

The de Larosière Report Regarding the new Structure of European System of Financial Supervision

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Abstract. *The aim of this study is to present the new architecture of the European financial supervision the necessity of which had been brought into sharp focus by its deficiencies in the current financial crisis. The study presents through the prism of the report edited by the de Larosière Group the main generating elements of the financial crisis, the deficiencies of the risk management, of corporate governance regulations, the lack in applying the regulation framework and in supervision regarding risk management.*

Keywords: micro- and macro-prudential supervision; European Systemic Risk Council; European System of Financial Supervision; financial crisis; stress test.

JEL Codes: E44, E52, E58, F33.

REL Codes: 8J, 11C.

1. Introduction

The current financial crisis has brought into sharp focus the weaknesses of the European System of Financial Supervision, showing the fragmented financial supervision in EU countries, in conditions in which the financial markets dynamically developed their cross-border activities at the same time with the integration of these markets.

The European reform of financial market supervision is based on the evolutions' concept, according to which the Lamfalussy structure of the supervision committees organized at level 3, realize a significant convergence in financial supervision at EU level. Some supervisory convergence was achieved, but this wasn't sufficiently adequate to treat the current financial crisis at global level and to minimize the efficiency of the macro-prudential supervision (Commission of the European Communities, 2009b).

There are many studies in the literature (Borio, 2005, Brunnermeier et al., 2009) which argument that the current financial crisis showed the need of capital allocations (beside the consolidate supervision of the individual institutions) to realize a macro-prudential approach, thus decreasing the systemic risk.

According to Tumpel-Gugerell (2009) the self-regulation is not sufficient for financial markets and institutions which have a systemic importance (they might influence the stability of the financial system).

The risks may affect the stability of the financial system, which derives from the high degree of market concentration, from interdependencies between the financial institutions and the components of the financial system (Trumpel-Gugerell, 2009), as it can be seen in the case of Lehman Brothers' default and the impact of this upon AIG and Bear Stearns.

At the same time, in the context of the current crisis it was proved that the big financial-banking groups were able to exceed its effects only with the support of the states, this effect correlated with the high impact of the crisis' effects on the other entities of the economy accentuating that maintaining the financial stability is in the public interest.

In these conditions the de Larosière Group is mandated to analyze, to advice on and make recommendations to:

- the way the supervision of the European financial markets should be organized to ensure the prudential soundness of the financial institutions, the orderly functioning of markets and to protect the interest of depositors and investors,
- how to strengthen the control to achieve financial stability, to elaborate early warning mechanisms and risk management at European level,

- how European authorities should cooperate with other states to maintain the financial stability.

The de Larosière Group examined the allocation of tasks and responsibilities at national level of EU countries as well as European level, and on 25th February 2009 published the report “High-level group of financial supervision in the EU” (de Larosière et al., 2009), which in four chapters recommended 31 measures to create the new European Financial Supervisory Architecture.

2. The de Larosière Report

As consequence of the economic-financial crisis in 2007-2008 time period, in October 2008 the President of the European Commission, José Manuel Barroso, requested Jaques de Larosière (former governor of the Bank of France, former member of the Delors Commission, former director of the IMF) to set up the High-Level Group on Supervision formed by eight internationally recognized independent specialists (Leszek Balcerowicz, former finance minister of Poland, former president of the National Bank of Poland; Callum Mc Carthy, former chairman of the Financial Services Authority; Rainer Masera, Chief Executive Officer of the Group Sanpaolo IMI; Lars Nyberg, Deputy Governor of Sveriges Riksbank, member of Basel Committee on Banking Supervision; Otmar Issing, former member of the Executive Board of the European Central Bank; Onno Ruding, former Minister of Finance of The Netherlands, former Director of Citicorp; José Pérez Fernandez, former member of the Executive Commission of Bank of Spain) to make proposals and recommendations to European financial markets supervision and regulation.

The report, published in February 2009, has four chapters:

1. Causes of the financial crisis
2. Policy and regulatory repair
3. EU supervisory repair
4. Global repair (de Larosière et al., 2009).

