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Towards a genuine Economic and Monetary Union

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On 1 October 2012, the **Committee on Economic and Monetary Affairs** (ECON) requested a European Added Value Assessment (EAVA) to support its work on the legislative initiative report "Towards a Genuine Monetary Union" (rapporteur Mrs Thyssen). Given the broad nature and scope of the subject and the short time available for its preparation, this Issues Paper provides a snapshot of the potential added value associated with recommendations presented in the Report and limits itself to selected impacts.

This paper has been undertaken by the **European Added Value Unit** of the Directorate for Impact Assessment and European Added Value, within the Directorate General for Internal Policies (DG IPOL) of the General Secretariat of the European Parliament.

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Contents

List of tables

Executive Summary

The financial crisis and the ongoing sovereign debt crisis have revealed serious problems in the architecture of Economic and Monetary Union (EMU). As a major step towards resolving these problems and creating an EMU architecture better able to ensure stability and prosperity gains from closer European economic union, the European Council has proposed an overhaul of the current EMU, broadly outlined in its report "Towards a Genuine Economic and Monetary Union". A key aspect which has been underscored is the further involvement of democratic institutions - notably the European Parliament - not only in the legislative process but also as part of *a new, enhanced system of oversight to complement the new executive powers* which form an essential part of a better functioning EMU.

This paper sets out issues related to systems of financial supervision, drawing on existing practices in the member states and monetary policy in different European countries. Several trends can be distinguished which could be useful in terms of improving supervision at EU level. Firstly, there is now broad recognition that a monetary policy regime works best when the Central Bank is closely involved in prudential financial supervision. Secondly, in cases where financial conduct and consumer interests are protected under the aegis of the same supervisory authority, the need for democratic accountability and oversight is evident, because ultimately it is the State, and its taxpayers, who must back up the potential losses of a failed bank.

Based on these, and applying lessons of best practice, it is possible to identify a number of avenues to improve oversight of the European Central Bank - both in its current role - and in its future enhanced role as prudential financial supervisory body. The European Parliament, as the only democratically elected institution at EU level, could be empowered to provide the necessary checks and balances, which could include approval of nominations to the board, access to documentation, the right to call hearings and the right to conduct audits of the ECB's activities. The Parliament could also be empowered to take cases against the ECB to the Court of Justice, in cases where there is evidence to suggest the ECB has exceeded its mandate.

Such an enhanced EMU could create enormous potential benefits in terms of European Value Added (EAV). Taking all of the various elements of an enhanced EMU together, the quantifiable possible added value gains can be estimated to total some 400 billion euros. The table below provides a breakdown of these:

Policy goal	**Estimation of EAV in EUR**
Completing financial markets	63 billion (per year)
Averting a further financial crisis	200 billion
Common deposit guarantee scheme	12.78 billion
Averting a sovereign default in Portugal, Ireland, Italy, Greece and Spain	50.5 billion
Coordinating economic policy	31.5 billion

Beyond this, the most crucial aspects of improving EMU relate to enhancement of democratic accountability, transparency and oversight of the executive functions of monetary and financial authorities at EU level. Although these aspects cannot be easily quantified, they are perhaps the most important of all, in that they bring these crucial policy issues closer to the EU citizens, without whose support and acceptance, no financial architecture will be sustainable.

1. Financial Supervisory Structures in EU Member States

1.1 Introduction

The Added Value which can be contributed by the creation of new regulatory and supervisory structures and tools to address in the near term the twin crises of the Euro and the sovereign debt of certain member states depends in no small part on how these structures are designed.

The Banking Union, of which a new Single Supervisory Mechanism (SSM) is a major element, is identified as one of the four key building blocks for improving EMU, notably as part of the new architecture proposed in the 25 June 2012 report of the President of the European Council, in collaboration with the President of the Commission, the President of the Eurogroup and the President of the European Central Bank[1].

A key is the precise design implementation of a new SSM. The mechanism must be implemented not only with great care, but in a way that maximises functional synergy with existing models for supervision in the Member States. It is for this reason that careful consideration should be paid to the existing models currently in use by Member States; in particular the interrelationships between the four key players in the regulatory policy sphere: the supervisory authority, the Central Bank, the government and parliament.

1.2 Three models of supervision

Although the reality of financial supervision is complex, and depends to no small extent on the historical, cultural and legal framework and context, it is nevertheless possible to identity three basic supervisory models. These are:

1) The Sectoral Model

As the name suggests, the Sectoral Model provides for separate and independent supervisory bodies which cover institutions operating in the various sectors of the financial economy. Thus, there would be a banking supervisory authority, an insurance body, a supervisory body for pensions etc.

In general the Sectoral Model relies on its own resources for funding, i.e. it is funded by mandated contributions for the institutions operating in the sector. Usually, legislative acts lay out a broad framework within which sectoral supervisory bodies may act, and provide for accountability to the relevant government ministry.

In some cases, due to overlap in operations between sectors, some jurisdictions have moved towards an integrated sectoral model; in which sectoral supervisory bodies are amalgamated or replaced by authorities that have jurisdiction in multiple financial sectors.

[1] European Council (2012) *Towards a Genuine Economic and Monetary Union*

Some important issues can be identified relating to this model:

- Autonomy from the Central Bank. Because of its fragmented nature and the nature of its funding model, the Sectoral Model provides for the highest degree of independence from Central Banks.

- Difficulty in coordinating macro prudential supervision. By its very nature, the Sectoral Model is fragmented and focused on the operations of individual sectors and institutions. As such, it is poorly suited to providing supervisory guidance on issues such as systemic risk assessment.

- Oversight. By giving the supervisory bodies a statutory mandate, it is relatively easy for the government or parliament to maintain a degree of oversight and demand accountability from the bodies operating under the sectoral model. This is particularly the case in situations in which some funding comes from government resources.

- Specific, product level expertise. Because of the higher level of sectoral specialisation, experts operating within the bodies can develop product-level expertise and keep abreast of developments in the market. Thus, while there are disadvantages in terms of achieving prudential supervisory objectives, this model is especially useful in terms of protecting the interests of consumers and ensuring appropriate codes of conduct are adhered to.

- Risk of "regulatory capture". Because of the proximity and specificity of the bodies operating under SM, it is generally considered that this model leads to a greater risk of regulatory capture, that is, situations in which the supervisory authority is influenced in its decisions by the institutions operating in its sector. This may occur due to employment cross-overs between the supervisory authority and private institutions, or as a result of the funding issues. The risk of regulatory capture is particularly acute for smaller financial sectors, or sectors with a high degree of market concentration.

2) The "Twin Peaks" model

In essence, the Twin Peaks model (TPM) attempts to ensure an optimum supervisory approach by maintaining two separate bodies[2]. One body is charged with the supervision of conduct and operational issues of individual institutions; while the other has responsibility for prudential supervision, including macro prudential risk assessment. Commonly, the TPM combines a "conduct" body that is sector-funded and government mandated with a "prudential" body that is the Central Bank, or operates under the direct control of the Central Bank.

[2] FSA (2012) *Delivering Twin Peaks within the FSA*

This dual supervisory system is designed to overcome conflicts in regulatory and supervisory mandates. One such conflict that is often mentioned is the conflict between a 'conduct' body's desire to avoid moral hazard, and a 'prudential' body's desire to avoid systemic risk. For example, in the case of a financial institution that has taken poorly calculated risks, a supervisory body that is concerned with conduct on the level of the individual institution may wish to see that institution fail; its stakeholders forced to realise a loss commensurate to the risks they took. However, a 'prudential' body may wish to see such an institution survive, given that its failure could jeopardise the entire system, and thereby endanger the interests of financial institutions (and their stakeholders) who did not engage in such risks.

The extent to which there is cooperation and coordination between the two supervisory peaks will depend on the individual jurisdiction. However, in most cases, given that prudential risks are considered more fundamental to the smooth operation of the economy, it is generally the case that the prudential peak (i.e. often the Central Bank) has a leading or overarching role in the overall supervisory structure.

