EUROPEAN CENTRAL BANK

EUROSYSTEM

RECENT DEVELOPMENTS IN SUPERVISORY STRUCTURES IN THE EU MEMBER STATES (2007-10)

1 INTRODUCTION

The ongoing financial crisis has revealed a number of weaknesses and gaps in financial supervision. Following a number of reports at both the international and national levels, regulatory authorities are pursuing an ambitious agenda aimed at remedying the weaknesses identified: a number of EU Member States are implementing or planning reforms of their national institutional frameworks, which also reflect lessons learned from the crisis.

In this context, this note describes the changes in the supervisory structures in the EU Member States, taking into account developments since the last review that was prepared at the end of 2006.[1] The first section reviews the main institutional arrangements for supervision across the EU Member States; Section 2 specifically assesses the involvement of national central banks (NCBs) in supervision; and Section 3 concludes. A detailed description of the main changes to Member States' supervisory frameworks is presented in the annex.

2 MAIN DEVELOPMENTS CONCERNING THE INSTITUTIONAL ARRANGEMENTS FOR FINANCIAL SUPERVISION AT THE EU AND NATIONAL LEVELS

The period under review, namely 2007-10, encompasses the start of the financial turmoil, the deepening of the financial crisis and the subsequent concerted action by EU Member States to contain the negative effects of the crisis for financial stability. Such events have triggered important changes as regards both the EU and national institutional arrangements for financial supervision.

At the EU level, following the recommendations of the De Larosière Report, the European Commission proposed the establishment of a new framework composed of: (i) the European Systemic Risk Board (ESRB), a new body that will be responsible for the macroprudential supervision of the EU financial system, with a secretariat function provided by the ECB; and (ii) the European System of Financial Supervisors, including the existing national supervisory authorities and three new European Supervisory Agencies to be established (as a result of the transformation of the three existing level 3 committees) for the banking, securities and insurance sectors. The EU Member States have agreed on the legislative proposals,[2] which have been approved also by the European Parliament.

At the national level, the financial crisis underpinned the need to enhance the effectiveness of supervisory action, and triggered, or gave new political impetus to, a number of initiatives aimed at addressing perceived gaps in the respective supervisory frameworks. In general, looking at developments in the period under review, one may broadly distinguish between: (i) changes in the supervisory structure adopted before or immediately after the start of the financial crisis, aiming at enhancing specific elements of the supervisory framework; (ii) wide-ranging institutional changes planned or adopted, in particular from 2009 onwards; and (iii) changes aimed at specifically implementing macro-prudential supervision in the national context. A brief discussion of these developments is provided below, whereas a more detailed description can be found in the annex.

1 See ECB (2006), *Recent developments in supervisory structures in EU and acceding countries*, October. A similar review has been made in 2003.

2 See ECOFIN Conclusions of 20 October and 2 December 2009.

First, developments aimed at enhancing specific elements of the supervisory framework adopted before or immediately after the start of the financial crisis. A number of EU Member States have taken measures to improve the effectiveness and efficiency of certain parts of supervision, for instance:[3]

- the changes brought forward in Austria and Germany to clarify the interplay between the central bank and the supervisory authority and the respective responsibilities of each body as regards the conduct of banking supervision;
- the creation in Finland of a new authority, which operates in connection with the central bank, and is responsible for the supervision of the whole financial system;
- the attribution in Luxembourg to the central bank of responsibility for the supervision of the general liquidity situation of markets and market operators, whose importance was one of the key lessons learned from the financial crisis, and the enlargement of its oversight competence to cover all payment and securities settlement systems as well as payment instruments;
- the initiatives undertaken in the United Kingdom to remedy specific lacunae as regards the powers of public authorities for crisis resolution: a new special resolution regime, enshrined by law, now gives the authorities powers to deal with failing banks and building societies, with the aim of protecting depositors and protecting and enhancing both the stability of the UK financial system and public confidence in the UK banking system.

Second, wide-ranging institutional changes adopted or planned, in particular from 2009 onwards. A number of EU Member States have announced or started to implement far-reaching reforms of their national supervisory structure, in some cases with a radical change of the supervisory model:[4]

- the Belgian government has decided to restructure financial supervision in order to move towards the "twin peaks" model by integrating the prudential supervision of financial institutions into the central bank;
- in France, a new *Autorité de contrôle prudentiel* (Prudential Control Authority), closely connected to the Banque de France, was established in the first quarter of 2010, as the single licensing and supervisory authority for the banking, payment services and investment services sector, as well as for the insurance sector;
- the German government has announced its intention to concentrate responsibility for banking supervision at the Deutsche Bundesbank;
- in Ireland, legislation to re-integrate financial regulation into a unitary central bank was enacted in July 2010;
- the Lithuanian government has approved the concept of merging the three sectoral financial supervisory authorities into one single supervisor, as a separate department of the central bank;
- the Portuguese government recently launched a public hearing for the establishment of a "twin peaks" model, where the central bank would be in charge of the prudential supervision of the entire financial system, while a different supervisory authority will be responsible for conduct of business supervision;

3 In accordance with Community practice, the countries are listed here using the alphabetical order of the country names in the national languages.

4 The ECB review published in 2006 identified the following three main supervisory models: (i) sectoral model: each sector (banking, securities and insurance) is supervised by one authority; (ii) "twin peaks" model: responsibilities are allocated on the basis of the supervisory objectives, with prudential supervision and conduct of business regulation attributed to two different authorities; and (iii) single authority model: all the supervisory functions are allocated to a single authority, which covers both prudential supervision and investor protection.

- the Greek government recently prepared a draft law entrusting the Bank of Greece with the supervision also of the private insurance sector;

- the UK Government plans to legislate to create a new Prudential Regulation Authority (PRA), as a subsidiary of the Bank of England, to conduct prudential regulation of sectors, such as deposit-takers, insurers and investment banks. In addition to the PRA, there will be a new Consumer Protection and Markets Authority (CPMA), separate from the Bank, to regulate the conduct of all financial firms, including those prudentially regulated by the PRA. The CPMA will also have the main responsibility for the Financial Services Compensation Scheme.

Third, changes aimed at specifically implementing macro-prudential supervision in the national context. Some EU Member States are undertaking initiatives to strengthen the capacity of their national supervisory system to address systemic risk, either by establishing an ad hoc body or by enhancing the powers of existing authorities. For instance:

- in France a draft law provides for the establishment of a Financial Regulation and Systemic Risk Council. Chaired by the Minister for Finance, it will be composed of the representatives of the different authorities (i.e. the Governor of the Banque de France, in his capacity as President of the Prudential Control Authority, assisted by the Vice-President of the Council, the President of the Financial Market Authority and the President of the Accounting Standards Authority). In addition to playing a coordinating role, this Council will be entrusted with tasks relating to macro-prudential supervision and financial stability;

- in Greece a draft law provides for the establishment of a Systemic Stability Council (SSC) within the Ministry of Economy and Finance, including the Minister (Chair) and the Deputy Minister for Finance, the Governor and one Deputy Governor of the Bank of Greece, the Hellenic Capital Market Commission's Chair and two persons of recognised standing with special knowledge of the financial sector, to be designated by the Minister for Finance;

- in Hungary a Financial Stability Council was established in January 2010, including the Governor of the central bank, the President of the supervisory authority and the Minister responsible for money, capital and insurance markets;

- the UK Government has announced that it will legislate to create a Financial Policy Committee (FPC) in the Bank of England, which will be placed in charge of macro-prudential regulation. It will have responsibility for looking across the economy at macroeconomic and financial issues that may threaten stability and will be given tools to address the risks it identifies. It will have the power to require the new PRA to implement its decisions by taking regulatory action with respect to all firms.

Against this background, the developments of national supervisory structures in the EU Member States confirm the main findings of the review made in 2006, namely: (i) a trend towards consolidation of supervisory authorities; and (ii) a larger involvement of central banks in supervisory activities.

As regards the first finding, on the basis of Table 1, the following considerations can be made.

First, the tendency to depart from the sectoral model is confirmed. The sectoral model is currently present in six countries (Greece, Spain, Cyprus, Lithuania, Slovenia and Romania) and also present, but with some variations, in Portugal. Moreover, two other countries (Bulgaria and Luxembourg) have an integrated sectoral model (i.e. Bulgaria has a single supervisor for the insurance and securities, whereas Luxembourg has a supervisor for banks and securities and a supervisor for insurance companies). Greece is planning to adopt the integrated (i.e. with the NCB supervising banks and insurance companies) sectoral model in due course.