The report presents between the main generating and actuating elements of the financial crisis the deficiencies of risk management, of corporate governance regulations, lack in applying the regulation framework and in supervision regarding risk management.

The first chapter, entitled “*Causes of the financial crisis*”, emphasizes the relation between the factors which led to financial crisis, from which many have complex character.

Table 1

Main factors leading to the current financial crisis

Macroeconomic factors	I.e., ample liquidity, low interest rates of the monetary policy, no tight monetary policy-particularly in the US, accumulation of huge global imbalances, mis-priced risks, significant fund transfers.
Risk management	The lack of transparency in important segments of financial markets – even within financial institutions – led to the build up of the "shadow" banking system and of the originate-to-distribute model of derivative and sophisticated products unknown for the destination public.
Credit Rating Agencies	Dramatically increased number of mispriced structured financial products, conflicts of interests.
Corporate governance	Bad quality of the firm's management and shareholders, inadequate remuneration and incentive schemes.
Regulation, supervision	Pro-cyclical approach, utilization of the mark-to-market valuation method, deficiency in the regulation of the derivative products, inadequate analysis of macro-prudential risks.
Weaknesses of the international financial institutions	IMF, FSF, G20 and inadequate management of these institutions.

Source: de Larosière et al., 2009.

The macro-prudential supervision is not a new concept; according to Borio (2005, p. 10) is an old idea, the Bank of International Settlements in the seventies makes reference to the need of a systematic approach to supervision and regulation.

Eminent specialists (Borio, 2005, Borio, White, 2004, Crockett, 2000) presented the lack of the macro-prudential component in the regulatory and supervisory processes at European level.

The macro-prudential supervision represents an approach which provides the stability of the financial system, limiting the risks at system level, while the micro-prudential supervision limits the risks of individual institutions. The macro-prudential approach at financial system level starts from the precondition that the aggregate risk depends on the collective behavior of the financial system's institutions (Borio, 2003).

According to Crockett (2000), Borio (2003) and Chull (2006), the characteristics and differences between these approaches refers to the objective, the implementation method, the risk characteristics, the exposure to systemic risk, the instruments and the principal goal.

The *second chapter*, entitled "*Policy and regulatory repair*", emphasizes the importance of the macro-prudential supervision in the monitoring and evaluation of the potential distresses of the financial stability.

Table 2

Macro-prudential supervision

Macroeconomic and macro-prudential analysis	Avoiding the too loose monetary policies, the necessity of the study of the creation of financial bubbles, initiating a strict monetary policy in condition of unsustainable increase of the capitals and loans.
The Basel II capital adequacy regulation reform	Increasing the level and strengthening the structure of the adequate capital, anti-cyclic approach, provisioning approach, limiting and measuring the liquidity risk, a more sever regulation of the off-balance sheet elements, the common definition of equity.
Credit Rating Agencies	The new structure at European level, "European Securities and Markets Authority", will supervise the activity of these agencies reconsidering their role in financial system, the reform of the securities valuation mode.
The accounting system	Affirmation of the coordination capacity of International Accounting Standard Board (IASB), the extension of the mark-to-market principle, the development of the securities evaluation methods.
Insurance	The implementation of Solvency II, the aggregate insurance at group level.
Supervisory and sanctioning powers	At European level there should be strengthened the effects of the effective sanctions.
The "parallel banking system"	Appropriate regulation must be extended, in a proportionate manner, to all firms or entities conducting financial activities which may have a systemic impact, it must be introduced the obligatory publication of the informational framework regarding hedge funds, private equity companies, over-the-counter markets and it must be regulated the behavior of the managers of these institutions.
Securitised products and derivatives markets	The simplification and standardization of the derivatives, the creation at European level of a central clearing house for over-the-counter credit-default swaps (CDS).
Investment funds	Must be consolidated the regulations in this field at European level, principally regarding the depositors.

Source: de Larosière et al., 2009.