In certain cases, if the mandates of the twin supervisory bodies are not defined sufficiently well, inefficiencies can plague a twin peaks system. This can lead either to regulatory gaps or duplication of effort.

3) The Single Supervisory Model

Perhaps the most straightforward and certainly the most widely employed model for financial supervision, the single supervisory model entails a single body, charged with the supervision of all sectors within the financial economy. It covers conduct, consumer protection, as well as macro prudential issues. The single authority may or may not be the Central Bank, though in many cases it is.

There are clear advantages in terms of economies of scale, and ease of coordination. Another, less evident, advantage is that in terms of oversight, the single supervisory model can facilitate the task of government or a parliamentary committee in conducting thorough and clear oversight of the body's regulatory practices.

However, there are also disadvantages to this system. In cases in which the single body is synonymous with the Central Bank, and given that in many jurisdictions the independence of the Central Bank is considered fundamental to guaranteeing price stability, it may prove difficult to demand accountability from the single supervisory body, even on issues which do not directly affect price stability.

But the main disadvantage of the SSM is the potential for conflicts between conduct and prudential objectives, and how a single body can resolve those conflicts in a coherent way that does not disadvantage taxpayers, lead to excessive moral hazard, or jeopardise the stability of the system.

1.3 Models existing in the Member States

Before the financial crisis, conventional wisdom on financial supervision spoke for a separation of supervisory authority from monetary policy. The logic underpinning this was that, in cases where banks encounter solvency issues, it was ultimately the sovereign (i.e. "fiscal") resources that must be used to guarantee deposits and the repayment of debts to other ranked creditors. Thus, an agency was needed to ensure supervision that was directly accountable to the government. A further argument in favour of a Sectoral Model was that there may be situations in which the Central Bank could face a conflict of interests between its supervisory responsibilities and its responsibilities to ensure price stability.

However, both in response to the ongoing crises, and as part of a wider effort to meet the constantly emerging challenges posed by an evolving, dynamic, and increasingly global financial sector, the supervisory structures of the EU's Members States have been changing considerably in recent years[3]. On the one hand, the specific need to address crises showed that the goals of the Central Bank and those of a supervisory authority were not competing: A monetary crisis also threatens price stability. On the other hand, it quickly became apparent that large efficiencies in scale in terms of expertise could be achieved through tapping the Central Bank's pool of expertise on financial markets. This is particularly true given the fast-moving pace of financial products.

The changes to supervisory structure currently underway and having been recently implemented concern, in essence, three key areas:

- Specific, crisis related measures designed to improve efficiency and speed of responses to emerging crisis situations. In many cases, such measures concern the adequate provision of liquidity to a country's banks in situations in which, for example, there is a liquidity freeze in interbank lending markets. Another element of such reforms involves ensuring the necessary legislation, expertise and information flow to adequately supervise and guide the resolutions of troubled financial institutions, in a way that protects depositors and the wider financial system.

- A new emphasis on macro-prudential supervision. In addition to protecting financial interests of investors and ensuring adequate capital reserves are in place to protect against the risk of insolvency on the level of an individual financial institution, the crisis pointed up a need for a wider view of how banks interrelate, pool and transfer risk across the financial sector, and how these risks might accumulate and threaten the financial system as a whole. Again, the emphasis on macro-prudential financial supervision suggests a deeper role for the Central Bank, because such issues are inextricably linked to the proper execution of monetary policy.

[3] ECB, (2010) *Recent development in supervisory structures in the EU Member States (2007 - 2010)*

- Wider structural changes to the supervisory system in place. Not unrelated to the above points, much of the focus on change has been on substantial changes to the entire supervisory architecture. For example, the (rather ambiguous) twin peaks supervisory system in operation in Germany, in which both the German Bundesbank and the Federal Financial Supervisory Authority shared authority for supervision, has recently been clarified to one in which supervisory competences are consolidated within the German Bundesbank.

Despite these trends, it is still very much the case that no one model exists that is considered universally superior. Equally, whether it is appropriate that the supervisor be part of the Central Bank or not is not entirely clear. This lack of best practice is reflected in the current situation in the Member States. Figure 1 summarises the most current position, (taking into account recent and planned changes to the system) for the EU 27.

Figure 1 - Models for Financial Sector Supervision in the European Union

Member State	Sectoral Model	Twin Peaks	Single Supervisor Model	Central Bank as supervisor?
BE		x		no
BG	x			yes (banking only)
CZ			x	yes
DK			x	no
DE			x	yes (banking only)
EE			x	no
GR	x			yes (banking only)
ES	x			no
FR		x		no
IE			x	yes
IT	x	x		yes (banking only)
CY	x			yes (banking only)
LV			x	no
LT			x	yes
LU			x	yes
HU			x	no
MT			x	no
NL		x		yes
AT			x	yes (banking only)
PL			x	no
PT		x		yes
RO	x			yes (banking only)
SI	x			yes (banking only)
SK			x	yes
FI			x	no
SE			x	no
UK		x		yes

Sources: National Authorities, ECB

Although there is no clear system that is best, the following can nevertheless be stated:

- By far the dominant system in the EU is the single supervisor model, with 16 of 27 countries having adopted this approach, including the euro zone's biggest economy, Germany.

- Likewise, a majority of EU countries (16 of 27) have opted for a system in which the Central Bank has a direct role in supervision. This holds true regardless to whether the country has chosen a sectoral model, a twin peaks model or a single supervisor model. Even in countries for which the Central Bank is not directly involved in supervision, arrangements exist to ensure the Central Bank is closely involved and fully informed.

- Moreover, and consistent with academic findings in the area, the trend is very much in favour of more involvement by the Central Bank in supervision, even in the operational or 'conduct' area. In addition to benefits in terms of existing expertise, studies have noted that where a Central Bank has access to information on individual financial institutions, within the scope of its operational supervisory activities, the Central Bank was in a better position to exercise prudential risk

- Of the six countries that have recently changed or are in the process of changing models (Belgium, France, Lithuania, Portugal, Finland, United Kingdom), **four** have moved away from the Sectoral Model, while **two** have moved away from the single supervisor model. **Four** have moved towards the Twin peaks model.

- For a full list of financial supervisory bodies in EU Member States, with descriptions, see Annex 1.

In terms of applying these lessons to the European Banking Supervision, it is clear that due to the differences in structure between the Union and the Member States, certain models in which prudential supervision is highly integrated with conduct would be inappropriate to consider. In the first place, conduct issues relate to the wider single market and therefore must be coordinated on EU level across all Member States, both within and not within the euro zone. However, the nature of banking operations within the euro zone suggests a different - and more integrated - structure for prudential supervision is required in the immediate term.

1.4 Oversight of supervisory bodies by government and parliament

As with the models for supervision generally, there are considerable differences across Member States in terms of the level and quality of democratic accountability. In all countries for which supervisory authorities are not Central Banks, government exercises some degree of control. Generally, the model is that financial supervisors function as autonomously funded agencies under the control of the Minister for Finance.

In cases where the Central Bank is involved, there is rather less accountability to government, consistent with principles of independent monetary policy. This is, notably, the case for Germany, where the Bundesbank now takes a leading role in supervision and enjoys broad autonomy.

Parliamentary oversight
In Finland, the activities of the Finish Financial Supervision Authority are supervised by the Parliamentary Supervisory Council, which also oversees that country's Central Bank. The PSC has the right to receive the information it needs to conduct effective oversight, and also appoints external, independent auditors.

In Lithuania, which has a sectoral model, some degree of Parliamentary oversight also exists. There, the Commission for the Regulation of the Business of Financial Institutions and Insurance Companies and Coordination of Supervision, established in 2003, includes representatives of the three sectoral supervisory authorities, but also representatives from the Parliamentary Budget and Finance Committee.

2. Avenues for strengthening oversight of financial supervision and the ECB

2.1 Avenues for strengthening oversight of the ECB

Interpretation of mandate
At present, although the ECB is defined under Treaty Law, and as such would automatically be subject to the ruling of the European Court of Justice, Article 130 TFEU states that, "When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the Statute of the ESCB and of the ECB, neither the European Central Bank, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body," thus effectively insulating the ECB from legal accountability in the exercise of its mandate.