Second, three EU Member States (Belgium, Portugal and the United Kingdom) plan to adopt the "twin peaks" model, and another one (France) has adopted it, in addition to the Netherlands and Italy (in the latter some supervisory responsibilities are assigned according to the sectoral model). It should be noted that in all countries adopting (or planning to adopt) the "twin peaks" model, the prudential supervisor is or will be the central bank or a body connected to it.

Third, the single supervisory authority (which could be a central bank or an entity outside the central bank) is still the dominant model: 15 of the EU Member States (Belgium, Czech Republic, Denmark, Estonia, Germany, Hungary, Ireland, Latvia, Malta, Austria, Poland, Slovakia, Finland, Sweden and the United Kingdom) have a single authority for financial supervision. As mentioned above, during the period under review, one country (Finland) has adopted this model. However, for the first time since 2000, some countries with a single authority outside the central bank are planning to change their supervisory model: this is the case as regards Belgium and the United Kingdom (planning to adopt a "twin peaks" model) and reform is under discussion in Germany. In each case the intention is to assign supervisory responsibilities to the central bank (in the case of the United Kingdom to a subsidiary of the Bank of England).

Such recent developments as regards the institutional allocation of supervisory responsibilities seem to challenge the empirical findings of the academic literature, showing that the degree of consolidation of the supervisory structure tends to be inversely related to a central bank's involvement in supervision,[5] namely the more consolidated the supervisory structure, the less the role of the central bank. Three Member States (Czech Republic, Ireland and Slovakia) have now concentrated supervision over the whole financial sector within the central bank, and one further country (Lithuania) is planning to move in a similar fashion. Overall, it remains true that no single model for an optimal supervisory structure seems to exist and that the institutional structures for financial supervision differ significantly across the EU Member States. Such differences may be due to the idiosyncratic characteristics of each country's financial system and economy, including historical features, as well as political and cultural structures.

3 INVOLVEMENT OF NATIONAL CENTRAL BANKS IN SUPERVISORY ACTIVITIES

One key finding of the reviews conducted in 2003 and 2006 was the strong involvement of central banks in supervisory activities. In line with the findings of the previous reports, the analysis of the recent developments confirms a tendency towards further enhancing the role of national central banks in supervisory activities.

The experience of the financial crisis has highlighted the information-related synergies between the central banking and the prudential supervisory function. It proved particularly advantageous when the central bank was able to have direct access to information on individual financial institutions that was properly assessed and fully understood, given its operational supervisory involvement (while complying with the rules of confidentiality of supervisory information).

5 D. Masciandaro, *Divide et Impera: Financial Supervision Unification and the Central Banking Fragmentation Effect*, in European Journal of Political Economy (2007): pp. 285-315.

As a result, in a number of countries the powers and responsibilities of the NCBs in financial supervision have been strengthened, or a move in that direction is planned. More specifically:

- in 16 EU countries (Bulgaria, Czech Republic, Germany, Greece, Spain, Ireland, Italy, Cyprus, Lithuania, Luxembourg, Netherlands, Austria, Portugal, Romania, Slovenia and Slovakia) NCBs have responsibilities for financial supervision;

- in 6 EU countries (Belgium, Germany, Greece, Lithuania, Portugal and the United Kingdom) it is planned to vest the central bank (or a body connected to it) with new supervisory responsibility, in four cases covering the whole financial sector.

In all the remaining countries, institutional arrangements are in place ensuring that the NCB is closely involved in financial supervision (see Table 2).

4 CONCLUSION

In general, the current review shows that the policy reflections on the lessons learned from the financial crisis are being translated into specific initiatives aimed at enhancing the efficiency and effectiveness of the supervisory structure at both the EU and national levels.

At the EU level, there is a consensus among Member States on the need to enhance the current EU institutional structure for financial stability, by establishing three European Supervisory Authorities (one for each sector: banking, securities and insurance). Moreover, the need to strengthen the capacity of the EU financial system to identify and address systemic risk will be enhanced with the establishment of the ESRB, in which the EU central banks, and the ECB in particular, will play a major role.

At the national level, no single model for an optimal supervisory structure seems to exist and the institutional structures for financial supervision differ significantly across the EU Member States. However, the survey confirms the departure from the sectoral model and highlights a clear tendency towards further enhancing the role of central banks in supervisory activities. The latter development is underpinned by the experience during the financial crisis, which highlighted the information-related synergies between the central banking and the prudential supervisory function. This rationale may explain another important finding of the survey, namely that the involvement of the central bank in financial supervision seems to be increasingly strengthened through the adoption of the "twin peaks" model.

Table 1 Supervisory structures in the EU Member States [1]

EU Member States	Sectoral model	"Twin peaks" model	Single supervisor model	Number of authorities responsible for supervision [2] (changes in bold)	The NCB has supervisory tasks or responsibilities [3] (changes in bold)	New responsibilities or powers to the NCB 2006-10 [7]
BE	X==	=========	===>X	1		
BE planned		X<===	====X	**(->2)**	**X (NCB B I)**	PLANNED
BG	X			2	X (NCB B)	
CZ	X==	=========	===>X	1	X (NCB All)	
DK			X	1		
DE	X-----	---------------	----->X	1	X [4]	
DE planned					**X (NCB B)**	PLANNED
EE	X-----	---------------	----->X	1		
GR	X			3	X (NCB B)	
GR planned	X			(->2)	**X (NCB B I)**	PLANNED
ES	X			3	X	
FR	X===	==>X				
IE	X-----	---------------	----->X	1	X (NCB All)	X
IT	X	X		4	X NCB B	X
CY	X			4	X (NCB) B	
LV	X-----	---------------	----->X	1		
LT	X			3	X (NCB B)	
LT planned	X===	===========	===>X	**(->1)**	**X (NCB All)**	PLANNED
LU	X			2->**3**	**X [5] (NCB All)**	X
HU	X-----	---------------	----->X	1		
MT	X-----	---------------	----->X	1		
NL	X-----	------>X		2	X (NCB All)	
AT	X----	---------------	----->X	1	X [6] **(NCB B)**	X
PL	X===	==========	===>X	1		
PT	X	X		3	X (NCB B)	X
PT planned	X===	==>X		**(->2)**	**X (NCB All)**	PLANNED
RO	X			4	X (NCB B)	
SI	X			3	X (NCB B)	
SK	X==	===========	===>X	1	X (NCB All)	
FI	X===	===========	===>X	2->1		
SE			X	1		
UK	X-----	---------------	----->X	1		X
UK planned		X<===	====X	2	X (NCB B I)	PLANNED

Notes: The ordering and naming of the countries in the table follows the standard EU order. The column ""Twin peaks" model" includes *countries in which prudential supervision and conduct of business regulation are attributed to two different authorities*. For instance in the Netherlands prudential supervision of all financial sectors (banking, insurance and securities) is concentrated at the central bank, conduct of business regulation being attributed to the Netherlands Authority for the Financial Market. Italy and Portugal appear in both the "Sectoral model" and ""Twin peaks" model" columns since they have implemented a combination of the two models.

1) In order to show the evolution of the supervisory structure in each country, the following graphic symbols have been used:
•======> indicates changes after September 2006.
•======> indicates changes in the period from June 2003 to September 2006.
•----------> indicates changes in the period from January 2000 to June 2003.
(See ECB (2003), *Developments in national supervisory structures*, June; and ECB (2006), *Recent developments in supervisory structures in EU and acceding countries*, October.)

2) Supervisory authorities with overall responsibility for taking final decisions in their field of competence.

3) The column includes central banks entrusted by law with specific supervisory responsibilities and indicates the related sector of competence (B = banking, I = insurance, All = all sectors). In Estonia and Finland, supervision is carried out by independent bodies which constitute part of the legal personality of the respective central banks.

4) The Deutsche Bundesbank is entrusted by law with the ongoing monitoring of institutions.

5) The Banque centrale du Luxembourg is entrusted by law with the prudential supervision of liquidity of markets and market operators of all financial sectors.

6) The *Finanzmarktaufsichtsbehörde* and the Oesterreichische Nationalbank have joint responsibility for the supervision of banks.

7) In Portugal, the power and responsibilities of the Banco de Portugal in the supervision of conduct of business of credit institutions and financial companies were reinforced in January 2008. In Italy, the Financial Intelligence Unit was established as independent division within the Banca d'Italia in 2008. In Ireland, legislation to re-integrate financial regulation into a unitary central bank was enacted in July 2010.