The report takes attitude regarding the uniform regulation at European level and emphasize those fields where these desiderates didn't realize yet, namely in fields of corporate governance or of the remuneration system. The management of the financial crisis turned to be inefficient, therefore the report proposes the creation of a transparent and credible framework of the crisis by each EU country in a uniform way, taking into account the same instruments and procedures. The legal and juridical obstacles at country level must be eliminated and the depositors' protection procedures be standardized. In order to share the cross-border crisis effects, it must be elaborated a uniform regulatory and supervisory framework of the system.

The current crisis demonstrated that the sophisticated methods of banking risk management, promoted by the Basel II, proved their limits, especially those regarding the CRD IV (Capital Requirements Directive), while the measures refers to:

1. The leverage ratio – ensure the measurement and the limitation of the unsustainable increase of the balance sheet of credit institutions,
2. Dynamic provisioning – which rise during expansions and allow them under certain circumstances to be drawn down in recessions,
3. Liquidity coverage ratio – records the measure in which very liquid assets of a credit institution cover the cash outflows in stress conditions during a month,
4. Net stable funding ratio – shows the situation in which the balance sheet increasing is realized in a disproportional way according to some insufficiently stable liabilities.

The *third chapter*, entitled “*EU supervisory repair*”, presents the new framework architecture for supervision, as follows:

Table 3

The new framework architecture for supervision

The creation of the European Systemic Risk Council (ESRC) in order to organize the macro-prudential supervision	Set up under the auspices and with the logistical support of the ECB and the European Commission, its task will be to form judgements and make recommendations on macro-prudential policy, issue risk warnings, compare observations on macroeconomic and prudential developments and give direction on these issues. The responsibility for realizing the macro-prudential supervision is allocated to the central banks from the EU countries, which have, in present too, the main responsibilities regarding the financial and monetary stability, including the Governors of the 27 central banks, the President of the ECB and the vice-president of the ECB in the administration of the ESRC, besides the national authorities which are responsible for micro-prudential supervision. The set up of ESRC will resolve one of the fundamental problems emphasized by the crisis, namely the vulnerability of the financial system to systemic risk. At international level, ESRC will collaborate with IMF, FSF and BIS.
Establishment of a new <i>European System of Financial Supervision</i> (ESFS), which transformes the level 3 committees in European Authorities	At EU level the macro-prudential supervision will be accomplished by the three European Supervisory Authorities (<i>European Banking Authority-EBA-</i> , <i>European Insurance and Occupational Pensions Authority-EIOPA-</i> , <i>European Securities Authority-ESA</i>), which will be transformed in juridical person with enlarged competences in addition to those existing at level 3. They will contribute to the development of a unique set of harmonized rules, to ameliorate the supervision of the cross-border institutions elaborating some common requirements and approaches in field of supervision and will contribute to resolve litigation between national supervisory authorities.

	<p>The main responsibilities of ESFS are:</p> <ul style="list-style-type: none"> -to ensure a common set of core harmonized rules based on some criteria which will be announced in the community legislation, -to ensure a consistent application of EU rules, -to determine how to ensure a common supervisory culture, including ensuring colleges of supervisors develop successfully and consistently, -to determine how to grant full supervisory powers for certain institutions with pan-European activities, with investigation responsibilities, on-site inspections and decisions regarding supervision, -to ensure a coordinate reaction in crisis situation through the facilitation of the collaboration and the information change between the competent authorities, verifying the reliability of the information, which helps to define and implement the adequate decisions, -to license and to supervise the credit rating agencies and the post-trading infrastructures, -to collect macro-prudential information through the aggregation of pertinent micro-prudential information in order to create an European centralized database which will be administrated by the European supervisory authorities, -to assume an international role making technical agreements with international organizations and with the administration of the third countries from the same level, as well as through the European Commission assistance in taking equivalent decisions regarding the supervisory regims of the third countries, -safeguarded measures through creating an exercised framework of the exhaustedly and in detail presented components in the applicable sectorial legislation, conform to the Treaty of Lisbon.
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Source: de Larosière et al., 2009.

ESFS will run in two stages:

1. Stage 1 (2009-2010): preparing for a European System of Financial Supervision

2. Stage 2 (2011-2012): establishing the European System of Financial Supervision.

The functioning of the ESFS should be reviewed no later than three years after its entry into force regarding the evaluation of the efficiency and the efficacy of the activities, and if it is the case making proposals by merging the banking supervisory authority with insurance supervisory authority, forming a new Financial Stability Authority, while the Supervisory Authority of Securities to have competencies in the field of markets and business activities on every three segment of the financial market.