1) Interpretation of mandate - given that the mandate for the ECB is set out in the Treaties, it is legally appropriate and consistent with Union practices that the Court of Justice of the European Union be empowered to adjudicate on specific policy measures in terms of their conformity with the mandate, and hence the Treaties. This would allow a Member State or an Institution of the EU to bring a case to the CJEU where it felt the mandate was being misused or had been misinterpreted by the ECB's governing council.

Appointments
At present, the European Parliament is only consulted on appointments to the ECB's executive board.

2) Appointment of senior ECB staff is to be subject to approval by the European Parliament. The Parliament is to be empowered to conduct hearings to ascertain the qualifications, suitability and political independence of candidates to senior positions within the ECB, in advance of giving its approval. 'Senior staff' is taken to mean the

ECB president, the ECB vice president, any member of the ECB's Executive Board, as well as senior administrative staff at the level of Director General. Appointment of governors of the national central banks remains within the remit of the Member States, but national parliaments and their governments must consult with, and seek the opinion of, the European Parliament prior to appointments.

Transparency

3) European Parliament is to be empowered to summon the ECB President or senior officials to hearings, to obtain explanations and information concerning the conduct of monetary policy operations deemed by the Parliament to constitute exceptional or questionable uses of its powers[4]. Such explanations are to cover not only monetary policy operations conducted by the ECB, but also operations carried out by national central banks within the Eurosystem, on behalf of the ECB.

At present, under Article 132 (2) TFEU, the ECB may at its own discretion decide to make public documentation related to its operations. This provides an inadequate means for an institution charged with oversight to assess the Bank's activities.

4) All minutes of meetings of the ECB's Governing Council or Executive Board must be made available, with no delay, to the European Parliament's Council of Presidents and to Members of the Committee on Economic and Monetary Affairs, on a strictly confidential basis. In addition, special communications to Member States and reports produced internally by the ECB must be made available, on request, to the Parliament, and will likewise be treated with the strictest of confidentiality.

Conditionality

The imposition of any special terms by the ECB's governing council on the government of a Member State, as part of a special bond purchasing activities designed to ensure stability within the euro area (i.e. "Conditionality") represents an exceptional intervention by the ECB in activities which are normally the sole remit of democratically accountable authorities. As such, these activities must be conducted under the clearest and highest standards of democratic accountability.

5) A Special Committee for Oversight (SCO) is to be established, with a specific mandate relating to the oversight of "Conditionality" under any bond purchasing activities or other exceptional monetary policy interventions relating to ensuring the stability of Euro Area Member States and their governments.

6) Each SCO is to be composed of Members representing equally the three institutions a) the European Parliament; b) the National Parliament of the Member State concerned and; c) the European Commission.

[4] Such operations could include, but are not limited to, bond purchases; foreign exchange operations; any significant changes in the ECB's balance sheet; changes in the quality or composition of acceptable collateral relating to transactions with commercial banks; policies and guidelines issued to Eurosystem CBs concerning the operation of the Target 2 system or other discretionary operational practices that may influence monetary policy outcomes.

7) Each of these three institutions will determine independently who shall be nominated to serve on the SCO; however it is normally expected that Members will be nominated from within that institution's relevant organ of expertise (i.e. the Committee on Economic and Monetary Affairs for the Parliament; the Member State's relevant parliamentary committee; and the Directorate General for Economic and Financial Affairs of the EC).

8) The SCO will meet regularly and take decisions by simple majority. It will determine its own procedures for chairpersonship, or other aspects of its internal organisation.

9) The ECB must make available, without delay, all decisions, communications and other memos - both internal and those between itself and the relevant Member State - to the SCO. The SCO is to treat such communications with strict confidentiality.

10) The ECB must seek the approval of the SCO, for all recommendations to the concerned Member State for policy measures of a fiscal or regulatory nature under "Conditionality" within the scope of such a programme, prior to its imposition.

11) The SCO will participate in, and adjudicate over, all and any negotiations conducted between the ECB and the affected Member State in relation to specific terms under "Conditionality".

Punitive measures - Special investigative committees

At present, only the Governing Council or the Executive Board of the ECB have the power to commence judicial proceedings in the case of misconduct. This represents a serious limitation to the degree of oversight, and while it is clear that the Court of Justice of the European Union, is best placed to act as final adjudicator in such cases, there is a clear need for a procedure which allows proceedings to the commenced from outside the ECB

12) Should evidence come to light of reasonable suspicion of unethical, illegal, or untoward use of authority or influence on the part of the ECB or individual members of its staff or Governing Council in the operation of its monetary policy, or in its dealings with Member States, other Institutions or with private commercial financial institutions, the European Parliament shall be empowered to convene a special investigative committee, composed of its own Members.

13) This committee will be empowered to obtain any and all documentary evidence pursuant to its investigation. The ECB will cooperate fully. The committee may, furthermore, summon individual members of the ECB staff to provide testimony before the committee in relation to the investigation.

14) The committee shall then report on the investigation and submit its report to the European Parliament, which will be charged with making recommendations concerning appropriate disciplinary action, if any, to the ECB Governing Council.

15) The ECB's Governing Council will be responsible for fully informing the Parliament of its actions consequent to such recommendations.

16) In the final order, the Parliament will be tasked with oversight of the implementation or non-implementation of recommendations arising from the findings of its special investigative committee. In the case of non-implementation, the Parliament may take a case to the CJEU against the ECB as a whole, as potential inaction would constitute non-fulfilment of the ECB's mandate. Any ruling of the CJEU in this regard would be deemed binding under Community Law.

2.2 Avenues for oversight of the European Financial Supervisory Authority

1) In light of maximising synergies and benefitting from the existing pool of regulatory expertise within the ECB, and with a view to balancing the powers which monetary policymakers must exercise to achieve a more complete Economic and Monetary Union, the Parliament supports the inclusion of a new European Financial Supervisory Authority (EFSA) under the aegis of the ECB, as part of a twin peaks model.

2) Unlike the newly established European Banking Authority, whose role is primarily one of coordination between the supervisory authorities at Member State level, EFSA will have ultimate responsibility for all financial institutions within the euro area, and will moreover take direct responsibility for financial institutions within the euro area that fall above a certain threshold in terms of operating size, or are deemed to be systemically important by the authority. It will moreover act in a strategic supervisory capacity for the EBA and the national supervisory authorities.

3) The Parliament shall be charged with the appointment of external auditors, tasked with the review of the EFSA's operations, which will report to Parliament on its findings.

4) The EFSA will provide to the Parliament and to its appointed auditors any information necessary to conduct effective oversight.

5) In addition, the President of the EFSA will report regularly to the Parliament, providing updates to its activities.

Box 1 - US Congressional Oversight of the Federal Reserve Bank

The Federal Reserve, the Central Bank of the United States, is subject to oversight by Congress. This oversight takes place through a number of avenues:

- The seven members of the Board of Governors are nominated by the President, and these nominations are appointed by the U.S. Senate, the upper house of Congress. In determining their suitability for office, the Senate can invite nominees to hearings and question them on their experience and policy views.

- Board governors and staff testify before Congress frequently to discuss issues with the Federal Reserve's field of competence. In 2008, for example, governors and Board staff testified 35 times before Congress. There is also ongoing communication between Board staff and the administrative staff of Congress.

- As a statutory requirement of Congress, the Board of Governors must order an annual external audit of its financial statements. These statements are submitted in an annual report to Congress.
- In addition, the Government Accountability Office (GAO), which is under the control of Congress but maintains a high degree of political independence, has authority to review and audit Federal Reserve activities. However, that authority is somewhat limited, in that the GAO cannot audit monetary policy decisions. As an example of the scope of these activities, during 2008, the GAO completed 15 reviews and audits of Federal Reserve activities.