Table 2 Domestic cooperation arrangements between non-supervisory national central banks and supervisory authorities in the EU Member States

EU Member States[1)]	Formal mechanism for cooperation and sharing information[2)]	Central bank is involved in the management of the banking supervisor[3)]	Staff sharing[4)]	Financial budget resources sharing	Other resources sharing[5)]	Central bank carries out certain operational tasks[6)]
BE	MoU, C	X***	X	X	X	
DK	MoU, C					
EE	X	X***			X	
FR	X	X***	X	X	X	
LV	A				X	X
HU	MoU, C, A					X
MT	MoU, C					
PL	MoU, C, A	X***			X	
FI	MoU, A	X**			X	
SE	MoU	X***				
UK	MoU	X***			X	

1) In Estonia and Finland, the task of banking supervision is carried out by independent bodies which constitute part of the legal personality of the respective central banks.
2) The following formal mechanisms for cooperation and sharing information among central bank and supervisory authorities are indicated: Memoranda of Understanding (MoU), committees for cooperation (C), and cooperation agreements (A).
3) The central bank is involved in the management of the banking supervisor when it appoints or proposes the appointment of members of the banking supervisor's management board, and when its representatives may participate in the banking supervisor's management bodies in an ex officio capacity.
** The central bank proposes the appointment of some of the members of the banking supervisor's management board in the following Member States: Belgium, Finland and Latvia.
***The central bank is involved ex officio in the management of the banking supervisor in the following Member States: Belgium, Estonia, France, Poland, Sweden and the United Kingdom.
4) As regards staff sharing, it should be noted that in Belgium, the law requires the Nationale Bank van België/Banque Nationale de Belgique (NBB) and the Finance and Insurance Commission (CBFA) to pool certain activities and staff under the conditions determined by Royal Decree and a Memorandum of Understanding between the CBFA and the NBB.
5) This refers to information technology and database sharing.
6) The central bank has the power to carry out on-site inspections and/or review the capital adequacy and risk management systems of supervised institutions.

ANNEX

DEVELOPMENT OF SUPERVISORY STRUCTURES IN THE EU MEMBER STATES (FROM SEPTEMBER 2006 TO JULY 2010)

The annex provides an overview of the current supervisory structures in the EU Member States, highlighting the main changes occurred in the period under review.[1]

AUSTRIA

There has been a single integrated supervisory authority in Austria since 2002, when the *Finanzmarktaufsichtsbehörde* (Financial Market Authority, FMA) was established under public law as an independent institution with its own legal personality. The FMA supervises banks, investment funds, investment services providers, insurance companies, staff provision funds, pension funds, and companies listed on the stock exchange as well as stock exchanges themselves.

On 1 January 2008 the Austrian financial market supervision reform came into force. Based on this reform the FMA and the Oesterreichische Nationalbank (OeNB) have joint responsibility for the supervision of banks. The division of tasks between these two institutions is the following: the OeNB has sole responsibility for conducting all on-site inspections of credit institutions and for all quantitative and qualitative analyses of individual banks. The OeNB has a statutory obligation to notify the FMA immediately of any material change in the risk situation of a bank, as well as any suspected breach of the statutory standards. Moreover, the OeNB may carry out on-site inspections on its own initiative if “macroeconomic reasons” warrant such inspections (e.g. the inspection of systemically relevant institutions).

The FMA, by contrast, remains the sole authority for taking decisions addressed to supervised entities in the area of banking supervision. It relies, to a large extent, on the findings of inspections and analyses conducted by the OeNB. The FMA coordinates and manages cooperation at the international level, and assumes the role of consolidating supervisor in the case of cross-border banking groups.

The OeNB and the FMA contribute all the information and data they gather to a joint database, to which both institutions have unrestricted access.

BELGIUM

Since January 2004, the Banking and Finance Commission and the Insurance Supervision Office have been merged to form the Banking, Finance and Insurance Commission (CBFA). The CBFA has the power to regulate and supervise credit institutions, investment firms, securities markets, securities settlement institutions (and assimilated entities) and clearing institutions, undertakings for collective investment, insurance companies, insurance brokers and pension funds. The CBFA is in charge of micro-prudential supervision, whereas the Nationale Bank van België/Banque Nationale de Belgique (NBB) is entrusted with macro-prudential supervision. Cooperation between the two bodies is ensured, however, since three members of the NBB’s management committee are also members of the CBFA’s management committee. Moreover, as required by Belgian law, a framework for cooperation between the CBFA and the NBB has been established, namely the Financial Services Authority Supervisory Board (FASB), which combines the supervisory boards and the Council of Regency of the CBFA and the NBB, and the Financial Stability Committee (FSC), which combines the Boards of Directors of the two institutions.

The FSC examines all questions of mutual interest to the NBB and the CBFA, such as issues related to maintaining the stability of the Belgian financial system, interactions between prudential supervision and control of systemic risks facing market infrastructures or the coordination of the response of the Belgian financial authorities to crisis situations (financial or operational) of a systemic nature. On the other hand, the FSASB arranges dialogue and consultation between the CBFA and the NBB. It is authorised to issue,

1 Similar analyses were carried out by the ECB in 2003 and 2006.

at the request of the ministers concerned or on its own initiative, opinions on all of the questions relating to the way in which financial institutions and financial markets operate and are organised.

In May 2010, the Belgian Parliament adopted a law to restructure financial supervision in order to evolve to the "twin peaks" model, by integrating the prudential supervision on financial institutions into the central bank. Execution decrees still need to be adopted in order to transfer effectively the responsibility for all prudential supervision in Belgium to the NBB, which should take place in principle by the beginning of 2011. The new CBFA, which will be separate from the NBB, will, for its part, take charge of all aspects of the surveillance of the financial markets and the supervision of listed companies, financial products, services and intermediaries and the relevant rules of conduct, and will be given increased powers as regards consumer protection and the supervision of information. For the transition period, the law foresees the creation of a Systemic Risk and Systemic Institutions Committee (SRSIC), replacing the existing FSC consisting of the management committees of the NBB and the CBFA and chaired by the Governor of the NBB. The SRSIC will be responsible not only for the supervision of systemic risks, but also for the micro-prudential supervision of systemic financial institutions. The law foresees that it will cease to exist at the latest on 31 December 2010.

BULGARIA

In Bulgaria, the supervisory function is shared between Bulgarian National Bank (BNB), which is responsible for banking supervision, and the Financial Supervision Commission (FSC), which is responsible for the supervision of securities and investment activities, insurance business and pension funds.

One of BNB's three main departments, the Banking Supervision Department, deals exclusively with banking supervision. This department is headed by a Deputy Governor of BNB who is elected by the National Assembly. Although the Banking Supervision Department forms part of the central bank, the Deputy Governor in charge enjoys a large degree of independence and has discretion to apply remedies, take actions and impose sanctions. However, authorisation of the Governor of BNB is required to grant and revoke banking licences.

The FSC, established on 1 March 2003, is a specialised independent body which regulates and controls the financial system. Its main objectives are: (i) to protect the interests of investors and policy-holders; and (ii) to ensure the stability, transparency and credibility of the financial markets.

In October 2003, the FSC and BNB signed a Memorandum for partnership and cooperation. The purpose of this Memorandum is to improve coordination between the two institutions with regard to issues of mutual interest in the field of financial markets, through coordination of certain actions related to the implementation of the statutory supervisory powers assigned to both institutions; improvement of enforcement of legislation; cooperation for improvement of the regulatory framework applying to the supervised entities; and mutual assistance in implementing their respective supervisory functions.

On the basis of the Law on the FSC, the Consultative Council on Financial Stability was created for the purpose of ensuring, *inter alia*, the security and integrity of the development of financial markets, which would thereby exercise a positive effect on macroeconomic development in Bulgaria. The Head of the FSC, the Governor of BNB and the Minister for Finance are all members of this Council.

CYPRUS

Supervisory functions have been assigned on the basis of the sectoral model. The Central Bank of Cyprus (CBC) is the competent authority responsible for banking supervision: it supervises banks and electronic money institutions and ensures the stability of the banking system. Cooperative credit institutions are supervised and regulated by the Cooperative Societies Supervision and Development Authority (CSSDA), which has succeeded the Department of Cooperative Development operating under the Ministry of Commerce, Industry and Tourism. The Cyprus Securities and Exchange Commission (CySEC) is responsible for the supervision of investment firms, collective investment schemes, the operation of the Cyprus Stock Exchange and the issuers of listed securities. It must be noted that a representative of the Governor of the CBC may attend any meeting of the Board of Directors of the CySEC, without a voting right, but with the right to propose issues for the agenda, to participate in discussions and express opinions. Finally, the Insurance Companies Control Service, under the responsibility of the Ministry of Finance, supervises the insurance sector. Conscious of the need for a better coordination of their supervisory activities, the four national supervisors concluded a Memorandum of Understanding, which entered into force in 2003. The purpose of this Memorandum is to promote cross-sectoral cooperation, through the regular holding of "high-level" group meetings, and to enhance the exchange of information among the supervisory bodies.

