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Strengthening the European System of Financial Supervision

Diario Expansión (Spain)
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16 Oct 2017

The European financial supervision system is undergoing significant changes, stemming from the two major European projects underway - the Banking Union and the Capital Markets Union - and the UK's exit from the European Union in the wake of the Brexit vote.

In view of this new scenario and in order to anticipate the new and rapid developments in the financial markets, the European Commission has published its draft Regulations to strengthen and improve the European Financial Supervisory System as a whole, which aims to strengthen the coordination of supervision in Europe.

The proposal by the Commission is not new, since it contains the messages from the Five Presidents' Report and the Reflection Paper on Economic and Monetary Union. In addition, these projects were announced in the revision of the Capital Market Union working plan in June and are based on preliminary public consultations and impact analyses.

The amendments are aimed at reviewing the functioning of the new authorities that emerged in 2010 in the area of micro-prudential and macro-prudential supervision in response to the financial crisis. In the micro-prudential field, Europe has three separate supervisory authorities depending on the sector: banking (EBA), securities and markets (ESMA) and insurance and pensions (EIOPA).The Commission proposes to streamline the internal governance of these three agencies by providing them with new executive boards with permanent members, similarly to what the ECB already has. Their funding sources are to be expanded and reinforced so that these agencies have budgets and equitable resources for their tasks, establishing proportional contributions from the industry and other market participants, which complement the funding of agencies from the EU budget.

In addition, as a result of the need for supervisory convergence tools to ensure consistency in the EU vis-à-vis third countries, the Commission proposes to extend the powers of ESMA, giving it genuine "direct supervision" powers in specific EU capital market sectors such as critical benchmarks (Euribor or Eonia), issue or authorisation prospectuses for certain EU collective investment vehicles. It also proposes to complement the functions of this agency with the coordination of data reporting services and aspects related to market abuse. All these are measures designed to set up a single supervisor of the capital market.

As regards the macro-prudential authority, the European Systemic Risk Board (ESRB), which is responsible for preventing and mitigating systemic risks to financial stability, the proposals by the Commission pursue the same objective: to increase the efficiency of the ESRB and increase its coordination with the other European agencies, to this end proposing improvements in its governance, and submitting its regulation to a consultation among market participants.

Lastly, it is worth highlighting that the Commission is promoting supervision practices for financial technologies (FinTech) and in terms of sustainable finance, in line with the European Agenda 2030.

There is no doubt that, if implemented, these proposals will promote greater integration of the European capital market and greater efficiency in the management of the financial sector, while at the same time bringing about changes in supervisory relations with non-EU countries.

As we speak, however, these are proposals by the Commission for which an arduous legislative process in the EU institutions is now getting underway, which is expected to lead to intensive discussions both in the Council and in the European Parliament. Complex issues are being tackled (such as the assignment of competencies to supranational supervisors or contributions to be made by the private sector) that could lead to lengthy negotiations.

This is probably why the Commission has urged the EU institutions to address these proposals as a matter of priority, with a view to completing them by 2019, coinciding with the completion of the current legislative projects on Banking Union and Capital Market Union, in order to achieve a stronger and more integrated Economic and Monetary Union.

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