Brussels, 12 February 2009

Future of Banking Supervision in the EU

Contribution of the European Co-operative Banks

About the EACB

The European Association of Co-operative Banks (EACB) is the voice of the co-operative banks in Europe. The EACB represents the interests of 28 co-operative banking associations at the European level. Founded in 1970, the organisation promotes co-operation amongst its members and represents the co-operative banking sector both in EU institutions as well as in dealings with the European Central Bank. With 4,500 institutions and 64,000 branches, co-operative banks are well represented within the European Union and play a leading role in the European economies and financial markets. They have a long tradition in serving 160 million customers, mainly consumers, retailers, SMEs and local communities. The co-operative banks in Europe have 49 million members, employ 746,000 staff members and have an average market share of 21 percent.

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EXECUTIVE SUMMARY

Around 4000 European co-operative banks are among the key players in the retail banking sector in Europe. Operating at local and regional level as major providers of financial services to private customers and SMES, they contribute to the enhancement of social and territorial cohesion. Co-operative banks are long term rather than short term oriented: Their particular business model is based on private initiative, mutual trust and focused on customer/member value and not on shareholder value. With their specific business-model, cooperative banks are a valuable asset that will help to overcome the difficulties in financial markets and in the real economy. Their existence will also help to avoid concentration effects in financial activities and contribute to diversification and to healthy competition.

The current financial crisis has made shortcomings on the European level evident: the imminent dangers both of supervisory arrangements that remain highly fragmented as well as of a lack of convergence regarding the rulebook and supervisory practices. This must not lead to setbacks in the development of the single market for financial services. **Co-operative Banks strongly advocate more convergence of supervision and macro-economic oversight in the EU**.

However, the timing of any policy action is the key to success: **Trying to fix certain issues by tightening regulation and supervision at a time when the financial system is still vulnerable could aggravate the crisis rather than help to resolve it**.

Therefore the European Co-operative Banks suggest

- **Establishing prudential oversight of the whole financial sector**, not only of banks, insurance companies and investment companies. The close interconnectedness of all financial and quasi-financial markets requires subjecting especially shadow banking activities via SPVs, SIVs, hedge funds, private equity funds and alike to at least some form of rudimentary regulation and supervision, which is consistent with the risk of such activities.
- **Ensuring a good equilibrium between decentralized supervision and a more consolidated approach for cross-border-groups**. Indeed, national bodies' intimate knowledge of the markets and proximity to institutions has proven to be a very valuable asset. Any divided system (for cross-border and national banks) has to be avoided;
- **Making colleges of supervisors,** composed of all relevant supervisory authorities with a strong role for the consolidating supervisor (coordination and final say in case of disagreement in clearly defined areas) **the main element of the supervision of cross-border groups**;
- **Enhancing the role of the Level 3 Committees** to generate more "trust" between supervisors is the appropriate way forward. The role of the Level 3 Committees (CEBS, CESR and CEIOPS) should be developed further into coordinating entities;
- Taking into consideration the **impact of a potential gap between decision powers in supervisory matters and the responsibility for the provision**

of liquidity in crisis situations by using tax payers' money or relying on the burden-sharing of a deposit-guarantee fund when trying to progress in supervision;

- **Creating a "European Financial Stability Council"** (EFSC), which collects data on the prudential situation of financial institutions, reconciles such micro-prudential information with macro-economic analysis conducted by the IMF and develops orientations for supervisors and advises the Council, the Commission, the European Parliament and the Level 3 Committees;
- Ensuring a more "European" perspective of financial supervision by **progress in harmonization towards a common rule-book, as well as convergent interpretation and application of such standards**;
- That policymakers **avoid "regulatory activism"** resulting in inappropriate and overly burdensome rules. Co-operative banks underline the importance of the principles of "better regulation", when it comes to addressing the underlying causes of the financial crisis;
- **Not complementing the risk-based solvency requirements** with a simpler metric to guard model risk and risk compression (e.g. a leverage ratio as has already been applied in the US for some time). The starting-point of any reflections should be the improvement of identified shortcomings in the Basel II framework;
- **Mitigating the excessive pro-cyclical effects of capital and accounting rule**s (IRB-approach of Basel II, Fair Value-approach of IAS). Furthermore, it is a matter of urgency that **accounting standards be made more appropriate for banks and insurance companies through amendments to IFRS**;
- That decision makers and regulators alike consider the specificities and the role of co-operative banks when analyzing the crisis and suggesting regulatory changes. **The sustainable business model of cooperative banks is a valuable asset that will help to overcome the difficulties in financial markets and the real economy**.