CZECH REPUBLIC

On 1 April 2006 a new legal framework for integrated financial market supervision entered into force, implementing the single supervisor model. The previously existing supervisors, i.e. the Securities Commission (SEC), the Ministry of Finance's Office for the Supervision of Insurance and Pension Funds (OSIPF), and the Office for Supervision of Cooperative Banks (OSCB) were dissolved and their responsibilities and staff transferred to Česká národní banka (CNB). CNB is therefore responsible for the supervision of the banking sector, the capital market, the insurance industry, pension funds, credit unions and payment system institutions. As part of the reform, the Committee for the Financial Market (CFM) was established as a consultative body reporting to the CNB's Board as regards financial market supervision. The CFM is entitled to submit opinions and recommendations concerning, *inter alia*, the strategies and approaches to financial market supervision and systemic issues regarding financial markets.

DENMARK

In Denmark, there is a single supervisory authority, *Finanstilsynet* (Danish Financial Supervisory Authority, DFSA), which is under the responsibility of the Ministry of Economic Affairs, Trade and Industry. The DFSA acts as both regulator and supervisor, since it drafts financial legislation and issues executive orders. The supervisory tasks encompass both the supervision of all financial enterprises (credit institutions, mortgage credit institutions, insurance companies, pension funds, insurance brokers, the Danish Labour Market Supplementary Pension, the Danish Employees' Capital Pension Fund, the Danish Labour Market Occupational Diseases Fund, investment companies and investment funds), as well as the supervision of securities markets, including undertakings permitted to operate stock exchanges (securities exchanges), authorised markets, securities brokers, money market brokers, clearing institutions and registration undertakings (securities centres).

Danmarks Nationalbank (DNB) participates in the Financial Business Council, which decides on general supervisory matters as well as on more specific matters that have significant consequences for individual financial undertakings and financial holding companies. In addition, the Financial Business Council advises the DFSA in connection with issuing regulations. The Council has eight members, appointed by the central bank, the Ministry of Economic Affairs, Trade and Industry, consumers, and the various relevant economic and financial sectors. The Secretariat for the Financial Business Council, as well for two parallel institutions, the Danish Securities Council and the Danish Pension Market Council, is provided by the DFSA.

In 2005, the DFSA signed two Memoranda of Understanding to improve cooperation with the DNB in particular. The first Memorandum was signed with DNB and the Ministry of Finance, with the objective of maintaining financial stability through information sharing, consultations, and cooperation through a coordination committee. The second Memorandum was concluded with DNB with the aim of improving and extending the ongoing cooperation. Further memoranda have also been signed in the field of financial stability, clearing and settlement systems and statistics.

ESTONIA

Financial supervision is carried out by the *Finantsinspektsioon* (Estonian Financial Supervision Authority, EFSA) according to the single supervisor model. The entities supervised by EFSA include banks, insurance and pension companies, insurance intermediaries, fund management companies, securities market participants, investment firms, investment and pension funds, issuers of securities and e-money. The objective of the EFSA is to protect the interests of clients and investors by safeguarding their financial resources and thereby supporting the stability of the Estonian financial and monetary system. Besides ensuring the stability of the Estonian financial sector, the objective of the EFSA is to increase the credibility and transparency of the financial sector.

The EFSA is an agency that operates at Eesti Pank, but with autonomous competence and a separate budget. The EFSA functions under the rules stated in the Financial Supervision Authority Act. The Supervisory Board of the EFSA consists of six members, two of whom – the Minister for Finance and the Governor of Eesti Pank – are members by virtue of office. Two of the four appointed members of the supervisory board are appointed and removed by the Board of Eesti Pank on the proposal of Eesti Pank's Governor.

The EFSA cooperates in the field of financial stability with Eesti Pank and the Ministry of Finance. In December 2007 the EFSA, Eesti Pank and the Ministry of Finance signed a cooperation agreement which specified the bases of cooperation between the contracting partners in the following areas: development of financial sector policy and legislation; development of safety network for financial sector; cooperation and exchange of information regarding financial sector policy and about the situation and risks in the financial sector (including financial infrastructure); relations with the public regarding the above-mentioned issues.

In addition to the general Memorandum of Understanding on cooperation between the authorities, a Memorandum for cooperation in the crisis situation has also been signed between the same parties.

Cooperation between the EFSA and Eesti Pank also includes joint stress-testing exercises, which are conducted at least once a year. In addition, regular meetings between the EFSA and Eesti Pank officials are held and there is also a long-standing, regular exchange of quarterly or semi-annual analytical reports. Finally, Eesti Pank and the EFSA manage and share a common database of Estonian financial market participants.

FINLAND

In Finland, a variant of the sectoral model was in place, with two supervisors: the *Rahoitustarkastus* (Finnish Financial Supervision Authority, FFSA), for the banking and securities sectors, and the *Vakuutusvalvontavirasto* (Insurance Supervision Authority, ISA), for the insurance sector.

The framework for financial supervision was reformed from 1 January 2009 by merging the FFSA and the ISA into the *Finanssivalvonta* (Financial Supervisory Authority, FIN-FSA), which is now responsible for the supervisory functions previously undertaken by the above-mentioned authorities. The entities supervised by the FIN-FSA include banks, insurance and pension companies as well as other companies operating in the insurance sector, investment firms, fund management companies and the

Helsinki Stock Exchange. The activities of the FIN-FSA are aimed at: ensuring financial stability and the necessary smooth operation of supervised entities; safeguarding the interests of the insured; maintaining confidence in the financial markets. The FIN-FSA is also responsible for fostering compliance with good practice in, and public awareness of, financial markets.

The FIN-FSA operates administratively in connection with Suomen Pankki – Finlands Bank, but is independent in its decision-making. Supervised entities provide 95% of the financing needed to cover our activities, and the remaining 5% comes from Suomen Pankki – Finlands Bank.

The activities of the FIN-FSA are supervised by the Parliamentary Supervisory Council. The Board of the FIN-FSA sets the objectives for the activities of the supervisor, decides the operational principles, and guides and supervises achievement of, and compliance with, these objectives and principles. The Board of the FIN-FSA is composed of five members: one appointed on the basis of a proposal by the Ministry of Finance, one on the basis of a proposal by the Ministry of Social Affairs and Health and one on the basis of a proposal by Suomen Pankki – Finlands Bank. In addition, two further members are appointed to the Board. The term of office of the Board is three years.

The FIN-FSA cooperates in the field of financial stability with Suomen Pankki – Finlands Bank, the Ministry of Finance and the Ministry of Social Affairs and Health. The FIN-FSA, Suomen Pankki – Finlands Bank and ministries are represented in the Local Standing Committee which has regular meetings. The cooperation structure is based on the Memorandum of Understanding between authorities.

FRANCE

The French framework for financial supervision was reformed in 2003 to improve the efficiency of the national financial regulatory system. The framework for financial supervision has thus been re-organised and significantly simplified. The Financial Security Act of 1 August 2003 established the *Autorité des marchés financiers* (AMF), the result of the merger of the *Commission des opérations de bourse* (COB), the *Conseil des marchés financiers* (CMF) and the *Conseil de discipline de la gestion financière* (CDGF). The AMF, which is an independent public body with legal personality and financial autonomy, is responsible for the protection of savings and the smooth functioning of financial markets. In particular, the AMF monitors securities transactions and collective investment products in order to ensure compliance with the obligation of information disclosure to investors. A Banque de France representative appointed by the Bank's Governor is a member of the AMF's Board.

Until recently, the prudential supervision of banks and investment firms remained a task of the *Commission bancaire*, a collegial body consisting of seven members and chaired by the Governor of the Banque de France. Its day-to-day activity was carried out by the General Secretariat, whose staff and budget was provided by the Banque de France. The *Comité des établissements de crédit et des entreprises d'investissement* (CECEI), also chaired by the Governor of the Banque de France, was responsible for the authorisation of credit institutions and investment firms, while the AMF was in charge of the authorisation of unit trusts and investment funds.

