



De Larosière Report

PricewaterhouseCoopers

27 May 2009



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Context of the Report

- The current financial crisis has highlighted the weaknesses in the EU's supervisory framework
 - remains fragmented along national lines
 - increased importance of cross border entities
 - Report states it is essential to accelerate the ongoing reform of supervision if financial integration is to be efficient in terms of safeguarding systemic stability as well as in delivering lower costs and increased competition.



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Background to the de Larosière Group

- Following the emergency October ECOFIN, the Commission requested a high level group, chaired by Jacques de Larosière, to make proposals to strengthen European supervisory arrangements covering all financial sectors, with the objective to establish a more efficient, integrated and sustainable European system of supervision.



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What was the mandate of the Group?

The Group was asked to consider:

- how the supervision of European financial institutions and markets should best be organised to ensure the prudential soundness of institutions, the orderly functioning of markets and thereby the protection of depositors, policy-holders and investors;
- how to strengthen European cooperation on financial stability oversight, early warning mechanisms and crisis management, including the management of cross border and cross sectoral risks; and
- how supervisors in the EU's competent authorities should cooperate with other major jurisdictions to help safeguard financial stability at the global level.



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- **Main supervisory ideas**
 - European Systemic Risk Council (ESRC)
 - European System of Financial Supervisors (ESFS)
- **Timeframe**
 - Stage 1 2009-2010
 - Stage 2 2011-2012
- **D/Finance response (& other MS)**
 - A positive welcome – support the objectives of the DLR and await the pending Cion Communication



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- **European Systemic Risk Council (ESRC)**
 - **Chaired and resourced by the ECB**
 - **A ‘caste of thousands’**
 - **Pool/analyse all info re financial stability and macroeconomic conditions**
 - **Should have effective/enforceable mechanism to ensure that risks identified result in specific action**



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- **European System of Financial Supervisors (ESFS)**
 - most far-reaching proposal contained in the report.
 - powers available to new Authorities could be extensive and impact on responsibilities of national regulators
 - but apparently mainly “technical”



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• Commission Response

- Speculation re proposals as follows:
- ESRC
 - Not have legally-binding powers
 - Addressees of warnings expected to “act or explain”
 - Recommendation to be made public or kept confidential on case-by-case basis
 - ECB, 27 NCBs, 3 Authority Chairs, Cion, 28 Observers (27+EFC)



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- **Possible ESFS components**
 - I **Steering Ctte (Reps from 3 Authorities only + Cion)**
 - II **3 Supervisory Authorities (EBA, ESA, EIOPA))**
[Board: Authority Chair + 27 Chairs of National Supervisors + observers]
 - III **National Supervisory Authorities (as at present).**



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- **Role of ESFS**
 - Day-to-day supervision remain at national level
 - Cross-border entities: “colleges” lynchpin – ensure flow of info b/n supervisors
 - Authorities to contribute at meetings of “colleges”
 - Authorities might have some powers adopt decisions directly applicable to financial institutions (i.e. binding mediation and decision-making powers)
- **In parallel**
 - A single rulebook
 - Greater consistency in national powers and sanctions
 - Cion to bring forward proposals in the autumn



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- **Some Talking Points**

- **This is a move to have a new European body with some regulatory powers.**
- **Cion's accelerated response timepath – new process up-and-running in 2010 – but Directive-based reforms take longer.**



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