Political debate on extending the mandate of Congressional Oversight of the Fed
There has been debate within Congress over whether the powers of the Fed, in particular in light of the financial crisis of 2008, require yet more control and democratic accountability. Rep. Ron Paul (R-Texas) has been a notable proponent of new legislation which would further enhance Congress' oversight in this area. In 2010, Rep. Paul succeeding in bringing through the House of Representatives (the lower house of Congress) a new law that would give Congress powers to audit even monetary policy decisions. However, this law was stripped of its key provisions before becoming final law. Critics of the initiative pointed to the risks of jeopardising the independence of the Central Bank in terms of political influence.

Nevertheless, since his appointment as Chairman of the subcommittee that deals with monetary policy, Rep. Paul has been successful in bringing the issue of accountability of Fed activities much more in the public focus and into the media.

3. European Added Value for "Towards a Genuine EMU"

3.1 Introduction

The benefits of intra-EU trade in goods accruing to EU citizens thanks to the single market are indisputable and have been well documented and quantified. It has been estimated that the internal market has contributed an extra 2.2% to the Union's GDP and has created an extra 2.75 million jobs[5]. However, similar gains have not been realised in the services sector, which remains fragmented due to a host of regulatory and other market barriers.

A key element in reinforcing economic and monetary union is the further integration of Europe's services sector, and in particular its financial services sector. Key efforts were made to complete financial services markets following the introduction of the euro and throughout the 2000s, but ideological and practical difficulties collided to produce on modest gains[6]. In particular, integration of markets for securities trading has been hampered by differing regulatory frameworks.

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[5] See here.
[6] Quaglia, L *Completing the single market in services: An advocacy coalition framework*, SEI Working Paper, 2008

The financial crisis which began in 2008 further revealed weaknesses in regulatory coordination across the Union. Research has pointed to how asymmetric policy implementation aggravated irresponsible risk-taking behaviour among financial institutions,[7] while evidence also indicates that those financial institutions deemed "too big to fail" which operated outside and across national regulatory supervisory regimes, were the ones most prone to engage in highly leveraged, risky lending[8].

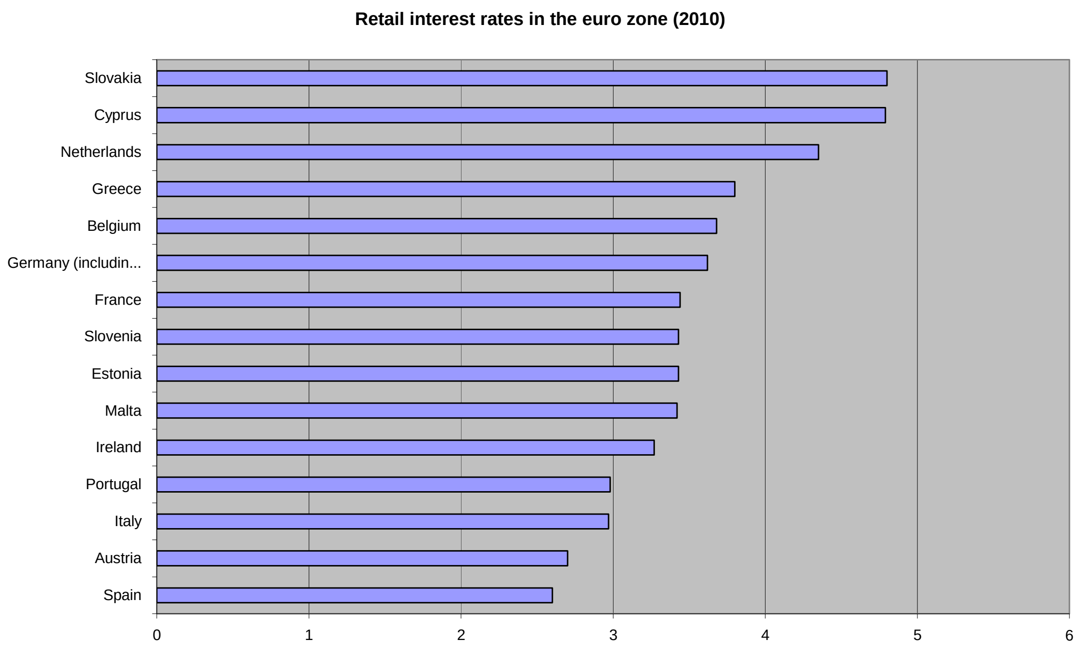
In this context, proposals for a banking union can be seen to imply two distinct strands of European Added Value:

- EAV related to efficiency gains for completing the Single Market and
- EAV related to averting possible financial crises due to insufficient / inadequate regulation of large institutions operating above national frameworks.

3.2 Quantifying the completion of the Union's financial markets

It is difficult to attempt to measure and compare different financial systems. Nonetheless, interest rates are a primary indicator of cost in lending markets and provide highly comparable data. As figure 2 shows, despite a uniform monetary policy, there is considerable divergence in interest rates which consumers face across the euro zone.

Figure 2 – Retail interest rates in the Eurozone (2010)



The data provided relate to retail credit lending to consumers. Baseline product is an infinite term residential mortgage. Source: Eurostat.

[7] Pelkmans J *The European Single Market - how far from completion?* Springer Verlag, 2012
[8] R. Barrell , E. Davis , T. Fic , D. Karim : Is there a link from banksize to risk taking?, NIESR Discussion Paper No. 367, London 2010.

Economic theory suggests that in the absence of barriers and asymmetric costs, market integration will imply price convergence at lower levels. Thus, a core study on market integration for cars in the EU found that prices tend to converge at purchasing power parity - i.e. at a level which reflects the different purchasing power[9].

Applying this to the euro zone, and allowing for asymmetric differences in cost structures, this suggests market convergence for interest rates on residential mortgages at not more than 3%. Applying this to the euro zone as a whole, convergence implies an interest savings of at least an estimated **EUR 63 billion per year**[10].

Clearly, not all of this can be defined as European Added Value. In cases where interest rate differentials are the result of anti-competitive practices, some of this added value gain will come at the expense of profitability in the banking sector.

Furthermore, not all of these gains can be realised through a banking union. Other obstacles to market completion are likely to persist, such as brand loyalty, language barriers, lock-in effects, and vertical integration with, for example, local property markets.

Precisely what can be achieved in terms of quantifiable gains toward the completion of a single market in finance through a banking union remains unclear. But given the potential scale of gain implied, the amounts appear likely to be significantly positive.

3.3 EAV related to averting possible financial crises due to insufficient / inadequate regulation of large institutions operating above national frameworks.

Once again, it is difficult to make direct, quantifiable associations between a functioning EU-level banking authority and the benefits this could yield in terms of averting financial crisis. What is clear and well documented, is that the absence of effective structures on EU level were a major contributing factor in the financial crisis.

The best current estimate for the total cost of bank recapitalisation within the euro zone is **EUR 200 billion**[11]. However, it would be unrealistic to suppose a banking union, out of which possible future recapitalisation could be financed, is the sole measure being put in place to avert possible future crises. More transparent, EU level stress testing has already begun, while the implementation of Basel III rules with regard to capital requirements will strengthen the position of the EU's financial institutions as against possible adverse shocks.

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[9] Goldberg P K and Verboven F *Market Integration and Convergence to the Law of One Price: Evidence from the European Car Market*, NBER Working Paper, 2001

[10] Information on banks balance sheets is used to impute the total value of outstanding retail loans. Of course, loans with shorter terms, or which are unsecured, will have a higher interest rate structure, but by using residential mortgage rates as a benchmark rate, risk pricing and term structure are cancelled out of the EAV calculation. It may be that risk prices too, vary across the euro zone, but as product-level data does not exist on outstanding loans by product type, this cannot be easily quantified.

[11] See: Eurointelligence report, 01/09/2011

Even allowing for this, the *added value* concept suggests the quantification of banking union proposals as EAV should only apply to those institutions which cannot, due to the scale of their operations, be regulated under national frameworks. Clearly, the advantage of EU-level operations lie in the ability of an ECB regulator to impose conditionality and ex ante supervisory requirements on members of the banking union, without them being "too big to fail" or having undue political influence over the regulator (regulatory capture).