Insurance activities were supervised by the *Autorité de contrôle des assurances et des mutuelles* (ACAM), which is an independent authority. The Ministry of the Economy, Industry and Employment remained responsible for authorising insurance companies. However, the composition of the *Commission bancaire* and of the ACAM was modified and harmonised by the Financial Security Act of 1 August 2003.

In addition, the 2003 reform set up the *Comité consultatif de la législation et de la réglementation financières* (Advisory committee for financial legislation and regulation, CCLRF)[2], which must be consulted on draft regulatory provisions and on draft legislative provisions in the fields of insurance, banking and investment firms (subject to the competence of the AMF).

In the first quarter of 2010, the four banking and insurance licensing and supervisory authorities[3] were merged. *A new supervisory authority, the Prudential Control Authority (Autorité de contrôle prudentiel, ACP), was established on 9 March 2010*. The authority is now the single licensing and supervisory authority for the banking, payment services and investment services sector, as well as for the insurance sector. It is explicitly entrusted with the task of contributing to financial stability and protecting clients, with a specific mention of supervision of the conduct of business for financial products. The main purpose of this reform is to make the French supervision mechanism both stronger and simpler, reducing the number of authorities and allowing the new one to have a comprehensive view of the financial sector. This authority has a strong relationship with the central bank: such a link, already in place for banking supervision, will be thus extended to the supervision of the insurance sector. To ensure proper balance, the authority is chaired by the Governor of the Banque de France and has a vice-chair for insurance, who will serve as the first point of contact for the insurance industry. The authority's departments are managed by a general secretariat.

A relatively large College – composed of public officials and qualified experts with various fields of expertise – addresses general questions relating to supervision and the operation of the authority, while narrower cases are referred to smaller committees. A specific Committee within the Authority is in charge of the sanctioning power (i.e. punitive action) with the power to pronounce administrative non-pecuniary and pecuniary sanctions. The other enforcement powers and individual decisions will be exercised by the collegial organs of the Authority (such as injunctions and other administrative decisions).

Despite its close links to the Banque de France, the authority is an independent administrative authority and enjoys a high degree of autonomy. The authority has its own funding, raised from supervised institutions. Its budget is proposed by the Secretary General and approved by the College.

The new authority will set-up special cooperation arrangements with the AMF for the supervision of the conduct of business for financial products. To this aim the new authority and the AMF will establish a joint centre which will develop policy on inspections in that field, monitor product developments, and conduct joint monitoring of product advertising. This joint centre will provide a single point of contact for consumer inquiries, while preserving the division of responsibilities between the two authorities.

Finally, a draft law under discussion by the French Parliament provides for the establishment of a Financial Regulation and Systemic Risk Council. Chaired by the Minister for Finance (or his representative), it will be composed of the Governor of the Banque de France, as President of the ACP, assisted by the Vice-President, the Presidents of the FMA and of the Accounting Standards Authority or their deputies. The Council will be entrusted with the following tasks: (i) to foster cooperation and the exchange of information between the institutions represented; (ii) to examine French financial sector and market status report from a macro-prudential perspective, taking into account the opinions and recommendations of the European Systemic Risk Board; and (iii) to facilitate cooperation and coordination of

2 The CCLRF replaces the *Comité de la réglementation bancaire et financières* (Banking and Financial Regulation Committee, CRBF) and the *Commission de la réglementation of the Conseil national des assurances* (Regulatory Commission of the National Insurance Council).

3 The *Autorité de contrôle des assurances et des mutuelles* (Insurance and Mutual Insurance Societies Supervisory Authority), the *Comité des entreprises d'assurance* (Insurance Companies Committee), the *Comité des établissements de crédit et des entreprises d'investissement* (Credit Institutions and Investment Firms Committee) and the *Commission bancaire* (Banking Commission).

work in relation to international and European standards applicable to the financial sector, with the power to issue opinions or position statements when necessary.

GERMANY

The *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin) supervises banks, investment companies and insurance companies, assuring, on the one hand, the stability and the proper functioning of the German financial market and, on the other, consumer and investor protection. The Deutsche Bundesbank (BBk) is, however, by law, substantially involved in banking supervision, carrying out the ongoing monitoring of institutions (including on-site inspections as well as the evaluation of documents, auditors' reports and annual financial statements). The BBk also performs audits and evaluates banking operations to check compliance with the regulatory capital requirements and the adequacy of risk management. Against this background, the establishment of the *Forum für Finanzmarktaufsicht* (Forum for Financial Market Supervision) aims at facilitating and enhancing efficient cooperation between the BBk and the BaFin. In particular, the Forum coordinates the actions of the BBk and of the BaFin, and provides advice on issues concerning integrated financial services supervision which are considered to be important for the stability of the financial system.

On 21 February 2008 the new Supervision Guidelines governing the cooperation of the BaFin and the Bbk in ongoing supervision of credit and financial services institutions were published. The BaFin carries out surveillance of banks or investment companies in cooperation with the BBk, assuring, on the one hand, the stability and proper functioning of the whole German financial market and, on the other, consumer and investor protection. Regarding the supervision of the insurance sector, it should be noted that the BaFin continues to provide surveillance of insurance companies operating across the borders of the federal states (*Länder*), whereas the regional authorities are competent for the supervision either of insurance companies operating within the borders of each federal state or of those that are economically less important.

In October 2009, the German Government announced its intention to concentrate the responsibility for banking supervision at the BBk, making clear that the independence of the latter would remain untouched.

GREECE

In Greece, three different authorities are responsible for supervising the financial sector. The Bank of Greece is responsible for the supervision of credit and financial institutions, namely banks, factoring and leasing companies, as well money transfer intermediaries and exchanges. The Bank of Greece supervises these entities in respect of their soundness, their liquidity, the adequacy of their internal audit system, and the concentration of risks. The Hellenic Capital Market Commission (HCMC) is the supervisor of the securities markets as a whole: brokerage firms, investment firms, mutual fund management firms, portfolio investment companies and stock and derivatives exchanges. The HCMC is an independent decision-making body, a public law legal entity operating under the supervision of the Ministry of the Economy and Finance. The HCMC aims to ensure the proper functioning of the markets and, at the same time, to both enhance and retain public confidence. The Bank of Greece proposes one of the seven members of the Board to be appointed by the Ministry of the Economy and Finance. Finally, as regards supervision of the insurance sector, a public law legal person, the Committee for Private Insurance Supervision (CPIS), has been established under the supervision of the Ministry of the Economy and Finance. The CPIS is to be abolished and its supervisory responsibilities to be transferred to the Bank of Greece under a draft law scheduled for adoption in 2010.

HUNGARY

There has been a single supervisor in Hungary since 2000: the *Pénzügyi Szervezetek Állami*

Felügyelete (Hungarian Financial Supervisory Authority, HFSA), which is the result of the merger between the three previous authorities (the Hungarian Banking and Capital Market Supervision, the State Insurance Supervision and the State Pension Supervision). The HFSA oversees credit institutions, investment companies, insurance companies, and pension funds. Due to recent amendments to the Law on the HFSA, as of 1 January 2010 the HFSA is managed by its President and two Vice-Presidents and has become an independent agency. Its tasks and structure have also been changed, in particular by abolishing the current Board and transferring most of its functions to the President.

Moreover, a new body was established in January 2010: the Financial Stability Council composed of the Minister responsible for money, capital and insurance markets, the Governor of Magyar Nemzeti Bank (MNB) and the President of the HFSA. The Council's tasks, *inter alia*, are: continuously assessing the stability of the financial markets; discussing the risk analysis of the HFSA while taking into account the main findings of the MNB's Financial Stability Report; proposing that the Government adopt legal acts or initiate the adoption of law, or proposing to a Member of the Government to adopt legal acts on an act-or-explain basis; discussing the annual report of the HFSA; discussing all general measures, orders or decisions of the HFSA other than those applying to individuals; and continuously monitoring the law enforcement activity of the HFSA. The Council must agree on all recommendations to be issued by the HFSA and the major fields of investigations proposed for the year.

The HFSA is also required to cooperate with the MNB in preventing systemic risks or in cases where system-wide risks evolve in mitigating or reducing them. This type of cooperation is based on the relevant laws and facilitated by a bilateral arrangement between the HFSA and the MNB.

Furthermore the HFSA has the competence to ban, restrict or make conditional certain activities, services and deals if they pose a significant threat to the stability of the financial system. This measure would be in force for a maximum of 90 days.