The Executive Committee proposed by the Report is formed by the advocacy of the three European supervisory authorities and of the European

Commission, whereas the Supervisory Council of each European supervisory authority is formed by the representants of the European supervisory authorities, of the national supervisory authorities, observers of European Committee and ESRC, and a representant of the national supervisory authority.

The last chapter of the Report, “*Global Repair*”, emphasizes the reformulation of the responsibilities regarding the rule harmonization at global level, proposing as responsible authority the Financial Stability Forum (FSF) to prevent the future major crisis. FSF should collaborate with IMF in order to strengthen the capacity to finance the current account deficit and providing additional funds to IMF. It is also presented the importance of a coherent organization of EU representativeness in the new financial architecture of the global economy (FSB, 2009).

In frame of macro-prudential supervision and control, IMF has the responsibility to elaborate an early warning system of the financial stability at global level as well as to elaborate and present the international risk map and the credit registry evidence.

All of the IMF member countries have to attend the FSAP stress test programme, this activity has to be coordinated by the Committee of European Banking Supervisors (CEBS) at European level.

3. The role of the European Committee and the reform of the financial supervision based the recommendations of the de Larosière Report

Based on the recommendations of the de Larosière Report, the European Committee in fall of the year 2009 adopted a set of rules, being actively involved in rebuilding the confidence in financial institutions.

There were made actions to improve efficient crisis management at European scale, a priority and a consequence of the current economic conditions, of the growing complexity of the financial products and of the integration level of the common market. The European authorities’ reform actions can be divided in prudential rules and in supervisory system architecture change initiatives.

Based on this Report, the Commission of the European Communities (2009b) proposed the reform of the European financial supervisory framework, which will have two pillars.

Pillar I - European Systemic Risk Council (ESRC) responsible for monitoring and the evaluation of the potential risks of the financial stability which results from macroeconomic evolutions and from the financial system as whole (macro-prudential supervision). The macro-prudential reform has the aim to increase the integration of financial markets through the implication of

central banks of the EU countries and it has a double role: on one hand, to analyse the significant informations regarding the macroeconomy and to analyse the macro-prudential evolutions of the national financial systems' components, and, on the other hand, to issue macro-prudential risk warnings and to send these to the corresponding authorities.

The set up of ESRC emphasizes the fact that the current supervisory framework doesn't accentuate enough the macro-prudential analysis, being fragmented and being effectuated by different authorities at different levels, and the fact that don't exist mechanisms which could guarantee that the warnings and the recommendations regarding the macro-prudential risks are transposed in certain actions.

According to the recommendations made by Report, this organism is formed by the president and vice-president of ECB, by the presidents of the national central banks and by the presidents of the three European supervisory authorities.

Smaghi (2009) considers that the macro-prudential approach should have two main tasks: on one hand, to monitor and analyse the systemic risk, and, on the other hand, to limit the identified risks, which need specific instruments. In the systemic risk monitoring and analyzing, it has to be taken into account that the analysis has to comprehend all the components of the financial system, such as markets, institutions, infrastructures, as well as their interactions between the financial system and the economy as whole, and, not the last, the continuous evolution of the markets and the innovation in the financial system.

The identified risk limitation raises the aggregate risk limitation problem and the problem of the negative externalities, the specific set of measures done by the competent authorities in order to avoid the cyclicity and to limit the contagion in case of some disfunctionality appearance at institution's level or at a certain financial market component's level.

Pillar II – the European System of Financial Supervisors (ESFS) is formed by the national financial supervisory authorities, which will work in partnership with the new European supervisory authorities (European Banking Authority – EBA, European Insurance and Occupational Pensions Authority – EIOPA, European Securities Authority – ESA) to ensure the financial stability at the level of the individual financial companies and to protect the customers of the financial services.

The new network is set up on common responsibilities with reciprocal consolidation, combining the financial institutions' supervision at national level with centralization of certain attributes at European level.