GENERAL OBSERVATIONS ON THE FINANCIAL CRISIS

The current financial and economic crisis has made various shortcomings evident, both on the part of the private sector as well on part of macro policy, regulation and supervision. Weaknesses are especially identified in the regulatory framework, in supervisory arrangements, in banks' risk management, compensation schemes and governance structures, but also regarding international accounting standards and the role of rating agencies.

With regard to the organisation of supervision the unfolding crisis has shown that there is a lack of coherence and cooperation among authorities and central banks. The challenge is to integrate national supervisors' perceptions into a consistent view on Europe's financial sector. Secondly, cooperation of the supervisory authorities and central banks needs to be enhanced to arrive at a holistic European assessment on financial stability.

These issues will be addressed during the coming months, by the G 20, by international fora and the European policy makers. The overall aim must now be to facilitate the recovery of Europe's banking industry to make sure that it will live up to its role, especially maintaining its readiness to lend to enterprises and private households. This appears key to avoiding a deep and protracted recession.

Regulation and supervision are expected to ensure that similar crises will become much less likely in the future.

This requires an in-depth analysis of the root causes of the current problems, a public discussion of such analysis and of measures to address identified weaknesses, an impact assessment and the definition of a roadmap to reach the objectives.

Policymakers must avoid "regulatory activism" resulting in inappropriate and overly burdensome rules[1]: Many of the root causes of the financial crisis have not really been identified yet in a consistent manner. Therefore, EACB underlines the importance of the principles of "better regulation", when it comes to addressing the underlying causes of the financial crisis:

"One size fits all solutions" to re-regulate the financial sector will not be appropriate. A targeted, differentiated approach to deal with the underlying causes of the problems will be indispensable to make the financial system more stable and credible in the future.

Furthermore, the timing of any policy action is a key to success: Trying to fix certain issues at a time when the vulnerability of the financial system is still high by tightening regulation and supervision could aggravate the crisis rather than help to resolve it.

While state intervention has been inevitable to some degree to stabilise the banking system, such interference with the market process has to be strictly limited to the degree necessary, and adverse incentives have to be avoided. It would be highly detrimental for competition and the common market as a whole, if banks that rely on state aid could put their competitors, who manage financial

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[1] See Nr. 12 of the "Declaration of the Summit on Financial Markets and the World Economy, November 15, 2008: ….*"Recognising the necessity to improve financial sector regulation, we must avoid over-regulation that would hamper economic growth and exacerbate the contraction of capital flows, including to developing countries"*.

strains by themselves, under pressure with "unfair" pricing policies. Such a result would not only lead to additional burdens for tax payers, but would also deal a negative blow to the competitiveness of the European banking sector.

CO-OPERATIVE BANKS - PILLARS OF STABILITY AND HEALTHY COMPETITION

The current crisis has made the serious weaknesses of particular business models very transparent (i.e. investment banks). Virtually within a few weeks such business models became obsolete when market conditions deteriorated dramatically.

Observers criticise banks' unrealistic and unhealthy pursuit for excessive profits, the loss of contact of financial intermediaries with the "real" economy, the focus on too risky activities and finally a very "short-term-profit-driven" business approach.

While no banking group can possibly isolate itself from the repercussions of the current severe crisis Europe's co-operative banking groups are less affected than most other groups. There are even countries, where the only major banking group who has not applied for government support is a co-operative banking group.

This is not surprising given the basic principles underlying co-operative banking. The primary purpose of a co-operative bank is to promote its members' economic interest, not to generate maximum profit for shareholders. Due to this fundamental aspect, co-operative banks have maintained close ties with their about 50 million members in the EU and therefore mainly focussed on traditional retail banking.

With their strong regional ties, co-operative banks are among the main providers of finance to SMEs, even in remote areas. These elements imply a sustainable business model that has turned out to be healthy and sustainable over the longer term. Co-operative banking groups are member/customers-value oriented rather than shareholder oriented. While there are limited investment activities within co-operative banking groups, the "originate to distribute-model" was not applied.

Thus, the current crisis among others delivers quite impressive empirical evidence for the statements made in the IMF's 2007 working paper "Co-operative Banks and Financial Stability"[2] according to which co-operative banks are more stable than other banks and even make the economies in which they operate more stable.

