



EUROPEAN CENTRAL BANK

EUROSYSTEM

DIRECTORATE GENERAL STATISTICS
DIRECTORATE GENERAL FINANCIAL STABILITY

ECB-UNRESTRICTED

To the European banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Market Authority (ESMA)

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ECB response to the Joint Consultation Paper on its proposed response to the European Commission's Call for Advice on the Fundamental Review of the Financial Conglomerates Directive (JC/CP/2012/01)

The Joint Consultation Paper on the review of the financial conglomerates directive (FICOD) invites comments on all issues raised in the paper and on the specific questions summarised in Annex H. **This response is provided from the perspective of the information requirements of the ECB, taking into account its analytical and statistical support to the European Systemic Risk Board.** Hence, it provides general comments, from the ECB Directorates General Statistics and Financial Stability, based on the questions raised by the Commission in its Call for Advice, without entering into the details of annex H questions.

Background

As recently communicated to the EBA, the ECB underscores its need for harmonised data on financial conglomerates, as their activities and risks are currently not captured by existing or proposed datasets developed by the three ESAs. Indeed, such datasets focus on the collection of information at sectoral level. Hence, in the case of a financial conglomerate with significant activities in the banking and the insurance sectors, the proposed Implementing Technical Standards (ITS) on reporting addressed to banks (so called, FINREP and COREP) and to insurers (Solvency II) would provide only a partial overview of the activities and risks of the financial conglomerates. In particular, FINREP/COREP follow the scope of data consolidation

of the Capital Requirements Directive/Regulation (i.e. investments in insurance subsidiaries are accounted for using the equity method), such that the insurance activities of banking groups are not covered. The same approach is taken in Solvency II such that the activities of banking subsidiaries of insurance groups are not captured.

The ECB is, on the contrary, interested in the provision of additional data for the entire group in those cases where there may be substantial activities in both the banking and insurance sectors. For these groups, the use of a broader accounting scope of consolidation (drawn from the International Financial Reporting Standards, IFRS) would be necessary, with the identification of the ultimate controlling entity being the parent or head office of the conglomerate. This basis of consolidation would also ensure that other financial activities outside the banking and insurance sectors, which may become relevant for macro-prudential purposes, are also captured. The use of the accounting scope of consolidation does not increase the reporting burden, because financial conglomerates already use this approach in their published financial statements.

In short, the ECB considers that the revision of the FICOD provides a good window of opportunity for improving the reporting framework of financial conglomerates. The reporting framework should cover at least the balance sheet, income statement and capital adequacy of financial conglomerates. A concrete proposal will be submitted in due course.

Questions raised by the Commission in its forth Call for Advice

Question 1: What should be the perimeter of supervision, when a financial conglomerate is supervised on a group wide basis?

The ECB supports the recommendation 1, i.e. the perimeter of supervision should be enlarged to include insurance ancillary services undertakings to enable a broader identification of financial conglomerates, and to enable that the risks are appropriately captured. For the same reason, the ECB also supports option 1, i.e. to include institutions for occupational retirement provisions (IORPs) within the definition of financial sector.

With reference to recommendation 2, the ECB supports the idea that mixed financial holding companies, even if unregulated, should be subject to supplementary supervision, including reporting requirements. The sectoral consolidated/ group supervision would allow the understanding of cross-sectoral risks, something which can be achieved through this supplementary supervision. At the same time, efficient supervisory practices will allow for all relevant risks to be incorporated in the supervision and will eliminate overlaps and holes in supervision frameworks. Instead, referring to asset management companies, the aim is to expand the scope of supervision of the entities with the closest connections. Again, this extension would allow a better understanding of the contagion, concentration and conflicts of interest across all sectors and all regulated entities.

From the perspective of information requirements, the ECB has no comments on recommendation 3, except that Mixed Activity Holding Companies (MAHC) and Mixed Activity Insurance Holding Companies (MAIHC) may be subject to ad-hoc reporting obligations, if considered appropriate.

Question 2: Given your experience and expertise, which legal entity in a conglomerate should be responsible and qualify for compliance with group wide requirements, i.e. which legal entity should be the responsible parent entity?

The ECB supports recommendation 4, namely that the European Commission should identify and define an ultimate responsible entity for the financial conglomerates. This is very important also for addressing reporting requirements at the appropriate level, in case part of the financial conglomerate falls outside the EU jurisdiction. For instance, in the case of a US financial conglomerate with substantial activities in the EU, the responsible entity for the EU business should be located in the EU. Hence, the minimum criteria to identify the responsible entity should also include the location in the EU.

Question 3: Given your experience and expertise, which requirements should be imposed on this qualified parent entity in the context of group wide supervision?

From a macro-prudential perspective, the ECB has no comments on recommendation 5, which is more of a micro-prudential nature.

Question 4: Given your supervisory experience and expertise, which incentives (special benefits or sanctions) would make the enforcement of the group wide requirements more credible?

The ECB agrees with recommendation 6, i.e. to mandate the European Commission to develop an enforcement regime towards the ultimate responsible entity and its subsidiaries. In particular, this enforcement regime is important for the individual entities of a financial conglomerate headquartered outside the EU, in order to guarantee the timely collection of information on global and EU activities of the financial conglomerate.

From the perspective of information requirements, the ECB has no comments on recommendation 7.

Question 5: When reflecting upon this advice, would supervisors in Europe need other or additional empowerment in their jurisdictions?

The ECB strongly supports recommendation 8, i.e. to develop a common reporting scheme for financial conglomerates, with two important caveats:

1. the scope of the reporting scheme should not be limited to measuring risk concentration and intra group transactions. Also the capital adequacy requirements and the financial and economic situation of financial conglomerates should have harmonized formats, frequencies and dates of reporting. As done in the Capital Requirements Directive/Regulation (addressed to banks) and Solvency II Directive (addressed to insurance companies), one of the aims of the FICOD should be to include minimum common reporting requirements for all main financial conglomerates throughout the EU, so that to have an overall picture of the risks and capital requirements of both the banking and the insurance components. Indeed, one of the main limitations of the reporting frameworks enshrined in the above-mentioned sectoral Directives is that the activities of banking groups with substantial insurance subsidiaries/activities and of insurance groups with substantial banking subsidiaries/activities are not accurately measured.
2. the common reporting scheme should be achieved by requesting ESAs to develop binding technical standards, not just guidelines. Indeed, the ECB needs this information on a consistent and comparable basis across countries, in order to fully appreciate the risks taken by financial conglomerates. This can be guaranteed only by developing these reporting requirements via binding technical standards, which make their application in Member States compulsory, so that harmonization across Member States is ensured. Binding technical standards would also allow an efficient supervision of all relevant and systemic risks across sectors, and further collaboration of all ESAs.

Yours sincerely,



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