The implementation of both pillars of the new supervisory system is essential for some important synergies, for reciprocal consolidation with impact

on the financial stability and to ensure an integrated micro- and macro-prudential supervisory framework.

In field of the macro-prudential supervision, the European Committee sets up the European Systemic Risk Council (ESRC) as a new independent group responsible for the financial stability ensurement through the European level macro-prudential supervision, as it was proposed in the third chapter of the de Larosière Report. The European Committee adopted 2006/48/EC and 2006/49/EC directive change proposals, as it follows (Commission of the European Communities, 2009a):

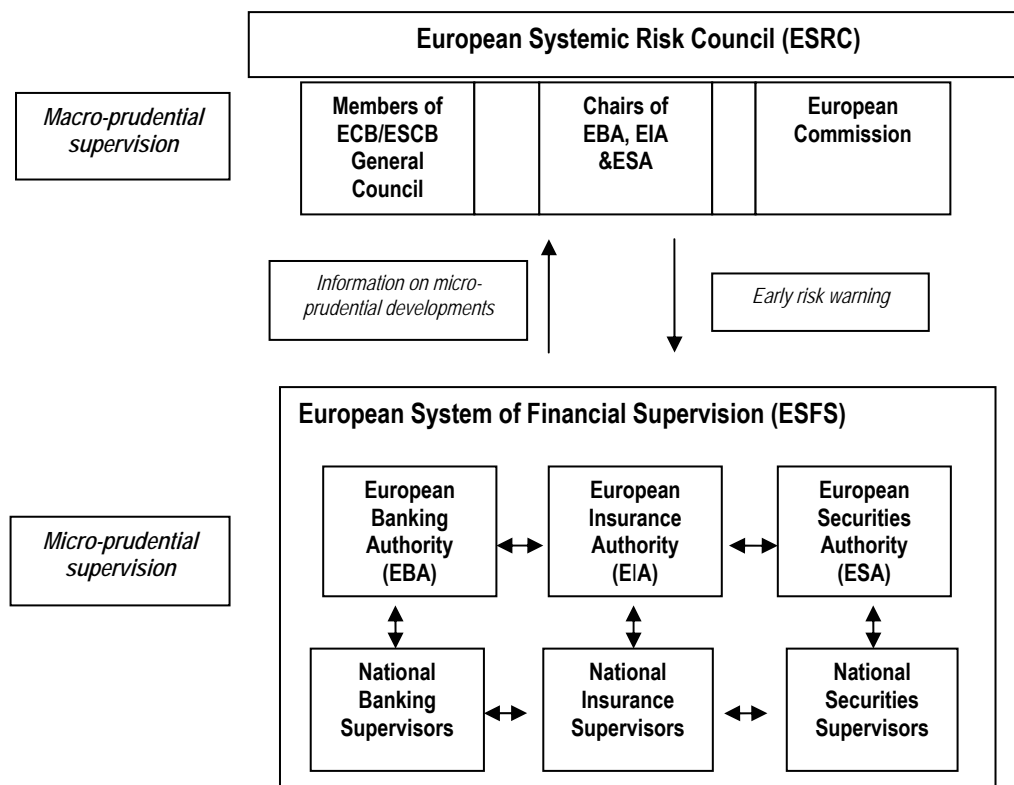
1. additional capital requirements for resecuritization operations, which represent sophisticated financial instruments which expose the financial institutions to significant and some times hardly evaluable risks,
2. additional capital requirements for the trading portfolio, change aiming the associated risks evaluation methods, in order to reflect the potential risks resulted from the market evolutions,
3. supervisory disclosure regarding the securitized exposures, in order to increase the transparency and to understand the risk profile of the financial institutions,
4. the remuneration policies and practices of the financial institutions, with the possibility to sanction those which encourage or reward the excessive risk assumption.

