



Working group on Financial Services
Minutes of the breakfast debate of Tuesday 31 March 2009 on
Reform of Financial Regulation and Supervision

Chaired by Othmar KARAS MEP

Introduction by

- Othmar KARAS MEP, Vice-President of the EPP-ED Group, Member of the European Parliament's Committee on Economic and Monetary Affairs

Speakers:

- Onno RUDING, Member of the "De Larosière" High-Level Experts Group on EU Financial Supervision
- Emil PAULUS, Director "Financial Services Policy & Financial Markets", DG MARKT, European Commission
- Wolf KLINZ MEP, ALDE Group Coordinator for Economic and Monetary Affairs in the European Parliament

Conclusion by

- Othmar KARAS MEP

In his introduction Mr Karas stressed the importance of stabilising the banking system in order to maintain depositor's confidence in the financial system and going back to normal as soon as possible. In his capacity as rapporteur of the Review of the Capital Requirements Directive he showed himself convinced that there was an urgent need to reform the financial regulation and considers the European Union as guide in this discussion. He believes that with respect to a further supervisory integration long term solutions must be found and that the new architecture should build on the model of the European System of Central Banks.

Mr Ruding highlighted the importance of a revised financial regulation. However he warned of over regulation and stood up for improving the current rules rather than inventing new ones. Concerning crisis management he stated that prevention should come first and only if it failed resolution must follow. He favoured the development of principles about burden sharing in the aftermath of the crisis as the involvement of a lot of cross border players makes it difficult to assess. Regarding the structure of a new supervisory framework he strongly emphasized the need for a macro prudential supervision rather than an individual one. In this context he warned that no additional authorities must be given to the ECB as in case of failure this would endanger its independence and reputation. Concerning the board of supervisors he was of the opinion that the three Level-3-committees should be merged into one committee. This new authority should get new competences, and propose legally binding indications if a conflict of national authorities arises.

Mr Ruding finished by stating that he really wanted to go further than the de Larosière result.



Referring to the G 20 summit Emil Paulis showed himself convinced that it would bring a dramatic change in the distribution of power especially as the emerging countries would take part and be given the place they belong to. In this respect it won't be easy for Europe to defend its leading power. Therefore he called upon the member states to firstly speak with one voice and secondly not to remain silent with their opinion. He saw a need in strengthening both the macro- as well as the micro-prudential supervision of the financial system and to do so in a way that achieves synergies. Talking about the macro prudential level, he was of the opinion that the foreseen European Systemic Risk Council should have more power and be responsible for timely risk warning. It should act jointly together with the micro prudential level and not be linked to the ECB too closely. Although its recommendations should not be legally binding states should be urged to comply. On the micro level he saw a need for better enforcement. To this end there should be no delay in setting up a framework. He was not in favour for lifting up powers from the national networks but to coordinate them.

As regards the discussion of the Level-3- Committees Mr Paulis is also of the point that there is a need for more competences and the power to take binding decisions. Concluding and referring to the new regulatory framework he urges that the new rules must be simpler and based on the notion of "safety first". Although protectionism had to be avoided protection of the investors was crucial. Therefore in the fields of regulation a race to the bottom is wrong. To the contrary, it had to be a race to the top, still avoiding over regulation.

Mr Klinz showed himself convinced that the crisis could have been already prevented with the existing framework. He believed that it is questionable whether the new rulebook is helpful. Concurring with his previous speakers he welcomed the de Larosière report and stated that the European Parliament has had proposals that went further. Concerning the role of the European Systemic Risk Council he thought that it should have a close dialog with the ECB but left it open if it should be identical with the ECB.

Talking about the G20 meeting he regarded it as decisive that the US is not trying to put emphasize on recession fighting and regulation first but is willing to co-operate.

Contrary to Mr Klinz' beliefs, Mr Ruding replied in the following discussion that the intensity of the current crisis could have been reduced with the present framework but that even the perfect overlook could not have avoided it due to it's weakness and the inappropriate risk management of many banks. He was also worried that a major role of the ECB could endanger its reputation in case it fails to make an early warning and triggering another crisis. Talking about the role of the European Systemic Risk Council he mentioned that it would not prevent bubbles but measure risk, analyse what is going on in macro economic field.

There was a common line that the G-20 will bring a minimum harmonization.

*Julia KRIZ
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