About 4000 European co-operative banks and their particular business model, based on private initiative, mutual trust, member orientation and long-term orientation, are a valuable asset that will help to overcome the difficulties in financial markets and in the real economy.

The existence of co-operative banks will also be an important element which avoids concentration effects in financial activities. Co-operative banks contribute to diversification in the financial sector as well as to healthy competition[3].

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[2] IMF working paper WP 07/2; Heiko Hesse / Martin Čihák; Cooperative Banks and Financial Stability; January 2007; http://www.imf.org/external/pubs/ft/wp/2007/wp0702.pdf

[3] See European Parliament resolution of 5 June 2008 on Competition: Sector inquiry on retail banking, paragraph 24.

Moreover, a possible credit-crunch can be mitigated due to open lines of credit offered by co-operative banks to SMEs and private households.

We therefore think that politicians and regulators alike should take co-operative specificities into consideration when analyzing the crisis and suggesting regulatory changes. Any new regulatory environment will have to take into account the particularities of co-operative banks which clearly contributed to financial stability and maintained lending to the economy especially during the difficult period since mid-2007. Regulatory policy should not impose new burdens on well functioning banking structures, but should identify and address the underlying causes of the crisis.

STRENGTHENING THE INTERNAL MARKET

The EACB fully supports the integration of Europe's financial markets.

The current crisis must not lead to set-backs in the development of the single market in financial services. At the same time financial supervision should not be just focused on national jurisdictions, but take into account cross border issues which are important from both a financial stability angle as well as for keeping the administrative burden of supervision manageable for intermediaries and ensure a level playing field. The crisis has shown the imminent dangers of supervisory arrangements that remain highly fragmented, since mainly focussing on the national level and of a lack of convergence regarding the rulebook, interpretations of rules and supervisory practices.

Therefore the EACB strongly advocates more convergence of supervision and oversight in the EU.

IMPROVING THE REGULATORY FRAMEWORK

As mentioned above, the current crisis has struck certain business models (i.e. investment banks) far more than others, while the co-operative banks' prevailing approach, which is a strongly "relationship-based" and "deposit-based" retail banking model, appears fairly robust. It proved to be a pillar of stability in recent months. Therefore, the current crisis is an opportunity to reassess certain lines of thinking and to develop new approaches in banking supervision.

The close interconnectedness of all financial and quasi-financial markets has to be considered more than in the past. This requires **prudential oversight of the whole financial sector**, consisting not only of banks, insurance companies and investment companies but also of hedge funds, intermediaries, etc. Especially shadow banking activities via SPVs, SIVs, hedge funds, private equity funds and the like should be subject to at least some form of rudimentary regulation and supervision which is consistent with the riskiness of such activities.

Furthermore, as a general rule, the principle "same business, same rules" must apply. Plans to create "light" prudential regimes for certain providers of financial services (e.g. e-money, mortgage, micro-credit) outside the banking sector should not be implemented without a proper assessment of potential systemic risk and possible competitive distortions.

The decisive element in this respect is the principle of proportionality, according to which institutions have to be subject to a regulatory framework and supervisory practices that are appropriate to their business, their risk profile and their systemic risk.

While certain elements of the prudential framework definitely need to be fixed, the members of the EACB do not see the need to complement the risk-based solvency requirements by a simpler metric to guard model risk and risk compression (e.g. a leverage ratio as applied in the US for some time). The starting-point of any reflections should be the improvement of identified shortcomings in the Basel II framework rather than offsetting only recently introduced Basel standards by simplistic complementary rules. Any solvency related issues for individual banks or groups of banks could be resolved through the Pillar 2 mechanism. As could be observed in the US, a leverage ratio has not passed the empirical test of the current financial crisis. The leverage ratio did not have any observable stabilising effect on the US financial system.

On the other hand, their very short-term orientation makes risk sensitive solvency requirements cyclical. At present, particularly institutions applying the internal ratings based approaches suffer from the impact of the calibration of the PD-Curves. CEBS, the EFC and others are currently discussing solutions to overcome or at least mitigate the problem of cyclicality. While it may be argued that in future better times should provide for stronger capital buffers, there can be no denying that the crisis is intensified by pro-cyclical effects in capital and accounting standards.