As a result of the latest changes of the legislation, the Governor of the MNB could also make a proposal to the Government on an act-or-explain basis for legislation to provide for the safe and secure operation of the financial system. Based on the decision of the Governor, the proposal could also be made public.

IRELAND

In 2003 Ireland's central bank was restructured and became known as the Central Bank and Financial Services Authority of Ireland (CBFSAI). The Irish Financial Services Regulatory Authority (IFSRA) was established as an autonomous authority within the CBFSAI[4], responsible for the prudential supervision of the whole financial services sector with the exception of pension funds. The IFSRA cooperated closely with the CBFSAI in relation to the task of maintaining overall financial stability. For this reason, the Governor of the CBFSAI had a number of specific powers: (i) he/she was to be consulted by the Financial Regulator and his/her agreement was required as regards any matter relating to the financial stability of the Irish state's financial system; (ii) he/she had the power to authorise a CBFSAI employee to investigate (including carrying out on-site inspections) licensed credit institutions, building societies, trustee savings banks, approved stock exchanges, authorised investment business firms and authorised collective investment schemes; and (iii) he/she could, with respect to his/her functions, have issued guidelines to the IFRSA as regards the policies and principles that the IFRSA was required to implement in performing the CBFSAI's functions.

In July 2010, legislation was enacted to reintegrate financial regulation into an unitary Central Bank of Ireland with a unitary board –

4 This autonomy of action was formally provided for by Section 33C (11) of the Central Bank and Financial Services Authority of Ireland Act, 2003.

the Central Bank of Ireland Commission – replacing the Boards of the Bank and the IFSRA. It creates new senior posts within the Bank in the form of the Head of Financial Regulation and the Head of Central Banking. The legislation ensures that the independent role of the Governor under EU law and Eurosystem structure is preserved.

The consumer information and education role, currently carried out within the Consumer Directorate in the Financial Regulator will be re-assigned to the National Consumer Agency.

ITALY

Responsibility for the supervision and regulation of the financial sector in Italy lies with four different authorities: Banca d'Italia; the *Commissione nazionale per le società e la borsa* (Securities Commission, CONSOB), the *Istituto per la vigilanza sulle assicurazioni private e di interesse collettivo* (Insurance Supervisory Institute, ISVAP) and the *Commissione di vigilanza sui fondi pensione* (Pension Fund Supervisory Commission, COVIP). The supervisory model in place is inspired by the division of tasks in relation to the banking and securities sector: the Banca d'Italia is entrusted with prudential supervision over credit institutions, investment firms and all other financial intermediaries, and the CONSOB is competent as regards transparency and the conduct of business investment services. Moreover, the CONSOB has supervisory tasks as regards the securities markets, the disclosure and completeness of information made available by issuers, market abuse and insider trading. However, the Banca d'Italia is responsible for supervising those markets which are relevant from a monetary point of view as the wholesale market for government securities and the interbank deposit market, with the aim of ensuring the overall efficiency of the market and the orderly conduct of trading. In addition, the Banca d'Italia, in agreement with the CONSOB, both regulates and supervises the post-trading infrastructure.

Insurance companies are under the supervision of the ISVAP, with the objective of guaranteeing both the stability and transparency of insurance companies; whereas pension funds are monitored by the COVIP. As envisaged by the law, cooperation between financial supervisory authorities is ensured through appropriate means for coordination and information exchange.

In the interests of having a complete overview of the Italian supervisory framework, the *Comitato interministeriale per il credito e il risparmio* (Inter-ministerial Committee for Credit and Savings, CICR) should also be mentioned. The CICR is a collective body, composed of the different ministers competent in economic and financial issues, and chaired by the Minister for Economic Affairs and Finance; the Governor of Banca d'Italia attends its meetings. The CICR is responsible for issuing broad guidelines on prudential supervision in the area of credit activities and the protection of savings; it can take decisions on certain specific matters within its scope of competence.

In March 2008 the Minister for Economic Affairs and Finance, the Governor of the Banca d'Italia and the Chairs of the CONSOB and the ISVAP signed a protocol on cooperation and information exchange that established the *Comitato per la salvaguardia della stabilità finanziaria* (Financial Stability Committee). The Committee is chaired by the Minister for Economic Affairs and Finance and composed of the highest representatives of the signatories institutions; it is expected to meet at least twice a year or whenever systemic threat arises. The purpose of the Committee is to ensure, in accordance with the respective competence of the participating institutions, cooperation, information sharing and exchange of views concerning financial stability, prevention and management of systemic crisis, including those having potential cross-border effects.

On 1 January 2008 the Banca d'Italia took over responsibility for action to combat money laundering, which was formerly a duty of the Italian Foreign Exchange Office, the UIC.

Within the Banca d'Italia an independent division has been instituted as Italy's Financial Intelligence Unit (FIU), the national agency assigned to collect, analyse and communicate to the competent authorities information concerning possible money laundering or terrorist financing. The FIU's position within the Banca d'Italia fosters synergy with the Banking and Financial Supervision Area, which has the power to issue regulations on such matters as customer due diligence ("know your customer"), record-keeping, organisation and internal controls and to check the compliance of banks and other intermediaries with the anti money laundering rules, including by on-site inspection, for the common objective of safeguarding the banking and financial system against being used by organised crime. The sharing of databases, the exchange of information and the coordination of operations enhance the effectiveness of their joint action.

LATVIA

In Latvia, supervision of the entire financial market is performed by a single independent public authority, the *Finanšu un kapitala tirgus komisija* (Finance and Capital Market Commission, FKTK), as of 1 July 2001. The FKTK supervises credit institutions, insurance companies and insurance brokerage companies, issuers, investment firms, organisers of regulated markets (the Riga Stock Exchange), the Latvian Central Depositary, investment management companies and investment funds, as well as private pension funds and the state-funded pension scheme. Its main goals are twofold: (i) the protection of investors, depositors and the insured; and (ii) the promotion of development and stability of the market. The FKTK also manages the Deposit Guarantee Fund and the Fund for the Protection of the Insured. The FKTK cooperates with Latvijas Banka and the Ministry of Finance; furthermore it assists the Office for the Prevention of Laundering of Proceeds Derived from Criminal Activity. On 8 September 2009 Latvijas Banka and the FKTK concluded a new cooperation agreement in order to improve information sharing, joint inspections and the sharing of data base.

LITHUANIA

Financial supervisory tasks in Lithuania have been assigned according to the sectoral model. There are three supervisors: Lietuvos bankas; the *Lietuvos Respublikos vertybinių popierių komisija* (Lithuanian Securities Commission, LSC) and the *Lietuvos Respublikos draudimo priežiūros komisija* (Lithuanian Insurance Supervisory Commission, LISC). Lietuvos bankas supervises the banking sector, issues and revokes the licences of credit and payment institutions, and establishes the principles and procedures for financial accounting and reporting. The LSC supervises the securities market as a whole, having regard to the effective functioning of the securities market; to the protection of investors' interests and to fair trading and competition. Finally, the insurance sector is supervised by the LISC.

In 2000 Lietuvos bankas, the LSC and the LISC signed a Memorandum of Understanding with the aim of improving cooperation and exchanging information on supervised institutions.

Furthermore, the Commission for the Regulation of the Business of Financial Institutions and Insurance Companies and Coordination of Supervision was established by the Parliament in 2003 in order to ensure more efficient cooperation among the supervisors. The Commission includes representatives of all the three supervisory authorities as well as representatives from the Parliamentary Committee on Budget and Finance and the Ministry of Finance.

On 24 November 2008 the Lithuanian Government decided to establish a permanent, national Commission of the prevention and management of financial crises. Together with representatives of all three supervisory authorities, other members of the Commission are the Minister for Finance (Chair of the Commission), a senior advisor to the President of the Republic and an advisor to the Prime Minister. The main tasks of the Commission include the prevention, management and resolution of financial crises.

At the end of October 2009 a special working group prepared a draft concept for the joining of the three sectoral financial markets supervisors into one single supervisor. More specifically, the draft concept proposes the establishment of a new single supervisor, as a separate department of Lietuvos bankas, assigned to perform the supervision of the entire financial market. On 19 May 2010 the Government approved the concept for joining the three sectoral financial market supervisors into one single supervisor[5]. Legislative proposals may be prepared in the course of 2010.

