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Associates
Banking Supervision Committee

Subject: Presentation of Mr. VAN DEN SPIEGEL

Dear Sir/Madam,

At the 19th meeting of the FBE Associates (Brussels, 9 December 2004) Freddy VAN DEN SPIEGEL, Chief Economist & Director of Public Affairs at Fortis Bank, gave a presentation on the issue of supervisory coordination in the EU.

A copy of his presentation is attached for your information.

Yours faithfully,

Tanguy van de Werve
Head of Department

Encl: 1



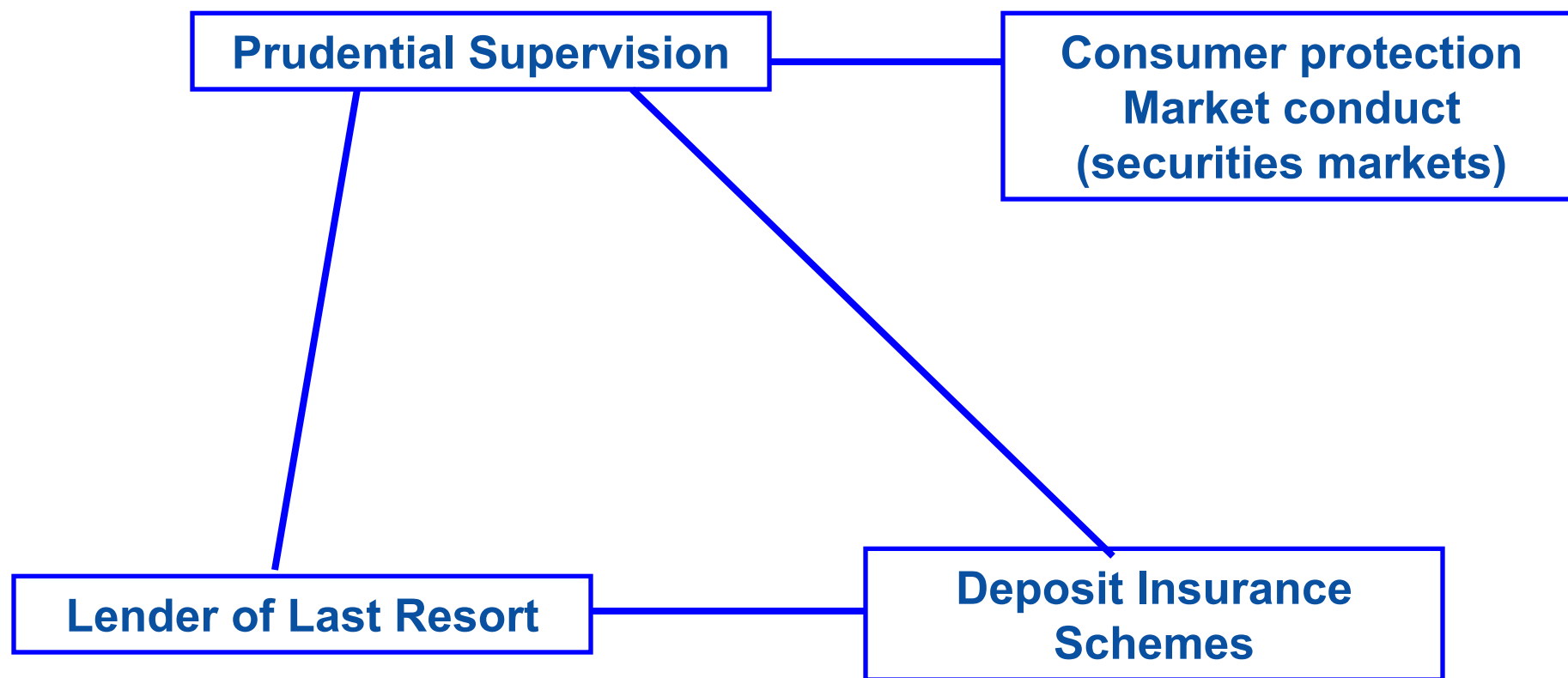
Supervisory Co-ordination in the EU. EBF

Freddy Van den Spiegel
Chief Economist - Director Public Affairs

Brussels, December 9, 2004

Public Affairs

The supervisory framework: general case.