For this reason, in January 2009 the ECOFIN Council[4] explicitly calls "*to modify the international regulation of capital and accounting rules in future to ensure that excessive pro-cyclical consequences are mitigated. The Council calls for progress on the work to achieve this. The Council believes that this will further reinforce the emphasis placed on capital being used as a buffer also in view of ensuring that it does not unnecessarily restrict lending during difficult periods."*

In this context, the Council clearly stated that: "*the provision of capital to the banking sector is not intended to create new, higher statutory capital requirements for the banking sector*."

Accordingly, while there is an urgent need to overcome the aforementioned shortcomings, any reform should be proportionate to the target objective and based on a proper assessment of the impact, not lead to an undue regulatory burden and not create obstacles for an economic recovery and further market integration.

IMPROVING THE ACCOUNTING FRAMEWORK

Unfortunately, too little attention has been paid to the impact of the accounting framework on banking supervision as well as to governance issues related to the standard setter in the field of international accounting standards. However, fair value accounting and some other aspects of IAS 39 have considerably aggravated the current situation.

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[4] ECOFIN "Conclusions on Bank Capital", 20 January 2009.

At present, the conceptual framework of the IASB considers supervisory concerns as irrelevant. The revised conceptual framework may possibly give supervisors the rank of secondary users (among many others). We doubt that this is sufficient.

The focus of the IFRS on fair value accounting and an approach to certain financial instruments that does not consider prudential practices to a sufficient degree has turned out to be highly problematic, in particular in the more recent market developments where drying up of market segments, general lack of market liquidity and distorted prices did not allow users to derive “fair” values from these markets. These factors have widely contributed to turning this turmoil into the crisis.

Therefore, there is a need for discussion on possible amendments to IFRS to make accounting standards more appropriate for banks and insurance companies.

In this context the current governance structure of the IASB should also be re-discussed to create a strong democractic legitimation. Recent amendments by the trustees of the IASC foundation to enhance the IASB’s public accountability are a step in the right direction[5].

In addition, we stress the urgency of modifications to IAS 39, as they have been communicated by the European Commission to the IASB in October last year and that such amendments need to be implemented with retroactive effect.

MORE CONVERGENCE IN FINANCIAL SUPERVISION

At this stage a more “European” perspective of financial supervision will require progress in harmonisation towards a common rule-book, as well as convergent interpretation and application of such standards.

However, any further harmonization of standards and criteria for cross-border supervision should not increase the current burden for reporting and compliance, which already put great pressure on institutions, both on bigger banks and on smaller ones that – due to their size - cannot rely on economies of scale.

Further progress in harmonization of legislation and convergent interpretation should ensure a level-playing field not only regarding rules and standards, but also concerning their application by national supervisors. Equal terms of competition both on the national level and cross-border, do not necessarily imply a uniform application, but a convergent and proportional application of standards. The Committee of European Banking Supervisors (CEBS) – and other Level 3 Committees CESR and CEIOPS - should play a leading role in this context

However, **full** harmonization of prudential standards would not provide appropriate solutions. It would require a “fine-tuning” of provisions during the legislative process, which is highly complex and not designed for detailed technical discussions.

[5] Press Release of IASC Foundation “*Trustees enhance public accountability through a new Monitoring Board, complete first part of Constitution Review”,* 29 January 2009.

Instead CEBS and the Level 3 Committees should have at their disposal mechanisms to ensure – to the largest extent possible - a common interpretation of provisions and their convergent application, which are subject to a highly transparent procedure and due process. The co-operative banking groups would ask CEBS and the European Commission to issue regular progress reports on supervisory convergence.

One of the prerequisites for further harmonisation of rulebooks is a clear definition of common objectives of supervision in order to ensure a convergent application of that approach. With varying objectives, convergence cannot be achieved.

In this context, Member States will have to take the necessary measures to fix in their national legislation, but also in the minds of officials an awareness of the European dimension of their mandate.

Another prerequisite for convergence of supervision is to achieve convergence of supervision practices between supervisors. A supervisory attitude based on a mix of on-site supervision and off-site desk research with an appropriate possibility to adjust between both methods on a risk based analysis of the financial institution under supervision, should be one of the goals in the medium term.

Regular reports of level-3-committees could give indications to supervisors for handling certain aspects under pillar 2 under the aspect of crisis prevention.

Finally, it has to be underlined that the aim of convergent supervision requires progress in other areas, such as: insolvency and winding-up legislation, company law, tax law, further harmonization on central bank collateral, etc.

FINANCIAL SUPERVISION ARCHITECTURE

A European perspective for the supervision of banks with significant cross-border activities is required, improving the interaction between public authorities in Europe, which are involved in supervision of cross-border banks.