3.4 European Added Value for a Common Deposit Insurance Scheme

In early 2012, an alarming exodus of deposits from banks in peripheral euro zone economies, notably Spain and Greece, took place. This "capital flight" or sudden movements of funds was predicated on fears over the solvency of these financial institutions.

Sudden movements of deposits are dangerous because they can create a self-fulfilling prophecy, in which the capital flight in fear of a bank run creates the liquidity issues that cause a bank run.

A deposit guarantee scheme that extends across the euro zone is a logical remedy to this problem, as it would effectively erase the incentive to move risk within the euro area.

The European Added Value of such a scheme is therefore related to averting the following three costs:

1) The risk of bank runs in peripheral economies. Clearly, the greatest risk and hence cost of capital flight within the euro area is that it may trigger a bank run. Such an event would require a recapitalisation and hence represent an additional financing burden for the affected economy or the EFSF/ESM. However, as the precise risk is unknown, it is not possible to fully quantify this cost, and hence the EAV of avoiding it, ex ante.

2) Higher bank funding costs in peripheral economies. Even in the absence of a bank run, loss of deposits force banks in peripheral economies to either further deleverage (reduce lending activity) or to try to obtain fresh funds by offering higher interest on, for example, term deposits. Figure 3 shows the differences between euro zone average term deposit rates and the rates paid out in the three countries that have been most badly affected by the "bank jog" of slow capital flight in the first half of 2012.

Figure 3 - Average term deposit rates

Economy	Term deposit interest rate (up to 2 years)
Greece	6.00%
Ireland	3.66%
Spain	3.60%
Euro Area	**2.80%**

Source: ECB, National Central Banks, Comparison of MFIs advertised rates

From the point of view of European Added Value assessment, the added funding costs are cancelled out by the additional benefits accruing to savers who benefit from the better rates.

However, the burden of higher interest rates pushes up lending rates and/or limits the ability of banks to meet demand for credit to households and businesses. If such circumstances persist, they can have a negative impact on growth and employment in the effected countries. Some medium term estimates to shocks in lending rates suggest a -0.89% relationship to output growth. This would suggest that for the 3 countries in question, a deposit guarantee scheme could achieve European Added Value of **EUR 12.78 billion**, in annual output terms, by credit to the domestic economies more affordable. Note that this value does not take account of the costs to the economy of credit denied, whereby recent evidence exists that supply of loans to peripherals has been insufficient to meet new demand by small to medium enterprises[12].

3) Reduced interest rates for savers in core countries. Although the supply of funds going up in core economies of the euro zone should signal cheaper credit conditions for core businesses, there has been no obvious evidence of this taking place, as credit conditions in Germany and other parts of the core appear to be both demand driven and easily met out of current funds. However, the excess quantity of savings has led to worsening conditions for savers in these countries. This represents a further cost of the "bank jog", and hence more potential EAV for the implementation of an effective bank guarantee scheme.

   However, once again, the added value associated with averting these losses cannot be directly quantified in EAV terms, because it is unclear how efficiently core lending institutions are able to reemploy the surplus capital received from periphery savers.

3.5 European Added Value of a Common Resolution Scheme

The structure of the currency union is that each country's sovereign provides an implicit guarantee to its own central bank. The central banks are in turn individually responsible for managing their own balance sheets, and jointly responsible for operating the interbank settlement system on which the currency union depends (i.e. the so-called "Target 2 settlement system")[13]. This is one of the main reasons a sovereign default poses a threat to the euro currency.

Given this unusual "dual" role of the sovereigns as guarantor to the eurosystem (while the eurosystem is also lender of last resort to the sovereigns), the impact of failed banks on certain sovereigns represents a burden to the entire euro area, and needs to be dealt

[12] Holten S and McCann F, *Irish SME credit supply and demand: comparisons across surveys and countries*, Central Bank of Ireland, 2012

[13] Gros, D and Mayer, T *Eurozone needs a German sovereign wealth fund*, Financial Times, August 27 2012

with on a system-wide level. A common resolution scheme, which pools resources across the system and uses these resources to address resolutions of failed financial institutions anywhere in the euro zone, can substantially reduce the burden which a bank failure could have on a (smaller) sovereign within the EZ.

The EAV of such a scheme lies not in eliminating the cost of a bank rescue - in any case these costs must be carried - but in spreading the costs over a wider system, so that the impact on any given euro zone country is mitigated. Quantification is difficult, for it would involve 1) a precise determination of the costs - in terms of higher sovereign yields, perhaps - of default risk caused by bank recapitalisation or guarantee for at-risk sovereigns such as Ireland or Spain; and 2) knowledge of how much this could be reduced through a mutualisation of resolution risk across the currency area.

However, even in the absence of information which might permit a clear quantification of EAV, it is clear that a common resolution scheme could form an important part of a wider, systemic mechanism to protect against the risk of a sovereign default. Section IV below will examine in more detail the potential EAV of averting default in the euro zone.

3.6 European Added Value for the "integrated fiscal framework"

The deep interlinkages implied by both the monetary union and trade within the single market mean that it is unrealistic to consider sovereign debt obligations as purely national in character. Both in the interests of preserving the stability of the euro zone, and in the interests of providing a fair balance of burden sharing between taxpayers, private investors and savers, mutualisation of debt, at least in some limited form, is widely recognised as a logical and necessary consequence of the sovereign debt crisis.

Exactly how debt mutualisation could result in quantifiable EAV gains will, of course, depend on the precise nature of the debt issuance regime. The European Parliament's recent report on Stability Bonds suggests one possible roadmap for mutualisation by degrees.

In considering the potential EAV gains of mutualisation, it must first be stated that the primary purpose and key benefit to such a system would be to avert possible sovereign defaults within the euro area. In this respect, it is of particular relevance to us to find estimates of the costs of sovereign defaults. First and foremost, "cost" can be defined in terms of loss of output. However, we must also consider the spillover effects of a default on neighbouring EU countries.

From within the countries of the euro zone, there are few precedents to help us. Indeed, most examples of sovereign default relate to emerging market economies for which devaluation is an option, and in which much of the sovereign debt held was denominated in foreign, 'hard' currencies such as dollars or euros.

Nonetheless, academic research has found that a full default coupled with a banking crisis can lead to an annual output gap of **13.2% per year** for the duration of the crisis.

At present, the best indication available concerning the likelihood of such a crisis occurring in the absence of effective policy intervention at EU level is given by the spreads on sovereign bond yields for those countries that have lost market confidence, as against Germany, which is largely considered to be risk-free in terms of default. (see figure 4)

Figure 4 - Yields on 10 year bonds for troubled peripheral eurozone countries, as against Germany

Country	10-year bond
Portugal	9.10%
Ireland	5.86%
Italy	5.53%
Greece	22.01%
Spain	6.41%
Germany	*1.53%*

Source: Bloomberg, September 2012

An extensive body of literature on investment analysis provides numerous ways of calculating default risk. To some extent, the calculation is influenced by the degree of risk aversion of the investors. Even more fundamentally, however, the link between yields and the probability of a default will depend on the recovery rate that markets are predicting[14]. At a basic level, the following equation may be used:

$$p = \frac{(y_{germany} - y_{peripheral})}{1 - r}$$

where

p = probability of default
r = recovery rate
$y_{germany}$ = yields on German bonds
$y_{peripheral}$ = yields on bonds in the peripheral country, for which a default risk exists

Inserting the numbers from figure 4, and supposing a 54% recovery rate[15], we can estimate a medium term default risk as given by figure 5:

[14] The "recovery rate" is the amount of the face value bond that is eventually paid out. Thus, a full default equates to a recovery rate of 0; a non-default implies a recovery rate of 1. In many studies, recovery rates are assumed to be 60%. Note also that there are many different ways in which a "default" can be structured, such as renegotiating the term structure of debt, changing the coupon value on the bond. In all cases, however, it is possible to back out a bottom line figure for the cost to the investor, and hence a probability of default.