The supervisory framework: general case.



Should be efficient and effective.

- No overlaps.
- No holes.
- No contradictions.
- Consistent rules.
- Coherent reporting.
- Fast reactivity.
- Avoids contagion.
- Comply with economic reality.
- Create level playing field.

The supervisory framework: the text book case.



Prudential supervision.

- Focuses on solvency.
- Charters.
- Should prevent bankruptcies.

Lender of Last Resort.

- Helps sound banks with liquidity problems.
- Should be able to create unlimited liquidity.

Deposit insurance.

- Is a formal guarantee for depositors.
- Pays in case of crisis.

The supervisory framework: the reality.



- Liquidity and solvency interlinked.
- Conflict of interest between supervisors:
 - in one country.
 - in \neq countries.
- Funding of deposit insurance schemes insufficient in case of major problems.
- Involvement of private sector needed.
- Moral hazard.
- Externalities.
- The issue of contagion.

The problem of contagion: how to isolate problems?



Within one bank:

- Liquidity problem leads to solvency problem.
- Solvency problem leads to liquidity problem.
- Problem in one country influences operations abroad.

The problem of contagion: how to isolate problems?



Within cross business institution (bankinsurance).

- Any problem in one business affects other businesses.

The problem of contagion: how to isolate problems?



Within one country.

- Problem in one bank can create systemic problems.
- Problem in one insurance can create systemic problems.
- Problem in one company can create systemic problems.
- Problems abroad can create systemic problems.

The actual situation in EU: general.



- 52 supervisory authorities.
- With different power.
- Within different legal framework.
- With different missions.
- Nationally organised.
- Within different national architecture.

The actual situation in EU: prudential supervision.



Basic principle.

- Home country control for branches.
- Host country control for subsidiaries.

Some problems for supervised.

- For cross border banks with subsidiaries:
 - Local (and global) supervision by each local supervisor.
 - Inconsistencies and costs.
 - Impossibility for full cross border management (accountability, outsourcing).

The actual situation in EU: prudential supervision.



Some problems in architecture.

- Cross sector supervisor or multiple.
- Within or outside the Central Bank.
- Accountability for decisions.
- Instruments and power.

The actual situation in EU: Lender of Last Resort.



Basic principle.

- Always host country.

Some problems for supervised.

- Liquidity management and different rules for each branch.
- No integrated liquidity management possible.

Some problems in architecture.

- Eurozone versus non-Euro.
- Local LOLR versus Euro monetary policy.
- Co-operation with prudential supervision if home/host discussion.

The actual situation in EU: Deposit Insurance.



Basic principle.

- Home country for branches.
- Host country for subsidiaries.
- Possibility for topping up.

Some problems for supervised.

- Cost if switch from subsidiary to branch.
- Level playing field.

The actual situation in EU: Deposit Insurance.



Some problems in architecture.

- Funded / unfunded.
- Risk weighted premium / Flat premium.
- Additional supervision or pay box.
- Level of protection.
- Covered deposits.
- Set off or not.
- Discussion with LOLR.

The actual situation in EU: Market conduct.



Basic principle.

- Depends on level of harmonisation by product (minimum / maximum / full).
- Host for general good / consumer protection.

Some problems for supervised.

- Major problem for cross border management and synergies.
- Extremely confusing situation (e-services)

Some problems in architecture.

- In or outside prudential supervision.
- Financial markets (securities) or general consumer protection.

Progress in the supervisory framework of EU.



FSAP and Lamfalussy Committees.

- Level I / II / III / IV.
- Convergence and best practices.
- Focus on implementation.
- But banks / insurance / securities separate.

Conglomerates directive.

- Principle of co-ordinating supervisor.
- But supplementary on top of solo.

COCOMS for insurance.

- Principle of co-ordinating supervisor.
- But supplementary on top of solo.

Progress in the supervisory framework of EU.



ECB.

- MOU with supervisors.
- Scenario in case of crisis.

Banking directive.

- Possibility to delegate to supervisor of parent company.
- But not implemented.

Deposit guarantee.

- Further harmonisation in 2005?

Progress in the supervisory framework of EU.



BASEL II / CAD III.