At the same time, the insights of supervisors will have to be combined with macro-economic oversight by central banks.

Any new concept of supervision in Europe, especially if institutional changes are envisaged, has to identify the key political, legal and technical preconditions for such moves as well as ways to ensure that these preconditions are being met.

a. General Aspects

Possible changes of supervisory architecture must not hinder the work of banks with an administrative burden that exceeds the size and vocation of the bank and is therefore disproportionate. In this context it has to be recalled that also a number of smaller banks has cross-border activities, in particular when due to a specific geographical setting or to relations with a limited number of particular customers.

In general, the structure of financial supervision must remain neutral with respect to the various banking business models in Europe, while ensuring that banks of all sizes are subject to comparable standards; banking supervision should be adequate with regard to the needs of the market place, and not by itself lead to structural changes in the financial sector.

The independence and accountability of supervisory authorities is a pre-requisite for an efficient and fair oversight of financial intermediaries and for a sound and stable financial system in order to support the development of the economy.

European supervisory arrangements between supervisory authorities, central banks and finance ministries through Memoranda of Understanding must be publicly available and drafted in a comprehensive way.

b. Organisation of the Supervision of Financial Institutions

The organization of financial supervision in Europe should reflect the state of integration of markets and intermediaries rather than lead the integration process thus creating fundamental changes. Therefore, the members of the EACB maintain the idea that the arrangements for cross-border institutions ought to be developed on an evolutionary basis, but in an ambitious way. Development of financial supervision in the EU will still be an evolutionary process, based on the will to cooperate and trust. The current crisis, as well as discussions on Solvency II and on the CRD, seem to show that there are significant political obstacles to overcome and that progress in other areas is a pre-condition to progress in supervision.

The EACB takes the view that any changes in supervisory architecture, if deemed necessary, should build on the existing national structures and European bodies (Level 3 Committees). While these national bodies may not provide for the most efficient solutions for an appropriate supervision of cross-border banks, they have repeatedly proven their value on the national level when it comes to managing crises. **The intimate knowledge of the markets and proximity to institutions has proven to be a very valuable asset.**

Any divided system (for cross-border and national banks) has to be avoided, since it would:

- Lead to a "two-class/two-speed" supervisory system, overlooking local competence;
- Create an arrangement, where major decisions (e.g. standards, general policy, best practices) are taken in the "smaller" context and then imposed on the rest of the industry;
- Marginalize the supervisory authorities of smaller Member States;
- Furthermore, a new *European* administrative law, administrative jurisdiction etc. would have to be created, which would make such an approach not only a demanding, but definitely a long-lasting project.

To the contrary, the aim should be to combine forces and efficiency of existing national supervisory authorities and to enhance cooperation in a "network of national supervisory bodies". This network should develop over time into a strong supervisory mechanism for the whole financial sector.

The main element of the supervision of cross-border groups should be colleges of supervisors, which are composed of all relevant supervisory authorities with a strong role for the consolidating supervisor (coordination and the final say in case of disagreement in clearly defined areas). The co-operation within colleges requires further development based on trust and the ultimate goal of working closely together in EEA context; although closer cooperation can be achieved already under the current legal framework.

Since the sharing of information within the colleges is also essential for the functioning of group supervision, the consolidation supervisor will have a major role and a duty to inform other supervisors.

Enhancing the role of the Level 3 Committees to generate more "trust" between supervisors is the appropriate way forward. The role of the level-3-committees (CEBS, CESR and CEIOPS) should be developed further into coordinating entities.

The relevant committees, i.e. CEBS for banks, should develop operational guidelines to provide consistency in the working procedures of the different colleges and effectiveness of the decision-making process and provide reassurance to supervisors involved in the colleges, as well as monitoring the coherence of the practices of the different colleges of supervisors and sharing best practices. The ten principles for the functioning of supervisory colleges published by the Committee of European Banking Supervisors (CEBS), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), and their Interim Working Committee on Financial Conglomerates (IWCFC) published in January are first steps in this direction.

When the decision-making powers within the colleges are properly defined, efforts should be taken to ensure that colleges arrive at joint decisions regarding the most relevant areas (i.e. the validation of internal models, Pillar 2, reporting requirements and designation of systemically relevant branches in particular). Any decisions taken should be considered as binding by all authorities involved in the supervision of such a group.

