

**European Parliament
Public Hearing
Review of the European System of Financial Supervision**

27 February 2018

Finance Watch welcomes the opportunity to speak at this hearing. We believe that a review of the European System of Financial Supervision is an important initiative in light of the changes that have occurred since the establishment of the ESAs in 2011. The ultimate goal of financial regulation and supervision is to ensure the financial stability and the good functioning of EU markets in which consumers, investors and taxpayers are appropriately protected. In order to ensure this goal is met, we need strong European authorities, that are appropriately staffed and financed.

Finance Watch would like to express some disappointment in the lack of ambition present in the European Commission's proposal. The public consultation conducted prior to the proposal contained suggestions that the Commission had ambitions of a significant change to the operation of the ESAs. The proposal, therefore, falls somewhat short of these ambitions. We would have liked to see a revival of the High-Level Expert Group on financial supervision. This would have allowed experts to reflect on developments since the original Larosière Report and make recommendations for improvements. Given the lack of ambition in the current proposal, Finance Watch would like to see a deeper review of the ESFS in the future, with the support of this High-Level Expert Group.

There are a number of areas where Finance Watch believes the proposal could be improved. Firstly, Finance Watch believes that the active role of the ESAs and the development of the European Central Bank have helped harmonise microprudential supervision in the Union. However, there remains a gap on the macro-prudential supervision side. In particular, diverging Member State applications of macro-prudential rules means there is a lack of harmonisation. The designation of Other Systemically Important Institutions (O-SIIs) remains at the discretion of the National Competent Authorities (NCAs). Despite the EBA guidelines on the designation of O-SIIs there remain significant national differences in the risk assessment on the systemic importance of these institutions. This has also impacted on how Member State authorities use the buffers in available in the CRD/CRR, resulting in different applications across the Union. A robust approach to systemic risk in the Union implies a more consistent and harmonised approach than currently exists. Therefore, Finance Watch would like to see a much stronger role for the ESRB as an authority. The ESRB should play a more active role in the identification of other systemically important institutions (O-SIIs) and in monitoring the use of macro-prudential tools in the Union.

Secondly, Finance Watch, jointly with NGOs representing consumers, would like to see a greater role for the ESAs in promoting consumer protection across the Union. Finance Watch believes that the ESAs should strongly promote supervisory convergence in the application of conduct of business rules in order to ensure that all financial service users are treated fairly across the Union. This should include the development of binding technical standards on conduct of business, and the power to coordinate enforcement actions on the basis of those standards. We also believe that the ESAs should have the clear power to prohibit or restrict financial activities that cause consumer detriment. Stronger mandate for consumer protection requires also some structural reforms. We suggest that each ESAs Board of Supervisors establish a permanent committee composed of national competent authorities responsible for the enforcement of consumer protection rules. In order to ensure that these consumer protection objectives are met, the ESAs must dedicate proper resources to them. We suggest that at least 20% of the authorities' budgets are dedicated to consumer protection issues.

Finance Watch also believes that the ESAs should have a role to play in the promotion of sustainable finance and other environmental, social and governance factors. We believe this could go further than the current proposal does, which requires that the ESAs take account of environmental, social and governance factors in their work. We would like to see a more active role for the ESAs, in particular to monitor trends in this area.

Finally, Finance Watch has long recognised the insufficient support provided to non-industry stakeholders in order to participate in the ESAs' stakeholder groups. We believe these stakeholder groups should truly represent a balanced view of all relevant actors and not allow industry to write their own rules. Finance Watch is therefore concerned with the Commission's proposal to give the power to the stakeholders groups to challenge the ESAs guidelines and recommendations. We believe this power goes beyond the mandate of the ESAs stakeholder groups and potentially gives industry stakeholders too much power over the rules they will then be subject to. Finance Watch would, therefore, like this power to be removed from the proposal. Besides that, the composition of the stakeholder groups should be balanced: this means an equal number of industry and consumer/user representatives, plus an adequate financial compensation provided for non-industry stakeholders to ensure that they can participate in the groups' meetings.