LUXEMBOURG

In Luxembourg, the *Commission de surveillance du secteur financier* (CSSF) is the competent authority for ensuring prudential supervision on all financial intermediaries and markets (banks, investment firms, undertakings for collective investment, electronic money institutions, securitisation vehicles, pension funds, investment companies in risk capital (SICARs), management companies and securities markets, including their operators), with the insurance sector being the only exception. The supervision of insurance and reinsurance companies is exercised by the *Commissariat aux assurances* (CAA). Both the CSSF and the CAA are public bodies with separate legal personality and financial autonomy under the authority of the Minister for Finance.

In October 2008, the Banque centrale du Luxembourg (BcL), which had no supervisory powers until then, has been entrusted by law[6] with the supervision of the general liquidity situation of markets and market operators. The Law provides for cooperation arrangements between the CSSF and the BcL and between the latter and the CAA. Under the law of 10 November 2009, the BcL has been entrusted with the oversight of all payment and securities settlement systems as well as with the oversight of the security of payment instruments.

MALTA

The single supervisor model has been in place in Malta since 2002. The Malta Financial Services Authority (MFSA), while performing the functions formerly carried out by the Malta Financial Services Centre, has also assumed the regulatory functions previously carried out by the Central Bank of Malta (CBM) and the Malta Stock Exchange. Since the inception of the MFSA, the Governor of the CBM has been one of the Board members appointed by the Prime Minister. The Board members are appointed by the Prime Minister from among persons who have distinguished themselves in business, financial activities, the professions, the public services or academic affairs and who in his opinion are able to represent the points of view of the industry and consumers of financial services.

The MFSA regulates and supervises all banking, securities and insurance activities, and also houses and administers the national Registry of Companies. The MFSA is also the Listing Authority and authorises and supervises stock exchanges. The MFSA's main statutory objectives broadly refer to the protection of investors, fair competition and consumer choice, as well as the encouragement of the highest possible standards of conduct within the financial services industry. In 2003, the MFSA and the CBM signed a Memorandum of Understanding, which provides for both the exchange of information and the establishment of a Standing Committee meeting on a regular basis, or urgently in exceptional circumstances, to exchange views.

5 Resolution No. 580.
6 Article V of the *Loi portant amélioration du cadre législatif de la place financière de Luxembourg* amending Article 2 of the Banque centrale du Luxembourg's organic law, Mémorial A – No. 161, 29 October 2008, p. 2255.

NETHERLANDS

In the Netherlands, De Nederlandsche Bank (DNB), after the merger in 2004 with the Pensions and Insurance Supervisory Authority Foundation (*Pensioen- & Verzekeringskamer*, PVK), is in charge of the prudential supervision of all financial institutions. The Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*, AFM) is the body responsible for regulating behaviour on the financial markets in the Netherlands. With prudential supervision and conduct of business regulation attributed to two different authorities, the Dutch supervision structure follows the "twin peaks" model.

POLAND

In Poland, the reform introducing a new institutional framework for financial supervision was completed on 1 January 2008 and has been fully implemented. Prior to the reform, financial supervision was conducted by three separate collegiate bodies: (i) for the banking sector, the *Komisja Nadzoru Bankowego* (Banking Supervision Commission), with its executive body – the General Inspectorate of Banking Supervision – placed within the structure of Narodowy Bank Polski (NBP); (ii) for capital markets, the *Komisja Papierów Wartościowych i Giełd* (Securities and Exchange Commission); and (iii) for insurance and pension funds, the *Komisja Nadzoru Ubezpieczeń i Funduszy Emerytalnych* (Insurance and Pension Funds Supervisory Commission).

Since the reform, the supervision of banks, capital markets, insurance and pension funds has been carried out by a single integrated supervisor, the Polish Financial Supervision Authority (PFSA). The PFSA is financed by contributions from the supervised entities. Its Chair is appointed from among qualified persons by the President of the Polish Council of Ministers for a five-year term of office. Moreover, it is composed by two Deputy Chairs appointed by the President of the Council of Ministers and four members: the Minister for Finance or his/her representative; the Minister for Labour and Social Policy or his/her representative; the President or Vice-President of NBP; a representative of the President of the Republic of Poland.

In December 2007 NBP signed a bilateral agreement for the exchange of information with the PFSA to ensure central bank access to the supervisory data. Also in December 2007, a Memorandum of Understanding was signed by the Minister for Finance, the President of NBP and the Chair of the PFSA, on the basis of which the Financial Stability Committee (FSC) was established. The existence of the FSC was formally regulated by the Law on the Financial Stability Committee, which entered into force on 13 December 2008. The FSC consists of three members: the Minister of Finance as Chair, the President of NBP and the Chair of the PFSA. The aim of the FSC is to ensure and strengthen effective coordination and exchange of information between the three institutions in order to maintain financial stability in the country. The FSC meets at least once every six months. According to the relevant law, cross-institutional working groups may be set up comprising staff of the Ministry of Finance, NBP and the PFSA. The tasks of the working groups are defined by the FSC.

Finally, the above-mentioned Law on the Financial Stability Committee entrusted NBP with the explicit task of contributing to the stability of the domestic financial system. Although, until 2008, the formal responsibility of NBP for promoting financial stability was not explicitly laid down in the domestic law, the central bank had perceived it as an important task even before 2008.

PORTUGAL

There are three different supervisory authorities in Portugal: the Banco de Portugal (BdP); the *Comissão do Mercado de Valores Mobiliários* (Securities Commission, CMVM) and the *Instituto de Seguros de Portugal* (Insurance Institute, ISP). The Portuguese supervisory structure is organised as a combination of the sectoral model (as regards insurance/pension funds and credit institutions), with a partially integrated model by objectives (in relation to entities operating in the securities markets). Supervision of the banking and insurance sectors (including pension funds) is entrusted to the BdP and the ISP respectively. Cross-sectoral supervision of the conduct of financial intermediaries in the securities market rests in the hands of the securities regulator (i.e. the CMVM), while prudential supervision is entrusted to the BdP (including investment firms and other financial companies). Supervision of business conduct of credit institutions and financial companies (i.e. as regards the rules of conduct of these institutions in the relationship with banking costumers) is also entrusted to the central bank, these powers having been reinforced in January 2008. All three Portuguese supervisors cooperate on a regular basis within the *Conselho Nacional de Supervisores Financeiros* (Financial Supervisors National Council, CNSF). This overarching high-level committee was created in 2000 to coordinate national strategies and to enhance the efficiency of supervision in the fields of banking, capital markets and insurance, but has no direct powers over the financial institutions. The competences of the CNSF were strengthened in 2008 in order to clarify its coordination role. Moreover, cooperation procedures for sharing of relevant information on financial stability between the CNSF and the Ministry of Finance have been defined. Day-to-day coordination, for its part, is buttressed by bilateral Memoranda of Understanding between supervisory authorities.

Another overarching high-level committee was created in 2007, bringing together the three Portuguese supervisory authorities as well as the Portuguese Ministry of Finance. This forum is named the *Comité Nacional para a Estabilidade Financeira* (National Committee for Financial Stability, CNEF) and has a specific mandate for ensuring cooperation and coordination among the participating authorities in matters related to the objective of safeguarding financial stability and ensuring effective crisis management during periods of systemic disturbance.

Finally, there is also a forum related to the supervision of statutory auditing and audit firms – the *Conselho Nacional de Supervisão de Auditoria* (National Council for Audit Supervision, CNSA). The CNSA includes representatives from the three supervisory authorities as well as from the *Ordem dos Revisores Oficiais de Contas* (Institute of Chartered Accountants, OROC) and the *Inspecção-Geral de Finanças* (Inspectorate General for Tax, IGF). The CNSA has the task of organising a system for the public supervision of all the statutory auditors and audit firms and ensuring sound cooperation and coordination in the field of audit supervision.

The Portuguese Government recently launched a public hearing for the establishment of a "twin peaks" model, where the BdP would be in charge of the prudential supervision of the entire financial system, while a different supervisory authority will be responsible for conduct of business supervision.

ROMANIA

Financial supervision in Romania is organised in accordance with the sectoral model. Banca Națională a României (BNR), an independent public institution, is the banking supervisor. BNR has among its main tasks the authorisation, regulation and prudential supervision of credit institutions and the oversight of the smooth operation of payment systems with a view to ensuring financial stability. In 2006 BNR was also ascribed the role of monitoring and supervising non-banking financial institutions performing credit activities.

The *Comisia Națională a Valorilor Mobiliare* (National Securities Commission, CNVM), an autonomous administrative authority, is responsible for regulating and supervising the capital market (financial instruments markets and collective investment undertakings), the regulated commodity and financial derivative instruments markets, as well as their specific institutions and operations.