Within the context of each of the Level 3 Committees mechanisms should be further developed in order to achieve a common interpretation of rules, thus ensuring consistency of supervisory practices between Member States.

The coordinating powers of the Level 3 Committees should include measures like the following:

- Progress in the mediation and clarification of tasks amongst national authorities; there could be different levels of mediation. In order to ensure the acceptance of their decisions, mediation mechanisms should involve the heads of national supervision concerned at some stage. The aim must be to come to clear results. The relevant Level 3 Committee should have a monitoring role;
- Development of training programmes to ensure the "European perspective" of supervision; any measures to enhance the awareness of the "European mandate" of supervisors;
- Procedures ensuring that all supervisors that are materially involved in the supervision of a group work together and mechanisms to provide them periodically with a comprehensive picture of the overall situation of the group, while ensuring a maximum degree of confidentiality.

The governance structure of such “enhanced Level 3 Committees” should ensure a high level of transparency, especially where standards and guidelines are developed. Moreover, adequate consultation procedures should be ensured, especially for banks operating on the national level only. Such consultations are necessary to avoid the danger of hidden standard setting through colleges of supervisors as well as competitive distortions between banking groups which are covered by colleges and non-college banks which operate within their national jurisdictions.

c. Conditions for further progress in supervision

With regard to proposals for supervision going beyond the aforementioned elements, the EACB takes the view that such concepts would be premature at this juncture, in particular a special European body (apart from existing national supervisory structures) acting as a lead supervisor for cross-border banking groups The current crisis has shown that the overall issue in crisis management is “the one who pays also decides”: thus the power of decision-making remains closely linked to the question of the lender of last resort and the burden sharing of a deposit guarantee scheme

Any gap between decision making on supervisory matters and the use of liquidity or tax payers money would create huge difficulties and render such solution not just impractical, but also dangerous as it would increase uncertainty especially in times of crises.

In consequence, a solution of the lender of last resort issue (especially when taxpayers’ money is used) and the further development of deposit guarantee schemes on the European level are pre-conditions for further material progress in supervision.

d. Strengthening Financial Stability Oversight

Efforts will have to be taken to conciliate the supervision of individual institutions with stronger macro-economical oversight.

The current crisis has shown that close and frequent contacts between supervisors and national central banks are of utmost importance, both on a national and on a cross border level within Europe and in a wider context.

On the European level, there are several entities (CEBS, ECB, etc.) that assess and report on the stability of the financial industry. In order to make best use of this analysis, it seems important that all findings are computed in a timely way into a single report, with macro-prudential recommendations.

We suggest establishing a “European Financial Stability Council” (EFSC):

- Such entity could collect data and information from supervisors and from the level 3 committees on the prudential situation of financial institutions on a consolidated basis, especially regarding the systemically relevant banks.
- Reconcile such micro-prudential information with micro-economic analysis conducted by the IMF, the FSF and the analysis conducted by CEBS and others.

- Based on that conclusion develop orientations for supervisors, e.g. regarding new instruments or techniques that may imply dangers specifically from a macro-economic perspective (high leverage, bubbles, etc).
- It should advise the Council, the Commission, the European Parliament and the Level 3 Committees.

It would make sense to have such a body attached, but not integrated, to the European Central Bank and chaired by one of the ECB board members in order to facilitate dialogue. This body should be independent to avoid conflict of interest. It would be destined to be the natural interlocutor for the IMF and the Basel Committee on all macro-prudential questions.

Whenever a systemically relevant European bank gets into difficulties or when difficult macro-economic developments are perceived (bubbles), the European Financial Stability Council could convene a task force consisting of relevant supervisors, central bankers, Ministries of Finance and CEBS to discuss and decide on the measures that need to be taken.

The EACB would appreciate the establishment of a high-level contact group between the EFSC and the private financial sector to discuss financial stability issues on a regular basis.

COOPERATION WITH OTHER JURISDICTIONS

The FSF should be developed into a forum for co-operation with other jurisdictions on prudential practices and regulatory standards independent from the IMF.

The role of the IMF as an international institution with its 185 members as a “watchdog” for financial stability and macro-economical oversight should be further enhanced. Its analyses, observations and recommendations should be more focussed on reducing systemic risk and on early warning mechanisms.

The concept of colleges should include supervisors outside the EU/EEA as well. The co-operation should be based on MoU’s.

A level playing-field has to be ensured at the global level in order to avoid regulatory arbitrage.