

EPFSF Lunch Discussion

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Supervisory Convergence

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1. The recent **financial crisis** has shed light on the fact that the current supervisory process is not adequate to monitor, control and drive banking sectors, financial products and markets that are growingly integrated: many supervisors have been forced to make *ad hoc* requests and interventions, not just to stabilize markets and investors, but even to gather quantitative and qualitative information needed for efficient and timely policy decisions. Supervision has to follow a convergence path (and when we say that the current framework is not adequate to the challenges/opportunities of an integrated market we are not only referring to the big contentious issues such as burden sharing but also to a basic element of supervision such as reporting)
2. There seems to be a lack of common definition about what “**supervisory convergence**” exactly means. To us (multinational banks, practitioners, risk managers), it is the thrust towards a common set of rules, interpretations and supervision practices that strikes a balance between the need of a levelled playing field for financial institutions and the efficient and timely supervision of a global financial system that is characterised by increasing integration and complexity of institutions and products.
3. **Convergence needs time** and cannot be achieved without **a gradual process** that leads to the creation, and the subsequent empowerment, of appropriate bodies aimed at guaranteeing that the technical and political skills needed for a truly global supervision are used in an efficient way. The first step in the right direction is undoubtedly the creation of colleges of supervisors, which are the first true example of an organised network of supervisors, where, in principle, information on multinational banking groups is exchanged, validation efforts are shared and assessments on groups capital adequacy is made. As a matter of facts reality, for the time being, is different for many multinational groups:
 - Infra-college communication is suboptimal
 - Information sharing among supervisors is sluggish
 - Responsibility sharing and allocation among supervisors in the same college is not clear
 - Importance of capital adequacy at group level is often overlooked
4. The realization of such inadequacy has encouraged various Institutions to explore and propose different solutions and amendments:
 - The Ecofin steps and roadmap of December 2007 and May 2008;
 - Member states and European Commission recommendations;
 - CEBS templates
 - CRD review

5. Thus we value very much every attempt to **strengthen further the role and the responsibility of the colleges of supervisors**. On one side we appreciate very much the formal endorsements of the latest ECOFIN (Brussels, May 14th 2008), and on the other we do our best, as practitioners, to foster and enhance the sharing of information among those institution in charge of the supervision of our banking group, through informal meetings and info sharing, but also through direct and, hopefully, fruitful participation in workshops and working groups of CEBS (Level 3 Committees), aimed at providing advices on how to pragmatically proceed along the supervisory convergence path (e.g. CEBS working group on national discretions and options). Although we believe that the CRD proposed amendments, currently under discussion, go in the right direction, by introducing explicitly the concept of colleges of supervisors, **we still think that more could have been done by providing colleges with greater power and responsibility in terms of decision making**. Also, the impression is that the strengthening of the role of colleges is tuned more on crisis management, rather than day to day supervisory activity, and this is a pity.
6. It is our belief that a stronger and more formal empowerment of colleges of regulators, accompanied by a strengthening of the role of Level 3 Committees could be extremely beneficial to move ahead towards a deeper convergence in rules, regulations, interpretations and supervision. It is worth stressing that such a deeper convergence cannot go without further progress in the treatment of funds transfer and solvency. In a nutshell, while we fully support a gradual approach that aims, over the short/mid term (how short is short term?), towards the creation and empowerment of a “consolidating supervisor”, we would like to see ahead of us, over a longer time span, a **European Banking Supervision System (EBSS)**, with a deep involvement of member States, a central role for an stronger CEBS in close relation with the ECB and Finance Ministers. Under this model the home supervisor is allocated major responsibilities, while maintaining the possibility, already spelled out in the current regulatory framework, to re-allocate part of these responsibilities and tasks to other (host) supervisors.

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