The role of the *Comisia de Supraveghere a Asigurărilor* (Insurance Supervisory Commission, CSA) with regard to the insurance sector was streamlined in 2005 and 2006. The CSA, an autonomous specialised administrative authority, is responsible for the authorisation and supervision of insurance companies, reinsurance companies, insurance and/or reinsurance brokers, as well as other intermediaries acting in the insurance and reinsurance business.

The *Comisia de Supraveghere a Sistemului de Pensii Private* (Supervisory Commission of the Private Pensions System, CSSPP) was set up in 2005 as an autonomous administrative authority entrusted with the regulation, coordination, supervision and control of the activities of the private pensions system. The CSSPP is responsible for the prudential supervision of pension funds.

On 31 July 2007, the Ministry of Finance, BNR, the CNVM, the CSA and the CSSPP signed an Agreement for cooperation in the field of financial stability and management of financial crisis, which established the National Committee for Financial Stability. This Committee consists of the Minister for Public Finance, the Governor of BNR, the President of the CNVM, the President of the CSA and the President of the CSSPP and has, as its main tasks, the promotion of a systematic and efficient information exchange between the sectoral financial regulators and supervisors and the Ministry of Public Finance and the assessment, prevention and, where appropriate, the management of financial crises.

On 16 February 2009, by an additional act to the above-mentioned Agreement, five specialised technical sub-committees were established in the framework of the Committee concerning, respectively, financial stability, financial supervision, financial regulation, payment and settlement systems and financial statistics.

SLOVAKIA

In Slovakia, in accordance with the reform that entered into force on 1 January 2006, Národná banka Slovenska (NBS) supervises the entire financial market in the Slovak Republic. NBS now has extensive supervisory responsibilities, since it performs the functions which in the past were split between two different authorities: NBS for the banking sector and the *Úrad pre finančný trh* (Slovakian Financial Market Authority, SFMA) for the insurance and capital market sectors. NBS aims to maintain the stability of the financial system as a whole, as well as to ensure the secure and sound functioning of the financial market and thereby its credibility, the protection of clients and respect of the competition law rules. The incorporation of the SFMA into NBS enhanced the central bank's information capacity and risk awareness.

SLOVENIA

Financial supervisory functions in Slovenia are performed by three authorities, according to the sectoral model. Banka Slovenije is responsible for the supervision of banks and savings banks, e-money institutions and other persons pursuant to the Law on banking, as well as payment institutions pursuant to the Law on payment services and systems. The *Agencija za trg vrednostnih papirjev* (Securities Market Agency, SMA) is responsible for the supervision of the securities sector (e.g. stockbroking companies, investment funds, pension funds). Finally, the *Agencija za zavarovalni nadzor* (Insurance Supervision Agency, ISA) is responsible for supervising the insurance market (i.e. insurance and reinsurance undertakings, insurance agencies, insurance brokerage companies, and insurance agents and brokers) and pension companies. The three authorities are legally and organisationally separate, but required by law to cooperate in performing their tasks and to exchange information in accordance with the *Pravilnik o medsebojnem sodelovanju nadzornih organov* (Rules on mutual cooperation between the supervisory authorities), issued by the Minister for Finance. As regards financial conglomerates, the supervisory authorities may appoint a coordinator to perform the supplementary supervisory tasks in accordance with the Law on financial conglomerates.

SPAIN

Three different bodies perform supervisory tasks in Spain, according to the sectoral model. The Banco de España (BdE) is responsible for the prudential supervision of all credit institutions, with the objective of safeguarding the stability of the system; the *Comisión Nacional del Mercado de Valores* (National Securities Market Commission, CNMV) is responsible for supervising the Spanish stock markets and the intermediaries operating in them; it aims to ensure market transparency and investor protection. The Directorate-General Insurance and Pension Funds, within the Ministry of Economic Affairs and Finance, is responsible for supervising private insurance and reinsurance, insurance intermediation, capitalisation and pension funds.

Legislation provides for cooperation agreements between the three supervisors. In 2004 an agreement was signed between the BdE and the Director-General Insurance and Pension Funds. In 2009 a new bilateral agreement was signed between the BdE and the CNMV, updating the former of 2004, in order to improve the coordination, efficiency and technical harmonisation in the supervision of financial institutions and markets.

In 2006 a cooperation agreement on financial stability and for the prevention and management of crises with potentially systemic effects was signed by the Ministry of Economic Affairs and Finance and the three supervisory authorities. This agreement established the *Comité de Estabilidad Financiera* (Financial Stability Committee) composed of high-level members from the Ministry and each authority that discuss financial stability, regulation and implementation of the cooperation agreements.

SWEDEN

In Sweden, since 1991, the *Finansinspektionen* (Swedish Financial Supervisory Authority) has been, as a single integrated regulator, the competent authority responsible for supervising the banking, securities and insurance sectors. The main aims of the *Finansinspektionen* are to promote stability and efficiency in the financial system and, at the same time, to ensure effective consumer protection. In May 2009 the Ministry of Finance (*Regeringskansliet – Finansdepartementet*), the *Finansinspektionen*, Sveriges Riksbank and the Swedish National Debt Office signed a Memorandum of Understanding in the fields of financial stability and crisis management. This Memorandum provides for the issuance of guidelines for consultation and the exchange of information between the parties in the areas of financial stability and crisis management. The Memorandum consists of one section that relates to matters concerning financial stability and crisis management applying to all four parties, and another section applying only to the *Finansinspektionen* and Sveriges Riksbank, adding more detailed description of the division of labour and cooperation between them.

Furthermore, according to Government Ordinance 2009:93 with instructions for the *Finansinspektionen*, there is an obligation to consult Sveriges Riksbank on important matters regarding, *inter alia*, the stability of the payments system.

UNITED KINGDOM

The Financial Services Authority (FSA) has, since 1 December 2001, been the sole supervisor of the majority of the financial services sector, as provided by the Financial Services and Markets Act (FSMA) of 2000, regulating most financial services markets, exchanges and firms. The FSA is an independent non-governmental body taking the form of a company limited by guarantee, entirely financed by the financial services industry. It is accountable to the Chancellor of the Exchequer (HM Treasury) and, through him/her, to Parliament. On 1 October 2009 the FSA also implemented a major reorganisation to a new operational structure designed to better align its internal operating model to its core activities of identifying and mitigating risk and carrying out supervision and enforcement.

The Bank of England (BoE) is responsible for ensuring monetary and financial stability. It oversees the financial infrastructure, in particular payment systems, with the aim of reducing systemic risk. The FSA cooperates with HM Treasury and the BoE in the field of financial stability. For this reason, the three authorities have signed a Memorandum of Understanding which, *inter alia*, provides for the establishment of a Standing Committee. The Standing Committee meets monthly to discuss individual cases of significance and other developments relevant to financial stability. In addition, the BoE's Deputy Governor (responsible for financial stability issues) is a non-executive director on the FSA's Board, while the FSA's Chairman is a member of the BoE's Court of Directors.

Earlier legislative changes also amended the responsibilities of the BoE and the FSA. The Banking Act 2009 gave the BoE an explicit statutory objective to contribute to protecting and enhancing the stability of the UK financial systems and established a new special resolution regime which gives the UK tripartite authorities powers to deal with failing banks and building societies with the aim of protecting depositors, the stability of UK financial systems and confidence in UK banking systems. It also put the BoE's payment system oversight role on a statutory footing. The Financial Services Act 2010 provided the FSA with a statutory objective to contribute to the protection and enhancement of the stability of the UK financial system.

Since the UK's general election, on 16 June 2010, the Chancellor of the Exchequer has announced plans to change the system of UK financial regulation. A further statement was made by the Financial Secretary in Parliament on the following day. The UK Government plans to legislate to create a new Prudential Regulation Authority (PRA) as a subsidiary of the BoE to conduct prudential regulation of sectors such as deposit-takers, insurers and investment banks. In addition to the PRA, there will be a new Consumer Protection and Markets Authority (CPMA), separate from the BoE, to regulate the conduct of all financial firms, including those prudentially regulated by the PRA. The CPMA will also have responsibility for the Financial Services Compensation Scheme. The Government has also announced that it will legislate to create a Financial Policy Committee (FPC) within the BoE. It will have responsibility to look across the economy at macroeconomic and financial issues that may threaten stability and will be given tools to address the risks it identifies.

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ISBN 978-92-899-0327-1 (online)