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ESRB
European Systemic Risk Board
European System of Financial Supervision

Mario Draghi

ESRB Chair

Ms Sharon Bowles
Chair of the Economic and
Monetary Affairs Committee of the European Parliament

Minister Rimantas Šadžius
President of the Economic and Financial Affairs Council

Mr Olli Rehn
Vice-President of the European Commission

Considerations on the ESRB review

Dear Ms Bowles,

Dear Minister Šadžius,

Dear Mr Rehn,

Herewith I should like to transmit to you a 'Contribution to the Review of the ESRB', prepared by a High-Level Group, composed of Messrs Vitor Constâncio, ECB Vice-President, Governor Stefan Ingves, Chair of the ESRB Advisory Technical Committee, and Professor André Sapir, Chair of the ESRB Advisory Scientific Committee.

The report was prepared during autumn 2012 and winter 2013, and discussed by the General Board of the ESRB at its meeting on 20 June 2013. It focuses on three key issues. First, it considers the potential need for changes to the two EU regulations underpinning the ESRB. Second, it makes concrete suggestions on how to improve the way in which the ESRB has been operating over the last two years, focusing on procedures and processes. Finally, it explores the possible implications of the establishment of a Single Supervisory Mechanism on the functioning of the ESRB.



The report was broadly welcomed by the ESRB General Board, which decided to transmit it to EU authorities and to make it public. Transmission does not entail, however, an agreement with all report recommendations by all ESRB member institutions.

For your information, the discussion at the General Board focused on the following issues:

(i) the mandate of the ESRB; (ii) its governance mechanisms; (iii) the relations between the ESRB and the ECB, also in view of the establishment of the SSM; and (iv) the question of data exchange. Issues (i) and (iii) are strictly intertwined. The thrust of the General Board discussion is summarised in the Annex.

I trust that this can provide you with a useful input to your discussions in the course of this year.

Yours sincerely,

Mauro Hugi

ANNEX

Discussions at the 20th June 2013 General Board Meeting on the ESRB Review

(i) The mandate of the ESRB

According to EU legislation, 'the ESRB shall be responsible for the macro-prudential oversight of the financial system within the Union in order to contribute to the prevention or mitigation of systemic risks to financial stability in the Union'.

The High-Level Group Report confirms the adequacy of the current mandate, however suggesting that it should be strengthened by explicitly allowing the ESRB to address warnings and recommendations to the newly created national macro-prudential authorities and to the ECB, also in view of the SSM.

It also calls for a more formal power of the ESRB to express views on forthcoming EU legislation in the course of the legislative process.

The discussion at the General Board stressed the need to assign to the ESRB a stronger focus on medium term risks and on risks deriving from the interplay of various sectors of the financial system.

Some General Board members have also called for a stronger identity of the ESRB, while others have underlined the need to reduce overlaps, in particular in the future with the ECB-SSM, as also discussed below.

The European Supervisory Authorities have stressed the need to avoid overlaps with the micro-prudential risk detection functions of the Joint Committee of the ESAs, as retaining both the top-down/macro and bottom-up/micro perspective in the systemic risk monitoring is crucial in ensuring a comprehensive assessment of the financial stability issues in the EU.

The discussion at the General Board revealed a limited appetite for a major change in the ESRB mandate.

(ii) The governance of the ESRB

The High Level Group Report explores a variety of issues, encompassing modalities to nominate the ESRB Chair up to questions regarding the composition and the tasks of the ESRB bodies.

Preparations preceding the discussion at the General Board had identified differing views:

- Some ESRB members would like to reduce the size of ESRB bodies, for instance by replacing the multiple country-specific delegations with a single national macro-prudential representation. Others would like to change the current composition, for instance by including the new national macro-prudential authorities as full ESRB members, alongside central banks, and excluding a direct ESRB participation of national supervisors. Others again are of the view that the current broad membership of the ESRB is an asset and should be maintained.
- Some ESRB members would like to delegate some powers from the General Board to other ESRB bodies, with diverging views on whether the beneficiary of the delegation should be the Steering Committee or the Advisory Technical Committee. Others are of the view that the General Board should remain firmly at the centre of any ESRB decision.

The discussion at the General Board revealed a limited support for radical changes to the current institutional arrangements.

(iii) The relationship with the ECB, including the SSM

The ESRB legislation assigns to the ECB the task of providing analytical, statistical, logistical and administrative support to the ESRB.

The High-Level Group Report raises a number of issues, including whether to strengthen or weaken the link between the ESRB and the ECB.

As mentioned before, some members take the view that the ESRB should have a more arms-length identity from the ECB, and that the latter should be included as an addressee of warnings and recommendations.



Others stress the need to enhance economies of scale and scope between the ECB and the ESRB, including at staff level, and see a merit in strengthening cooperation between the two institutions.

More specifically, the question of the relations with the ECB also includes the question of the interaction between the ESRB – with a broader macro-prudential mandate, but limited to recommendations – and the Single Supervisory Mechanism, which has limited, but concrete macro-prudential powers in the areas covered by the CRD-IV/CRR legislation.

In preparation of the General Board discussion, members have expressed different views:

- Some members see that the two institutions have separate mandates and limited overlap, with a limited need to change the ESRB regulation. The ESRB value added is to focus on issues broader than banking, and with a larger geographic mandate;
- Other members see that it might be appropriate to adjust the ESRB mandate, in view of restricting the potential overlaps. The mandate should be focused on structural and medium term systemic risks and vulnerabilities at EU level, predominantly on those with cross-sectoral impact.

In spite of these differences of opinion, the discussion at the General Board revealed a broad consensus on the need to avoid overlapping of work with the ECB-SSM.

(iv) The exchange of data

Most members recognise the need to reduce administrative burden to collect and distribute relevant information. This might imply a revision of Article 15 of the ESRB Regulation in a way to streamline procedures.

However, while this issue has been at the very centre of earlier discussions on the ESRB review, it has become less prominent in recent months, perhaps signalling that the involved institutions achieved significant progresses in the exchange of data.



The European Supervisory Authorities stress the importance of preserving their coordination role in the exchange of data between the ESRB and the national supervisory authorities, in particular in relation to firm-specific data, to avoid fragmentation and inconsistencies in data collection processes.