- Consolidating supervisor with overruling power for approval of risk management models.
- But application at solo level.
- No solution for Pillar II.

Hurdles for progress in EU.



- Difference in national architectures
 ↖ asymmetric discussions.
- Difference in (perceived) expertise and complexity by country.
- Externalities: who pays if problem.
- Legal accountability and responsibility.
- Job and power protection.

The way forward in prudential supervision.



EFR proposal: the lead supervisor.

The lead supervisory environment.



- Limited to solvency / liquidity.
- Basic principle: 1 lead supervisor for each group.
- For pragmatic reasons if basic principle not achievable
 - Lead supervisor for banking.
 - Lead supervisor for insurance.
 - One of these two is also co-ordinating supervisor (conglomerate).

The lead supervisory environment.

The lead supervisor (at solo and consolidated level):

- Is single point of contact with supervisors.
- Decides about all reporting schemes.
- Validates and authorises internal models.
- Decides about “Pillar II” CAD rules.
- Approves capital allocation.
- Decides about on site inspections.
- Approves cross border set up of functions.
- Sets liquidity rules.
- The lead supervisor co-ordinates licencing procedures.

The lead supervisory environment.



The college of involved local supervisors:

- Delegates supervisory power to the lead supervisor.
- Advises the lead supervisor.
- Gets regularly informed.
- Discusses proposals of involved local supervisors.
- Becomes a “management team” in case of crisis, with lead supervisor as primus inter pares.
- Members of college can address to CEBS - CEIOPS - Conglomerates committee for mediation (or appeal)

How to get there?



- Immediately better use of existing legal framework.
 - Delegation of supervision (2nd banking directive).
 - Conglomerates co-ordination.
 - MOU's.
 - Lamfalussy process.
- Later on: specific legislative framework.

Lead supervisor: advantages of proposal.



- Fits in the actual political will for closer convergence and co-operation.
- Already elements available.
- No huge restructuring necessary.
- College guarantees information and allows appeal.
- Delegation of practical supervision to host secures local activity.
- Need to convince supervisors to function within a network.

Lead supervisor: other solutions.



- European FSA.
- European FSA for cross border groups (+/- 40).

The way forward in LOLR.



- ECB seems confident that situation is under control.
- However doubts!
- Not the primary concern of supervised.

The way forward in Deposit Insurance.



