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Integrated Supervision of Financial Conglomerates: Challenges for the Future.
De Nederlandsche Bank

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Introduction

I am honoured to be a member of this panel on the future of conglomerates supervision. It's also a pleasure to see here my colleague Mr. Henrik Bjerre Nielsen from CEIOPS and Mr. Bert Bruggink, who is a member of the CEBS consultative panel.

The consultative panel plays an important role in CEBS' dialogue and interaction with market participants. But, as highlighted in the title of this conference, we need also more dialogue and interaction between supervisors, in particular in relation to cross-sectoral issues. This will be the focus of my intervention today.

Existing tradition of supervisory co-operation

For banking supervisors in Europe, there is a long tradition of co-operation and information-sharing, dating back to the early 1970s. These arrangements have worked well, but the establishment of CEBS has given a more formal structure to EU wide supervisory co-operation. As you might recall, CEBS held its first meeting just a little more than a year ago and since then we have worked in full capacity to promote co-operation, consistent implementation of EU legislation and convergence in supervisory practices.

Our work in CEBS has touched also a number of issues that have a cross-sectoral dimension or relevance, such as capital adequacy and outsourcing, and we have worked closely with our colleagues in the other level 3 committees from the outset, both on a day-to-day working level and also through regular meetings between the Chairs and Secretariats of the committees. The purpose of our interaction is to share information, identify issues of mutual interest, understand the different perspectives of each sector and work together towards greater consistency of approach, where appropriate.

At the moment, the three sectoral committees are in rather different phases of the regulatory cycle: CEIOPS is focusing its attention on advice on so-called Level 1 legislation on the capital adequacy framework for insurance companies (so-called Solvency 2), i.e. on framework principles of Community legislation in the insurance field; CESR has concentrated large part of its attention on technical implementing measures (Level 2 legislation) stemming from the extensive effort to achieve greater harmonisation in the securities field within the Financial Services Action Plan; CEBS started operating when both the framework principles and the technical details of the new framework for capital adequacy of credit institutions and investment firms was being finalised, with the Commission proposal for a Capital Requirements Directive, and has therefore being working mainly on the convergence of supervisory practices in this area, i.e. at Level 3 of the Lamfalussy framework. Nonetheless, we have found a host of areas of mutual interest, on which we are developed a very fruitful co-operation.

For example, we are currently looking into the related issues that arise in two key directives – the proposed Capital Requirements Directive to implement “Basel II” for banks and investment firms, and the Markets in Financial Instruments Directive for investment firms, derivatives firms and the securities arms of banks. We have to remember that these directives serve different objectives and so there should be no presumption that they should be the same, but we certainly want to make sure that there are no undesirable or unwarranted inconsistencies, as both contain organisational requirements, namely in the areas of risk management policies, internal controls and audit functions and, in particular, outsourcing. So far, we have not identified any major difficulties, but of course should we do so we will work together to resolve them via co-ordinated guidance.

The existing and long tradition of co-operation between banking supervisors gives us a firm foundation to build our work on across the sectors to enhance co-operation and information exchange. But tradition is not the only answer when we are faced with new challenges. When the structures of financial groups and systems across the EU evolve, the supervision must evolve as well.

Some cross-sectoral aspects have been given a legal framework in the Financial Conglomerates Directive, which is being implemented across Europe and which provides for supplementary supervision on financial conglomerates, which include important banking groups and insurance groups.

The Financial Conglomerates Directive also contains the concept of the coordinating supervisor, which is very similar to the concept of the consolidating supervisor that has been used in the banking sector for some years. CEBS' current work on the latter, in the context of the proposed CRD, could perhaps prove useful.

Supervision of cross-border groups: Practical approach

In fact, the proposed CRD would grant additional powers to 'consolidating supervisors' which will enable them to address the concerns of cross-border groups and increase the efficiency of supervision. The co-ordinating supervisor for financial conglomerates will either also be the consolidating supervisor, or will be able to build upon the work of the consolidating supervisor for the banking group within the conglomerate.

CEBS is currently working on guidelines which will provide a practical framework for cooperation and the exchange of information in this context. The role of the consolidating supervisor will be enhanced, while ensuring the appropriate involvement of host supervisors and respecting their legal responsibilities. The objectives of the framework are to increase convergence of supervisory practices, to promote more effective cooperation between all of the authorities involved in the supervision of EU banking groups and to reduce the administrative burden of supervision on EU banking groups.

This practical framework developed by CEBS and the work of CEIOPS on co-operation for the supplementary supervision of insurance groups might be used as a model for cross-sectoral co-operation in the supervision of financial conglomerates. CEBS, CESR and CEIOPS are already planning to develop arrangements for the exchange of information and experiences, with the goal of making Level-3 work more effective and avoiding duplication of effort. Also, the three committees have proposed to conduct a regular cross sectoral risk assessment.

Other areas of CEBS' work that might contribute to cross-sectoral thinking

I think that some of the other initiatives we are taking in CEBS, and the experiences we have had in the banking sector, can provide ideas and input to thinking on a cross-sectoral basis (cross-fertilisation of ideas).

Let me mention two of these that could be interesting, given that they respond to issues that do not affect the banking sector alone.

First of all, a common complaint we have heard from the industry over recent years is that they are overburdened with different reporting requirements from different bodies in different countries, on essentially similar issues. In CEBS, we have taken advantage of the fact that we all have to change our reporting requirements for the CRD to explore the possibility of convergence in this area. After intensive work, we have been able to propose a common framework for future reporting of the solvency ratio, and we are currently working on a common IT platform that could be used to facilitate the process. We have also proposed a similar framework for reporting of consolidated financial information prepared according to IFRS/IAS. Perhaps this kind of approach could be useful in other sectors too.

The second initiative I want to mention is what we call "supervisory disclosure" or transparency. The CRD will require banking supervisors to publish information about how they have implemented the directive, and the impact of this implementation. Some supervisors already do this as a matter of course. But the directive goes a step further, by requiring this information to be collected and published in a single location, and in a format that allows comparison across countries. CEBS has designed a framework for this disclosure that aspires to maximum transparency and user-friendliness. I believe that supervisory disclosure which allows meaningful comparisons to be made between countries can be a powerful tool for driving convergence, and I think that it could also usefully be considered in other sectors.

Conclusion

There is much to do, and there are still many uncertainties about how the, mainly prudentially focussed, supervision of conglomerates will be shaped. The supervision of banking groups and of conglomerates has many common factors, so a fruitful learning process would be envisaged from

the CEBS point of view. Discussions like today's will help make sure that the future supervision on conglomerates and other cross sectoral issues will be ready to fit the bill, in a consistent and practical manner.