



# Pan-European Financial Regulation

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## About Bruegel

- **Non-partisan, research-based think tank**
- **Aim: contribute to better economic policymaking in Europe**
  - Wide range of research issues
    - Growth policies, cross-border integration, monetary policy, trade, migration, capital markets, higher education, energy / climate change...
  - At all levels of economic policymaking (national, EU, global)
- **Innovative non-profit, public-private governance**
  - Membership = governments + companies
    - Currently 19 EU member states, 18 corporate members + EIB
  - Most funding from subscriptions; limited project-based funding
- **Started operations in 2005**
  - 25+ staff in Brussels + visiting and non-residents fellows
- **More on [www.bruegel.org](http://www.bruegel.org)**



# Institutional Overhaul in the European Union

- **Larosiere Report to the European Commission (Feb. 2009)**
  - ‘Macro’: European Systemic Risk Council / Board
  - ‘Micro’: European System of Financial Supervisors
    - Three European Supervisory Authorities
    - on Banking; Securities and Markets; Insurance and Occupational Pensions
  
- **Fast-track decision-making**
  - 27 May: Communication of the European Commission
  - 19 June: political decision (European Council)
  - 23 September: draft legislation
  - December?: agreement of the Council (member states)
  - 2010?: finalisation and implementation

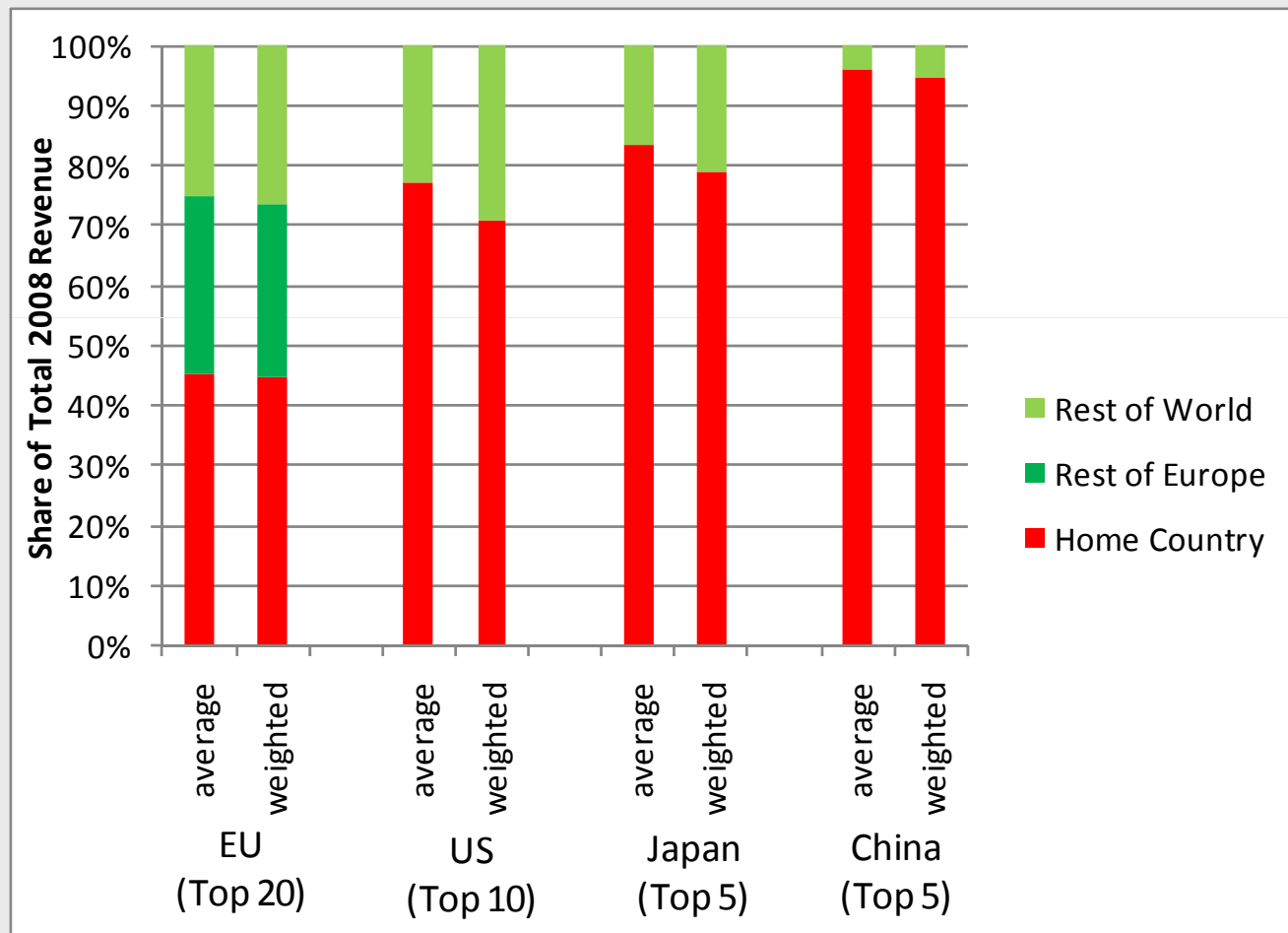


# Optimal Regulatory Structure?

- **Longstanding debate**
- **Three main families**
  - Sectoral (Banking / Insurance / Securities): e.g. US, FR, ES, IT
  - Functional / “Twin Peaks” (prudential / conduct-of-business): e.g. NL, AU
  - Integrated (one authority): e.g. UK 1998, DE 2004, PL 2008
- **Wide variations within each family**
  - Especially on role of Central Bank
  - Inherently different in the Euro Area
    - National Central Banks in Eurosystem: no independent monetary policy
- **Shifts of pendulum**
  - Early 2000s: FSA emulated in several EU member states, eg BAFin
  - Currently, tendency to separate prudential function
  - Empirical evidence inconclusive on relative performances
- **EU level: not a nation-state; accountability implications**



# The EU challenge: Financial Integration



Source: company reports, Bruegel calculations



# Challenges from Financial Integration

- **Pressure for cross-border level-playing field**
  - Harmonised regulation
  - Consistent supervisory practices
  - EU response: Basel 2 / Capital Requirements Directive, “Lamfalussy process” for rulemaking and enforcement
  
- **Supervisory effectiveness**
  - Risk monitoring – e.g. Germany / Ireland
  - Crisis management and resolution



# The European Systemic Risk Board

- **Brings together**

- ECB (chair & secretariat)
- European Commission, National Central Banks (x27), European Supervisory Authorities (x3)
- Non-voting: Chair of EU Economic & Financial Committee, National Supervisors

- **Policy recommendations**

- Non-binding, not necessarily public
- Macro-prudential impact?
- Differences with proposed US approach



# New European Supervisory Authorities

- **“Lamfalussy Architecture” (2001, 2004)**
  - 3 EU Committees: Securities, Banking, Insurance and Pensions
  - But no actual decision making
- **Tasks of 3 new Authorities (Commission proposal)**
  - Legal personality + binding decisions, applicable to national authorities and/or market participants
  - In cases of non-compliance with EU rules; emergencies; disagreements
  - Single rulebook
- **Governance and funding**
- **Prospects for “mission creep”**





## The Next Steps

- **Short term: fixing the banking crisis**
  - A Japanese scenario?
  - Necessity of triage
  - Difficulty compounded by cross-border linkages
  - European Banking Authority not part of short-term solution
  
- **Long term: making cross-border banking sustainable**
  - 2-tier supervision
  - Crisis management & resolution
  - The burden-sharing question



# Thank You For Your Attention

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