Press release

EP adds bite to EU financial watchdog rules

EU authorities are to get tough new powers to settle disputes among national financial supervisors and to ban risky financial products and activities, in a revamp of EU financial supervision plans agreed on Thursday. If national supervisors fail to act, then the authorities may also impose decisions directly on financial institutions, such as banks, so as to remedy breaches of EU law.

The deal struck late on Thursday by the European Parliament and Council negotiators means that the new EU supervisory authorities (ESAs) and the European Systemic Risk Board (ESRB) should be up and running by January 2011.

ESA firefighting powers

The agreement gives the ESAs a strong role within the current setup of colleges of national supervisors. This will enable them to guide national supervisors to ensure tighter supervision of cross-border financial institutions. In the event of disagreements between national supervisors, ESAs will also be able to impose legally-binding mediation and, if no agreement can be reached within the relevant college of supervisors, to impose supervisory decisions on the financial institution concerned. ESAs will also be able to intervene as mediators at their own discretion, rather than at the request of one of the national supervisors.

The ESAs will also be able to monitor how national supervisors implement their obligations under EU law. If these obligations are implemented incorrectly, the ESAs may raise the alarm, issue instructions to the national supervisor concerned and, if these go unheeded, directly instruct the financial institution to remedy any breach of EU law.

A clean financial market: the role of the ESAs

ESAs will have the power to investigate specific types of financial institution, financial product, such as a "toxic" product, or financial activity such as naked short selling, to assess what risks they pose to a financial market. Where specific financial legislation so provides, ESAs may temporarily prohibit or restrict harmful financial activities or products, and may also ask the Commission to introduce legislative acts to prohibit such activities or products permanently.

Powers that may grow

MEPs secured the inclusion of a strong review clause requiring the Commission to report back every three years on whether it is desirable to integrate the separate supervision of banking, securities, pensions, and insurance, on the benefits of having all the ESAs headquartered in one city, and on whether the ESAs should be entrusted with further supervisory powers, notably over financial institutions with pan-European reach.

ESRB - Warning about risk faster and better

MEPs inserted provisions to enable the ESRB to communicate rapidly and clearly. The ESRB will develop a common set of indicators to permit uniform ratings of the riskiness of specific cross-border financial institutions and make it easier to identify the types of risks they carry. The ESRB will also be responsible for establishing colour-coded grades to reflect different risk levels. When making warnings or recommendations on risk build-up, the ESRB is to use the colour-grade to indicate the level of risk.

To enhance the ESRB's ability to predict risk build-up, a broader range of skills and experience, including academics, will be represented on its Advisory Scientific Committee. Finally, to improve visibility and credibility, the ECB President will preside over the ESRB for the first five years.

Role of the European Parliament

MEPs also succeeded in improving democratic oversight of the whole supervisory system. The European Parliament will be able to veto the appointment of ESA chairpersons and will have a say in the development of the technical standards and implementing measures. Moreover, the ESRB President will keep the chair and vice-chairs of the EP's Economic Affairs Committee updated on ESRB activities through confidential discussions.

Next steps

The agreement is now scheduled to be approved by the Council on 7 September and be put to an EP plenary vote at the second session in September. If the agreement is approved at both stages work will begin in earnest on completing the various practical steps necessary to establish the new system by January 2011.

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