[15] The choice of a 54% recovery rate relates to wide market expectations that this is what would likely be paid out, but also, equally importantly in the present context, to the historical precedents on which the output cost calculations used in the EAV estimations are based. See: Moodys Rating

Figure 5 - Market expected probability of a default on 10 year sovereign bonds

Country	Probability of default
Portugal	16.46%
Ireland	9.41%
Italy	8.70%
Greece	44.52%
Spain	10.61%

From this, we can get that the European Added Value of averting a sovereign default, purely in terms of lost output, would be as follows

Figure 6 - European Added Value gains per year of crisis, of averting a sovereign default in five vulnerable eurozone member countries

Country	EAV of averting default (per year)
Portugal	€3.62 billion
Ireland	€1.98 billion
Italy	€18.25 billion
Greece	€11.96 billion
Spain	€14.77 billion

Hence, for all five vulnerable peripheral countries taken together, potential European Added Value of averting default can be estimated at **EUR 50.5 billion** per year of crisis.

Once again, how much of this EAV gain can be attributable to a specific measure cannot easily be quantified. However, given the wide consensus emerging around the benefits of some form of debt mutualisation in terms of calming market fears, it is reasonable to consider that the efforts will capture a considerable amount of potential value added.

Furthermore, it is possible to argue, but more difficult to quantify, that the mutualisation of debt engenders other, but also significant benefits. These include a calming of financial markets, which will improve investment in the real economy in the EU over the medium term.

Another key qualitative benefit is likely to be an improvement of confidence in the Union and its institutions, and an improvement of intra-EU solidarity.

3.7 European Added Value for the "integrated economic policy"

Within a monetary union such as the euro zone, it is no longer possible for a country to exercise monetary policy discretion in order to overcome an economic shock. At the same

Agency (2008) *Sovereign Default and Recovery Rates, 1983 - 2007* for a discussion of historical recovery rates.

time, exchange rates do not fluctuate within the zone. This means countries cannot rely on currency devaluation to restore competitiveness to the domestic economy.

Because of this, economic theory suggests that in the absence of other mechanisms to cope with asymmetries across the currency union, there is a risk of serious current account imbalances occurring across the union. These imbalances can be dangerous and may result in sovereign default, the collapse of financial markets or loss of confidence in the currency among investors. Many leading economists blame current account imbalances for the crisis - in particular between core euro zone economies such as Germany, the Netherlands and to a lesser extent France, on the one hand; and peripheral economies such as Greece, Spain, Italy, Portugal and Ireland, on the other[16].

Other, non-monetary measures for coping with current account imbalances exist. The largest, and possibly most effective, of these is high mobility of factors of production (labour and capital) within the currency union. Thus, where a current account deficit is accruing in one part of the euro zone, this can be eased through labour mobility (i.e. workers relocate from the deficit economy to the surplus economy, in search of high wages, thereby reducing unemployment and the labour surplus in the periphery) and capital mobility (i.e. capital moves to the surplus economy from the core economy in search of higher investment returns, thereby increasing the stock of funds and reducing returns in the surplus economy).

However, since the introduction of the euro currency in 1999, both labour and capital mobility have remained notoriously low. Barriers to capital mobility result from an incomplete internal market for financial products. European consumers of financial products do not have easy access to cross border instruments; they are unsure of the regulatory framework abroad and in some cases language barriers act as an obstacle to cross border investment. The potential EAV to encouraging a more complete capital market has already been discussed in section 3.2

Another important instrument for mitigating current account imbalances is fiscal transfers. Thus, if there is a shock to one economy, a federalised system of transfers will occasion a flow of spending from the relatively well performing economy into the poorly performing economy. This could occur, for example, through a system of EU-wide social spending financed from a progressive tax across the union. However, once again, the level of fiscal transfers in the EU is extremely limited, in comparison with the overall size of the economy, and thus has little potential to mitigate current account imbalances.

The final tool which can be used is the effective coordination of economic policies across the euro zone. Research suggests this tool is particularly effective for currency unions in which the economies are performing at different rates, such as is currently the case in the EU[17]. Moreover, the peculiar conditions present in the current crisis mean that so-called

[16] See, for example: Whelan K (2012) *Macroeconomic Imbalances in the Euro Area*, European Parliament, Policy Department Paper
[17] Beetsma, et al (2001) *Is fiscal policy coordination in EMU desirable?*

"spillover effects" can be significant in the case where fiscal policy remains uncoordinated.

Recent research quantifies the total size of spillover effects with an upwards bound of -0.25 % of GDP. That is, in the absence of proper coordination, fiscal consolidation that is uncoordinated can result in additional constraints to growth equal to a quarter percent of GDP[18]. For the EU as a whole, this implies a potential total cost to non-coordination of spillover of some **EUR 31.5 billion**.

However, it is unclear how much of this cost could be averted through coordination, given political and institutional constraints. Furthermore, spillover effects are persistent and significant outside the EU's policy sphere; suggesting perhaps a role for the G20 as well.

From a qualitative point of view, the added transparency and exchange of best practice between policymakers across the Union is likely to encourage best practice and positive exchange between civil servants in the various nation state administrations. The OECD has repeatedly underlined the value of peer review and transparency in achieving better fiscal policy outcomes[19].

3.8 European Added Value of necessary democratic legitimacy and accountability

Perhaps the most difficult of all to quantify, but by far not the least important in terms of EAV, is the restoration of democratic legitimacy and accountability to the process of decision-making in response to the crisis. This is considered essential to restore citizens' confidence and build public support for EU-wide decisions that impact on the everyday lives of citizens.

The EU remains a dynamic political system susceptible to changes and therefore also to "democratisation" by improving its structures and functioning.

This changing and challenging context raises fundamental questions about how to ensure democratic accountability if the EU gains further powers over national economic decision-making. In this context, it appears that significant change to the Treaty would end up addressing other issues behind the economic governance. The present issues paper does not take a view whether or not such changes are desirable, necessary or politically feasible but simply assessing what are the possible way forward to increase the democratic control of the European Parliament. It aims at generating some ideas for both what is feasible in the short -term and what is desirable in the longer-term.

[18] Ivanova A and Weber S (2011) *Do fiscal spillovers matter?* IMF Working Paper. Note that the extent of fiscal spillover depends crucially on the size of the economy, as well as its degree of "openness" to trade. Small, open economies such as Ireland's or Belgium's are particularly effected by spillover.
[19] See, for example, OECD (2010) *Restoring Fiscal Sustainability: lessons for the public sector*

It has been generally recognised, for example that the European Semester has so far lacked legitimacy due to a number of reasons, notably the unsatisfactory role assigned to the European Parliament, the marginal involvement of national parliaments and the lack of transparency of the process at some stages.

Two important avenues for strengthening the accountability and democratic legitimacy of further EMU might be:

1) Greater involvement by the European Parliament, and,

2) Greater involvement of the national parliaments.

In addition, because of its greater accessibility to the EU citizens, the European Parliament could play an important role in enhancing transparency as specific, technical solutions related to the above-mentioned measures towards a genuine EMU are negotiated and finalised.

Finally, in the medium term, any future modification to the Treaties, must improve the decision-making process of the Union by generalising qualified majority voting and transforming the remaining special legislative procedures into ordinary ones (co-decision).

To improve the democratic process, all new Union legislation concerning economic governance, financial supervision and budgetary matters must be agreed under co-decision in order to ensure the full legitimacy of such measures through the joint decision-making of the Council and the European Parliament. The current Treaties enable this democratic imperative to be fulfilled through the use of the bridging clause in Article 48(7) TEU. Any further integration of budgetary, economic or fiscal policies requires the full involvement of the European Parliament.

The ESM should be subject to proper scrutiny by the European Parliament. An EU stability mechanism should be developed within the EU legal framework.