Nowadays, at EU level it was discussed the possibility to modify the additional capital requirements for foreign currency denominated residential credits, which should be applied to those credits for which the report between the value of the credits and the value of the collateral exceeds a certain level, which indicate irresponsible credit practices, elimination of national options, in order to avoid the differences in European regulations at member state level, as well as the dynamic provisioning of the expected losses, based on all these, the financial institutions should create provisions for expected credit losses in favourable, economic growth periods, and in unfavourable periods these provisions should be used to cover the reported losses. The dynamic provisioning should be applied to balance sheet elements, as well as to off-balance sheet elements, to be applied at individual and aggregate level based on a common methodology.

Accordingly, the Basel II Capital Accord needs a fundamental review, which should offer the possibility of increasing gradually the minimum capital requirements, of strengthening the rules for risk management, of tightening norms on liquidity management and the elimination(to reduce the) of the pro-cyclical effect.

The implementation of the pillar 2 supposes the development of some methods for an adequate capital level evaluation for other risks than those regulated in pillar 1.

The supervisory activity in the framework of pillar 2 implies a tight collaboration with the supervised structures, which supposes from the credit rating agencies the implementation/establishment of the Internal Capital Adequacy Assessment Process (ICAAP), as a part of the management, of the strategy planification, of the performance monitoring processes, while from the authorities implies the evaluation of the ICAAP and of the requirements from pillar 1. The main objective is the protection of the European financial institutions from similar situations to fall 2008, this project was delivered to ECOFIN and finally liabled to approbation of the European Parliament.



Source: de Larosière, 2009, p. 57.

Figure 1. The framework of the European institutional structure

4. Stress test exercise of the European banking system

CEBS in cooperation with the ECB and the European Commission had created two stress scenarios (benchmark and adverse) concentrating on the credit risk and on the market risk, while the results were evaluated within the prism of the Tier 1 capital ratio indicator (CEBS, 2010).

The exercise has been carried out on the basis of the consolidated year-end 2009 data, the scenarios have been applied over a period of two years, 2010 and 2011. This exercise was adumbrated starting from the European Commission forecasts and it makes adjustments for the last macroeconomic evolutions.

The macroeconomic scenarios were aggregated by each supervisory authority of the participant countries, and for each scenario CEBS and ECB gave the economic specific parameters as well as a set of risk parameters.

The representativity of the sample was ensured by 91 included banks from 20 EU countries. The 91 banks represent 65% of the total assets of the EU banking sector as a whole. The sample has been built by including banks, in descending order of size, so as to cover at least 50% of the respective national banking sector, as expressed in terms of total assets.

The benchmark macroeconomic scenario assumes a mild recovery from the severe downturn of 2008-2009 (for the EU-27 the scenario assumes a +1.0% growth of GDP in 2010 and +1.7% in 2011). At the same time, the unemployment rate remains high for some countries, owing to the lagged effects of the past activity slowdown. The inflation rate is assumed to be contained and stable overall. There are however a number of countries where inflation declines or increases significantly, reflecting their cyclical positions or fiscal policy measures.

In addition to a global confidence shock, that affects demand worldwide, the adverse scenario envisages an EU-specific shock to the yield-curve, originating from a postulated aggravation of the sovereign debt crisis. The impact is differentiated across countries, taking into account their characteristics.

The adverse scenario assumes that the GDP would remain at the same level in 2010 and would decline by -0.4% in 2011 in EU-27. The unemployment rate is much higher than in 2009, while the inflation rate is significantly lower in 2011.

For the purposes of the market risk evaluation, a set of stressed market parameters was applied to the trading book positions. The parameters developed for the market risk stress test are in-line with the macro-economic scenarios, and therefore could be considered as directional, meaning that depending upon

the size and direction of their exposures, banks were able to make gains on certain portfolios, thereby reducing the overall amount of stress coming from the market parameters. The value of the haircuts for valuation losses in the trading book and of reference probabilities of default (PDs) and loss given defaults (LGDs) change both on account of the changes in the macro-economic scenario and of the introduction of the sovereign shock.

The main characteristics of the sovereign shock modeling consist of the applying of some adjustments upon the trading portfolio value and of excluding, hypothetically, the possibility of government default.

The macroeconomic scenario and the sovereign shock induce a change in PDs and LGDs for the household and corporate sector, given that higher long-term government bond yields also imply higher borrowing costs for the private sector, which in turn imply higher PDs and LGDs for the non-sovereign exposures.