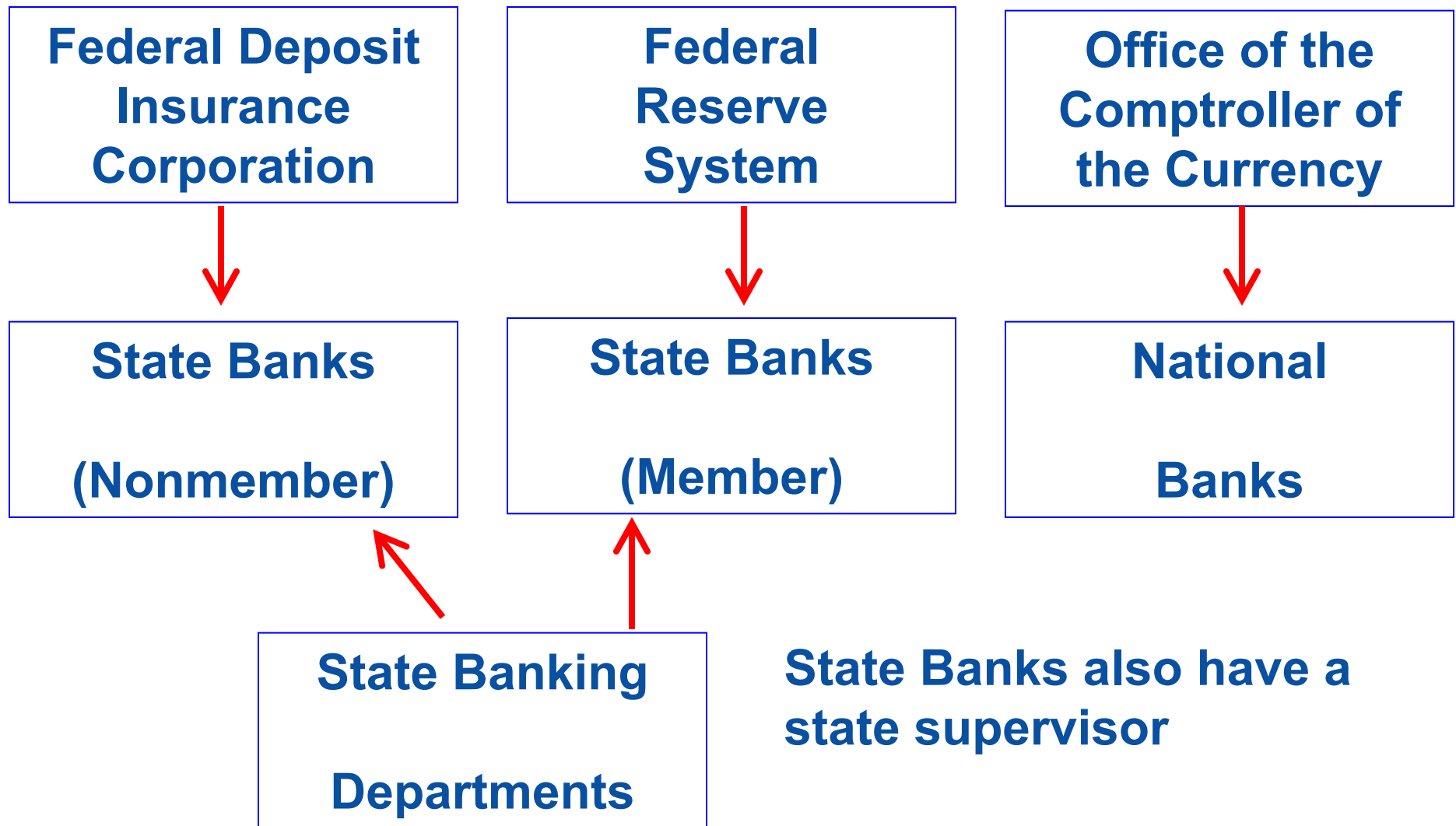
- Full harmonisation not achievable.
- Prioritisation of goals urgent.

Similar problems, similar discussions.