High standards of democratic accountability should also apply to the Troïkas, which have a decisive role for Member States that are under a programme. This should include a European Parliament hearing of, and consent to the appointment of the Troïka chief, regular reporting from the Troïka to the European Parliament, ad-hoc hearings and the right to audit Troïka action. The European Parliament should make sure that the Troïka respects the core principles of the European Union, including the principle of subsidiarity.

At this stage, the implementation of high standards of democratic accountability for the Troïka may be achieved through a working agreement with the European Commission, as the latter is partly responsible for the appointing and supporting the Troïka. By doing this, the European Parliament is naturally complementing the role of the respective National Parliaments which find themselves in a weak position as recipients of financial support. The Commission must report to the European Parliament any proposals it makes relating to national budgets.

The European Parliament could share information and expertise with National Parliaments at every relevant level, with the aim of ensuring that parliamentarism is at the core of the European public space, respecting the principle of subsidiarity. Interparliamentary cooperation with regard to the European Semester has already proved its value and should be strengthened.

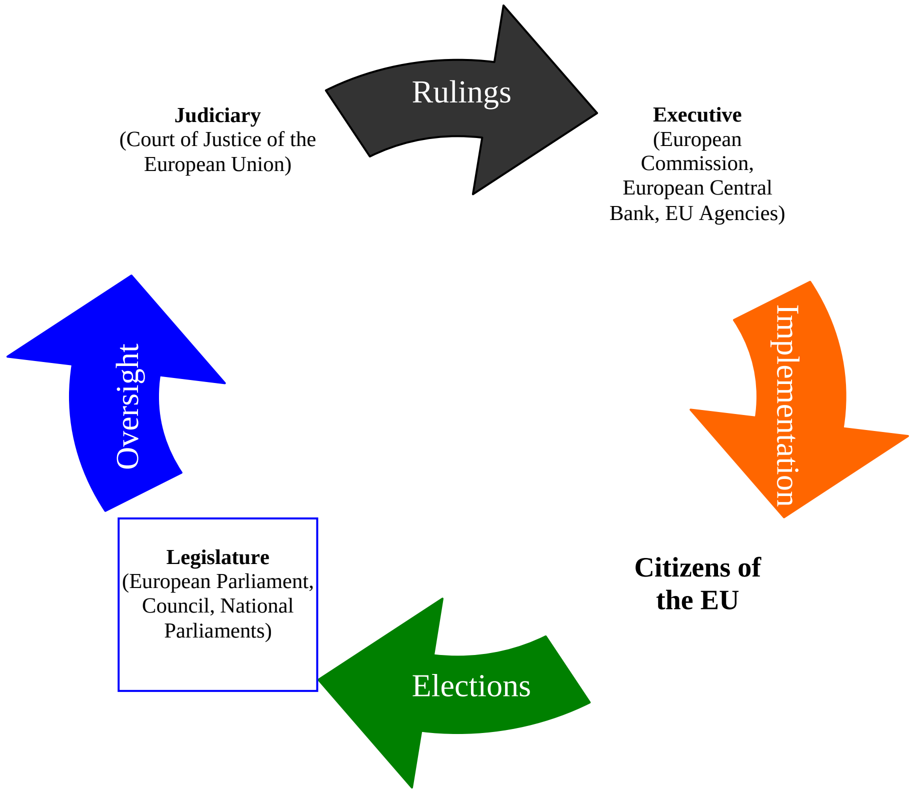
An enhanced EMU governance also requires that the governments of Member States consult with their respective parliaments on issues related to EMU and to the financial mechanisms that will support it before making any final commitment.

Greater involvement by the European Parliament, Direct EAV

The direct EAV of involving the European Parliament would ensure an appropriate system of checks and balances, and transparency in decision-making.

An essential element of achieving good policy outcomes is peer review. It has been shown[20] that Parliaments play a crucial role in this system, by incorporating the wider electorate into the checks and balances system, through enhanced democratic accountability.

Figure 7 - Added Value of a parliamentary weight in a system of regulatory checks and balances



[20] Dragu, et al (2012) Designing Checks and Balances, New York University

As figure 6 shows, the inclusion of a parliamentary "weight" with oversight powers enables an appropriate balance whereby citizens, and the institutions, interact to ensure regulatory practices are fair and balanced.

A balanced system contributes to better decision-making, notably by ensuring decisions that are taken better reflect the balance of stakeholders interests.

Specific elements of oversight that can be identified in terms of added value include:

- Monetary policy and prudential supervision activities conducted by the European Central Bank or its new subsidiary Supervisory branch.

- Executive functions related to key elements of the European Commission's work. For example, major Competition Law cases; or the implementation of Stability Programmes in Member States (so-called "*Troika*"). This support can be seen as naturally complementary to the role being played by the National Parliaments of Member States.

- Ongoing surveillance and monitoring of the Union's economic governance activities. This would include audit and opinion on the contents of the Commission's Annual Growth Surveys, as well as a right by the European Parliament to conduct hearings and investigations on specific discretionary measures related to estimations of, for example, structural budget deficit. Such oversight is particularly crucial, given the wider discretion afforded to the Commission under the new "six-pack" to take into account country-specific factors in the conduct of its economic governance activities.

ANNEX 1 - List of Financial Supervision Authorities

Inclusion in this list does not mean that the authority may have the sole responsibility for financial supervision.

Austria:	Austrian Financial Market Authority (Finanzmarktaufsicht) The FMA is a public-law institution with its own legal personality set up to implement banking supervision, insurance supervision, pension companies supervision and securities supervision [...].It is responsible for the entire federal territory and is not bound by any instructions in the exercising of its office.
Belgium:	Financial Services and Markets Authority [...] supervision is organised since 1 April 2011 according to the "Twin Peaks" model, with two autonomous supervisors, namely the National Bank of Belgium and the Financial Services and Markets Authority, abbreviated FSMA, each of which has a specific set of objectives The FSMA is responsible for supervising the financial markets and listed companies, authorising and supervising certain categories of financial institutions, overseeing compliance by financial intermediaries with codes of conduct and supervising the marketing of investment products to the general public, as well as for the 'social supervision' of supplementary pensions. The Belgian government has also tasked the FSMA with contributing to the financial education of savers and investors.
Bulgaria:	Financial Supervision Commission The Financial Supervision Commission (FSC) was established on March 1st, 2003 under the Financial Supervision Commission Act. It is an institution that is independent from the executive authority and reports its activity to the National Assembly of the Republic of Bulgaria. The Commission is a specialized government body for regulation and control over different segments of the financial system – capital market, insurance market, health insurance market, pension insurance market.
Cyprus:	Cyprus Securities and Exchange Commission (CYSEC) The Cyprus Securities and Exchange Commission was established [...] as a public corporate body. The Cyprus Securities and Exchange Commission is administrated by a [...] Board [...]. In the Board's meetings a representative of the Governor of the Central Bank is represented, whom has the right to register subjects in the agenda, to participate in the discussions and to express opinions but deprived the right of vote. The members of Board are named by the Council of Ministers following a proposal of the Minister of Finance [...].

