State and government themselves stated that "the current turmoil has revealed the need to strengthen the framework for maintaining financial stability, by reinforcing prudential supervision."

The revision of the Capital Requirements Directive (CRD) initiated by the European Commission should lead to an improvement in banking supervision in Europe, and in particular set up panels of supervisors. In its consultation dated April 16, 2008, the European Commission leaned in this direction by proposing the recognition of panels of supervisors and the CEBS (Committee of European Banking Supervisors)¹. The Ecofin Council meeting of May 14, 2008 also argued in favour of reinforcing these panels of supervisors and giving the parent company supervisor a coordinating role.

The FBF's position

The FBF has long argued for a European supervisory culture for the purpose of achieving the effective supervision of pan-European groups. To this end, it recommends:

- **supervision of pan-European groups by panels of supervisors** with a decision-making role given to the parent company supervisor. The purpose of these panels is to step up cooperation between the supervisors of subsidiaries and large branches with the parent company supervisor. The panel would work under the authority of the parent company supervisor, including for key decisions where a consensus is not reached. At the very minimum, the rule of "comply or explain" would apply to any supervisors who disagree with the panel's decisions. The CEBS could prepare a set of common standards concerning the operation of the panels, in the interest of developing a common supervisory culture;
- **expanding the role of the CEBS** (legal status, increased resources, improvement to the decision-making process via qualified majority voting, arbitration powers, etc.) to encourage cooperation and convergence of practices between national supervisors;
- **incorporating a European dimension into the mandates of national supervisors**, stressing the need to cooperate with their European counterparts and to comply with the recommendations of the CEBS to ensure financial stability throughout Europe.

¹ The CEBS is comprised of the national banking supervisory authorities of the EU member countries.

Key figures

- At end-2005, French credit institutions were present in 84 different countries, with nearly 1,000 operational sites, including 523 in the European Economic Area.
- 67% of foreign operational sites in France are European, i.e. 159 out of a total of 237 in 2006.

(source: CECEI - France's committee for credit institutions and investment firms)

Key dates

- Autumn 2008: the European Commission is expected to publish a legislative proposal for the revision of the Capital Requirements Directive.
- May 23, 2008: the European Commission begins a consultation on committees of European supervisors (CESR, CEBS and CEIOPS).
- May 14, 2008: the Ecofin Council argues for enhancing the role of panels of supervisors and giving the parent company supervisor a coordinating role.
- April 18, 2008: in a press release, the FBE argues for expanding the role of the CEBS, and underscores the need to base the supervision of pan-European banking groups on panels of supervisors on which the "consolidating" supervisor (i.e. that of parent company) would have a greater role.
- April 16, 2008: the European Commission begins a consultation on the revision of the Capital Requirements Directive (Directives 2006/48/EC and 2006/49/EC on the capital adequacy of banks). The project makes progress in the area of supervision.
- April 11, 2008: the G7 finance ministers approve the recommendation of the Financial Stability Forum regarding the creation of an international panel of supervisors for each major international financial group by the end of 2008.
- December 4, 2007: having approved the overall positive review carried out by the IIMG and European Commission on the Lamfalussy process, the Ecofin Council confirms that the Lamfalussy process paved the way towards more effective cooperation and greater convergence in terms of supervision. Like the IIMG and the European Commission, however, the Council considers that there are still improvements to be made in this area.
- November 20, 2007: communication from the European Commission entitled "Review of the Lamfalussy process: Strengthening supervisory convergence".
- October 15, 2007: final report of the IIMG (Inter-institutional Monitoring Group) on the assessment of the Lamfalussy process.