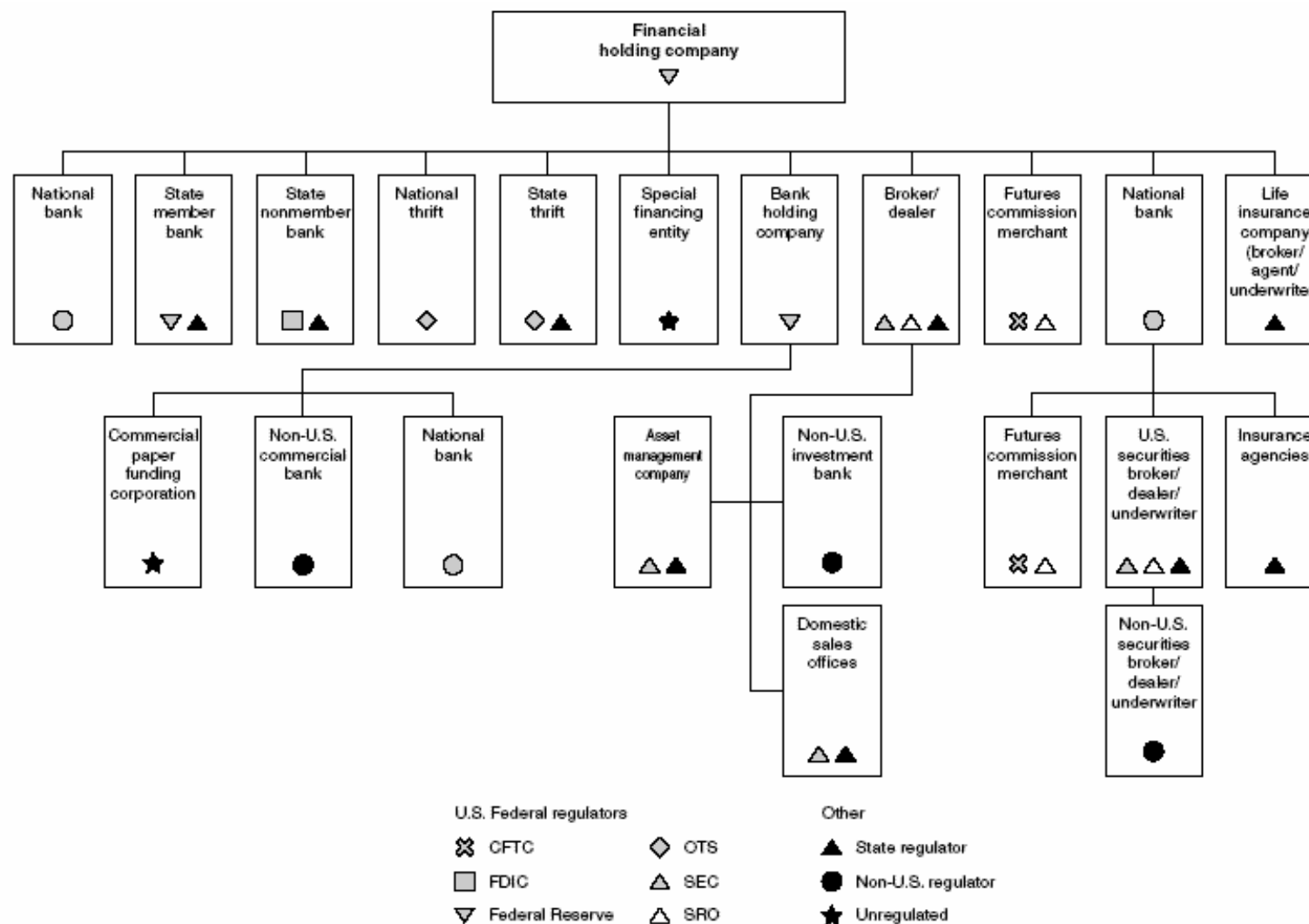


Situation of supervision in USA.

Insured commercial banks have one primary Federal bank supervisor.



Regulators for a Hypothetical Financial Holding Company



Source: GAO.

Similar problems, similar discussions.



Change proposed by GAO (US Government Accountability Office - October 2004)

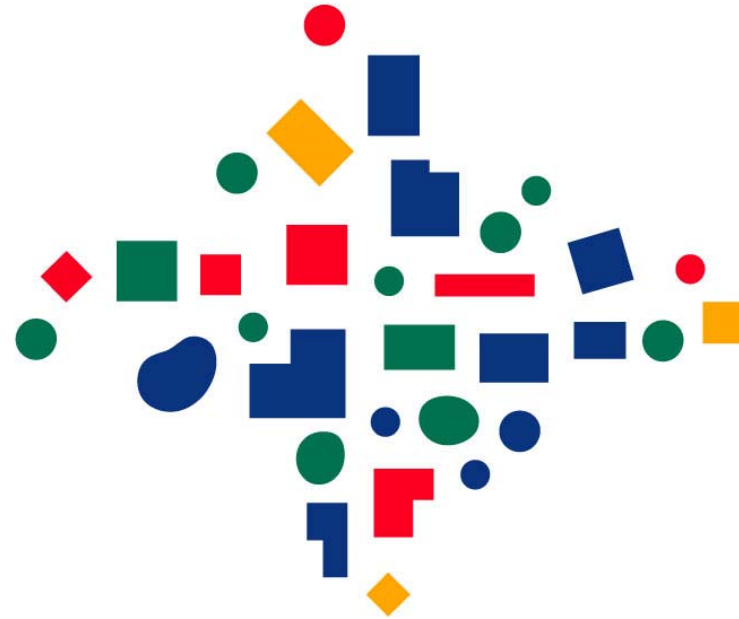
- Consolidate regulatory structure in functional areas.
- Consolidate to twin peaks model.
- Create a single FSA.
- Create a specific regulator for large complex firms.

CONCLUSION.



EXISTENCE OF A GLOBAL FRAMEWORK ARCHITECTURE
WOULD FACILITATE CONVERGENCE
➡ NEED FOR FUNDAMENTAL DEBATE.

BUT QUICK WINS ARE POSSIBLE:
THE FULL LEAD SUPERVISORY FRAMEWORK.



FORTIS

Solid partners, flexible solutions