Czech Republic:	Czech National Bank (Česká národní banka) In accordance with Act No. 6/1993 Coll., on the Czech National Bank (pdf, 190 kB), the Czech National Bank is a supervisory authority of the financial market in the Czech Republic. [...] The CNB took over the work of the Czech Securities Commission (CSC), the Ministry of Finance's Office for Supervision of Insurance and Supplementary Pension Insurance, and the Office for Supervision of Credit Unions, all of which ceased to exist. (Ministry of Finance of the Czech Republic/Office of the State Supervision in Insurance and Pension Fund)
Denmark:	Danish Financial Supervisory Authority (Finanstilsynet) Supervision: The Danish FSA performs supervision of financial undertakings and supervision of the securities market. Legislation: We legislate on matters relating to financial companies and listed companies. This legislation is the basis for the tasks of the Danish FSA. One of the main objectives for Finanstlsynet is the drafting of financial laws and the issuing of executive orders.
Estonia:	Financial Supervision Authority (Finantsinspektsioon) The Financial Supervision Authority is a financial supervision institution with autonomous competence and a separate budget which conducts supervision in the name of the state and is independent in its activities and decisions.
Finland:	Financial Supervisory Authority (Finanssivalvonta) Finanssivalvonta (Fiva), or the Financial Supervisory Authority (FIN-FSA), is the authority for supervision of Finland's financial and insurance sectors. [...]Administratively we operate in connection with the Bank of Finland, but we make independent decisions in our supervisory work. (Finanssivalvonta) The general appropriateness and efficiency of FIN-FSA's activities are supervised by the Parliamentary Supervisory Council.
France:	Autorité des marchés financiers (AMF) The AMF is an independent public body with legal personality and financial autonomy. Its remit is to: safeguard investments in financial instruments and in all other savings and investment vehicles, ensure that investors receive material information, maintain orderly financial markets.
Germany:	Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) The Federal Financial Supervisory Authority (BaFin) brings together under one roof the supervision of banks and financial services providers, insurance undertakings and securities trading. It is an autonomous public-law institution and is subject to the legal and technical oversight of the Federal Ministry of Finance.
Greece:	Hellenic Capital Market Commission (HMC) The Hellenic Capital Market Commission (HCMC hereafter) is responsible for monitoring compliance with capital market law. The

	HCMC is a public entity, whose exclusive task is to protect the public interest, enjoying operational and administrative independence. [...] The HCMC submits its annual report to the Speaker of the Hellenic Parliament and the Minister of Finance.
Hungary:	Hungarian Financial Supervisory Authority (Pénzügyi Szervezetek Állami Felügyelete) The Hungarian Financial Supervisory Authority is the independent constitutional body that is responsible for the supervision, control and regulation of the financial intermediary system of the Republic of Hungary.
Ireland:	Central Bank of Ireland The Central Bank of Ireland is responsible for the regulation of all financial services firms in Ireland. The Central Bank Reform Act 2010, which commenced on 1 October 2010, created a new single body called the Central Bank of Ireland which is responsible for both central banking and financial regulation. It replaced the previous related bodies – the Central Bank and the Financial Services Authority of Ireland (generally known as the Central Bank) and the Irish Financial Services Regulatory Authority (Financial Regulator). [Citizens Information]
Italy:	Italian Companies and Stock Exchange Commission (Commissione Nazionale per le Società e la Borsa) CONSOB is the supervisory authority for the Italian financial products market. [...] CONSOB is an "Independent Authority", with a particularly high level of operational independence.
Latvia:	Financial and Capital Market Commission (Finanšu un kapitāla tirgus komisija) The Financial and Capital Market Commission is an autonomous public institution, which carries out the supervision of Latvian banks, insurance companies and insurance brokerage companies, participants of financial instruments market, as well as private pension funds.
Lithuania:	The Supervision Service of the Bank of Lithuania A new unit of the Bank of Lithuania, the Supervision Service, which started its operation in the beginning of 2012, supervises commercial banks and other credit and payment institutions, securities and insurance markets, and investigates disputes between consumers and financial institutions. Up to now, these functions were performed by the liquidated Securities Commission and Insurance Supervisory Commission, as well as the Credit Institutions Supervision Department of the Bank of Lithuania. The State Consumer Rights Protection Service and the Insurance Supervisory Commission were responsible for the investigation of the disputes between consumers and financial institutions.
Luxembourg:	Commission de Surveillance du Secteur Financier The Commission de Surveillance du Secteur Financier is responsible for the prudential supervision of credit institutions, professionals of the financial sector (investment firms, specialised PFS, support PFS),

	undertakings for collective investment, pension funds, SICARs, securitisation undertakings issuing securities to the public on a continuous basis, regulated markets and their operators, multilateral trading facilities, payment institutions and electronic money institutions. It also supervises the securities markets, including their operators. The CSSF took over the responsibilities of the Institut Monétaire Luxembourgeois (IML) which became the Banque centrale du Luxembourg (BcL) on 1 June 1998, as well as the responsibilities of the former Commissariat aux Bourses. The recent institutional changes in the structure and the practice of prudential supervision have not in any way altered the existing legal and regulatory framework.
Malta:	Malta Financial Services Authority The Malta Financial Services Authority (MFSA) is the single regulator for financial services in Malta. It was established by law on 23 July 2002 taking over supervisory functions previously carried out by the Central Bank of Malta, the Malta Stock Exchange and the Malta Financial Services Centre. The Authority is a fully autonomous public institution and reports to Parliament on an annual basis.
Netherlands:	Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten) The Netherlands Authority for the Financial Markets (AFM) has been responsible for supervising the operation of the financial markets since 1 March 2002. This means that AFM supervises the conduct of the entire financial market sector: savings, investment, insurance and loans. By supervising the conduct of the financial markets, AFM aims to make a contribution to the efficient operation of these markets.
Poland:	Polish Financial Supervision Authority (Komisja Nadzoru Finansowego) The KNF supervises the financial services industry in Poland. This includes credit institutions, insurance firms, investment companies, exchanges, pension scheme as well as payment institutions. [...] PFSA activity shall be supervised by the President of the Council of Ministers.
Portugal:	Securities Market Commission (Comissão do Mercado de Valores Mobiliários) The Portuguese Securities Market Commission, also known by its initials "CMVM", was established in April 1991 with the task of supervising and regulating securities and other financial instruments markets (traditionally known as "stock markets"), as well as the activity of all those who operate within said markets. The CMVM is an independent public institution, with administrative and financial autonomy. Additional information: ECPRD Request N 2089 "Supervision of the Financial Markets" In Portugal, supervision of the financial markets is the responsibility of the Banco de Portugal (BdP) and Conselho Nacional de Supervisores Financeiros – CNSF (National Council of Financial Supervisors). The CNSF was created by Decree-Law nº 228/2000 of 23 September 2000

	that established a forum for supervisory coordination: the Conselho Nacional de Supervisores Financeiros – CNSF (National Council of Financial Supervisors). Its permanent members are the Governor of the Banco de Portugal, who chairs, the member of the Board of Directors of the Banco de Portugal responsible for the supervision, the Chairman of the Comissão do Mercado de Valores Mobiliários – CMVM (Securities Market Commission) and the Chairman of the Instituto de Seguros de Portugal – ISP (Portuguese Insurance Institute). Without prejudice to the powers and autonomy of the authorities which comprise the CNSF, the functions of this Council include the coordination among authorities as well as of the monitoring and assessment of developments regarding the stability of the financial system.
Romania:	National Securities Commission (Comisia Naţională a Valorilor Mobiliare)
Slovakia:	National Bank of Slovakia (Národná banka Slovenska) On 1st January 2006, the entire financial market supervision of the National Bank of Slovakia covering banking, capital market, insurance and pension saving was integrated. As a part of the financial market supervision integration, the Financial Market Authority was dissolved by law and all its powers and responsibilities were transferred to the National Bank of Slovakia.
Slovenia:	Securities Market Agency (Agencija za trg vrednostnih papirjev) The Securities Market Agency is a legal entity of public law. It is independent in performing its tasks. [...]The Agency makes annual reports to the National Assembly of the Republic of Slovenia on the situation and conditions on the market in financial instruments.
Spain:	Comisión Nacional del Mercado de Valores The Comisión Nacional del Mercado de Valores (CNMV) is the agency in charge of supervising and inspecting the Spanish Stock Markets and the activities of all the participants in those markets.
Sweden:	Swedish Financial Supervisory Authority (Finansinspektionen) The Swedish Financial Supervisory Authority, Finansinspektionen, is a public authority. Our role is to promote stability and efficiency in the financial system as well as to ensure an effective consumer protection. We authorise, supervise and monitor all companies operating in Swedish financial markets. Finansinspektionen is accountable to the Ministry of Finance.

UK:	Financial Services Authority The Financial Services Authority (FSA) is an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000. We are a company limited by guarantee and financed by the financial services industry. The Board sets our overall policy, but day-to-day decisions and management of the staff are the responsibility of the Executive Committee. We are accountable to Treasury Ministers and, through them, Parliament.

Information taken from authority's website unless otherwise indicated

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