The government support measures introduced in the course of the financial crisis to support banks in difficulties as well as to maintain funding to the real economy can be classified into four broad categories:

1. capital increases, through equity shares or hybrid instruments provided by governments,
2. guarantees of banks' assets provided by governments,
3. guarantees of liabilities or funding guarantees as well as liquidity provided by governments,
4. liquidity support measures introduced by central banks.

The exercise takes into consideration only the capital support measures and asset guarantees received by the institutions in the sample by 1 July 2010. In this period 34 banks in the sample benefited from capital increases with a total injected capital amounting to 169.6 bn €, and 20 banks in the sample benefited from asset guarantees. The analysis suggests that the overwhelming majority of the government support measures agreed between banks and governments have a useful life extending beyond the horizon of the exercise and an eventually cancellation of these will be made only in the conditions in which the capital subscribed will be replaced by capital influx from private investors.

The aggregate results of the stress test suggest a rather strong resilience for the EU banking system as a whole and may appear reassuring for the banks in the exercise, being positively influenced by the partaken government support by some participant banks.

Looking at the banks failing to meet the exercise threshold of 6% Tier 1 capital adequacy as a results of the macro-economic and sovereign shock, seven banks have an overall shortfall of 3.4 bn €, compared to the 388.46 bn € of

surplus capital (above the 6% threshold) for the entire sample of 91 banks. Those banks which didn't reach this level were requested to propose a plan which will be implemented together with the supervisory authorities.

In the benchmark scenario, the Tier 1 capital ratio increase in the considered two year time period, since the profit capitalization before the shock, whereas the government support is approximately 1.2 percentage point of the aggregate Tier 1 capital ratio.

The effects of the macroeconomic shocks are influencing the numerator of the Tier 1 capital ratio through the profit changes as well as the denominator through the changes of the risk-weighted assets.

According to CEBS, the aggregate stability of net interest income and net fees and commissions lead to somewhat positive outlook regarding the evolution of pre-impairment income. This could be explained by the fact that the macro scenarios assumed differentiated shocks across countries; therefore the P&L is diversely impacted. The fact that the assumption of an increase and a flattening of the yield curve may have immediate positive effects on earnings, especially for institutions operating in a variable rate environment for their retail business, which allows passing on to customers most of the increases in interest rates.

Taking into account the specific circumstances from the financial markets, CEBS sustains the transparency of this exercise, publishing the aggregated results and views this stress test exercise as a positive development and as a step forward in the convergence of the stress test practice.

The stress test exercise of the Romanian banking system conducted by NBR was harmonized with the European exercise, taking into account the specific elements of the Romanian banking system, according to the current macroeconomic framework, there were considered two macroeconomic scenarios on a two year time horizon, 2010 and 2011 (NBR, 2010).

The results of this test indicate an increased resistance of the Romanian banking sector, whereas the level of the Tier 1 capital ratio is situated over the average of the group from which the credit institution takes part, which demonstrates again the robustness of the banking sector.

5. Conclusions

The current financial crisis emphasize the weaknesses of the regulatory and supervisory framework which conducts to a reform process at the level of European authorities, as well as at the national level, reconsidering the capital requirements for banks, with a view to diminishing pro-cyclical effects (capital buffer), reducing the liquidity risk by imposing quantitative restrictions on

banks' liquid assets and financing sources, in order to foster financial institutions' anti-cyclical behaviour (LCR – the liquidity coverage ratio and NSFR – the net stable funding ratio), harmonising the regulations on financial reporting (IFRS), applying a special treatment to systemically important financial institutions, legislative harmonization on supervision, by ensuring a similar implementation manner across each member state and regulating and supervising the rating agencies.

In order to have in place an efficient legislative framework for managing crisis with national and/or cross-border character, it is necessary to proceed to the reformation of early intervention measures, of bank resolution measures, as well as of the insolvency proceedings of financial institutions.

The set up of the new European supervision architecture, based on two pillars, ensure a progressional process for rendering the European supervision system more efficient, integrated and sustainable.

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