

Client: ea Consulting Group  
Coverage: Banking Technology  
Date: March 1, 2009

## banking technology

# Larosière Report: A new European framework

**The keenly awaited Larosière Report, determining the state of, and need for regulation in the Eurozone has argued for a new early warning system to be created by the IMF, BIS and other bodies, along with the creation of a group to drive convergence of international regulation.**

The report also suggests a push to level the playing field for the varied regulation in Europe and an inclusion of 'uncooperative states.'

Larosière starts his introduction with a summary of the challenges faced by Europe, in which he acknowledges that "Financial regulation and supervision have been too weak or have provided the wrong incentives. Global markets have fanned the contagion. Opacity, complexity have made things much worse."

The report analyses in some detail the main causes of the financial crisis. In one sense it doesn't shirk away from the complexity and interconnectedness of major factors that amplified the crisis, in another sense it doesn't point any fingers. In total it cites: macroeconomic causes, risk management, credit rating agencies, corporate governance, regulatory / supervisory issues and global institutional weakness as points that need addressing.

It advocates the creation of a European Systemic Risk Council to be chaired by the president of the European Central Bank that would determine macro-prudential policy, to provide an early risk warning to EU supervisors, compare observations on macro-economic and prudential developments and give direction on these issues.

It goes on to suggest that a European System of Financial Supervision should be created with European Banking, Insurance and Securities Authorities which would, in addition to the competences of the existing national committees, have the following key-competences: legally binding mediation between national supervisors, adoption of binding supervisory standards, adoption of binding technical decisions applicable to

individual institutions, oversight and coordination of colleges of supervisors, licensing and supervision of specific EU-wide institutions such as Credit Rating Agencies and post-trading infrastructures, binding cooperation with the ESRC to ensure adequate macro-prudential supervision, and a strong coordinating role in crisis situations.

In the UK the British Bankers' Association has already responded positively, saying in a statement:

"The British Bankers' Association agrees that it is vital to set up a European wide forum for financial stability, as proposed today by the High Level Group chaired by Jacques de Larosière, which obviously must work alongside of central banks of non-Eurozone countries. Other aspects of the report, such as the changes to EU regulatory and supervisory structures are also welcome and we are pleased the group agreed to a step by step approach to bring the regulators of Europe closer together.

"We favour an enhanced role for the Committee of European Banking Supervisors (CEBS) in bringing about agreement amongst regulators, which is particularly necessary for the banks that operate across borders. A common rulebook would be a step forward, but as rules can mean different things in different countries it would be of greater importance to achieve equivalent implementation and equivalent outcomes.

"However, financial services is also a global industry and for changes in Europe to work for this industry they must be set in the international context. It is vital regulators worldwide consider how difficulties in one country can have knock on effects elsewhere."

Commenting on the report, Roger Davies, principal consultant at [ea Consulting Group](#) said that the report's conclusions were both obvious and challenging: "Unsurprisingly the Larosière report is calling for a pan-European regulator. With hindsight, EU regulation to date

has been too fragmented with much left to individual Member States and with opacity and complexity making things far worse when financial markets go into free fall."

He continued: "Lord Turner was keen to blame systemic failure at the Treasury Select Committee [Wednesday February 24, 2009] for the FSA's poor recent performance, but it will be difficult to implement overnight a workable and proportionate pan-EU regulator." *BT*