News Flash

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To: Economics & Finance Committee, Solvency II SG, Public Affairs Group, Communications & PR, Single Market Committee

The report by de Larosiere high level group is presented today

| Latest Developments

The de Larosiere report (*see Annex*) will be officially presented later today to the European Commission President Barroso.

With regards to insurance in particular, the report clarifies that the crisis originated and developed in the banking sector but the insurance sector has been far from immune, and the high level group believes it to be important to draw the lessons from the crisis in the US insurance sector. In a explicit reference to Solvency II, the report states it is an important step forward in the effort to improve insurance regulation, to foster risk assessments and to rationalise the management of large firms. The report urges for its rapid adoption by May 2009.

The report goes on the express the view that Solvency II would facilitate the management and supervision of large insurance groups, and strengthen better supervisory cooperation through colleges of supervisors for cross-border groups. By way of example of what happens when there is a lack of supervisory cooperation, the report explicitly mentions the US AIG case.

As far as group support regime is concerned, the de Larosiere report recommends that the final agreement on **Solvency II** should include a group support regime, coupled with adequate and sufficient safeguards for host Member States, and a binding mediation mechanism between home and host supervisors. Furthermore, the report proposes the development of harmonised insurance guarantees schemes as a solution to the current deadlock in negotiations. The report clarifies these measures (safeguards, binding mediation, insurance guarantee schemes) should be implemented together with Solvency II.

With regards a **new supervisory architecture**, the report points to the limitations in the existing supervisory framework, and suggests a two stage process towards the creation of a European system of financial supervision. In a first stage (2009-2010), the ground should be prepared to transform the level 3 committees into European Authorities. The report recommends that national supervisory authorities should be strengthened and a more harmonised set of EU financial regulations, supervisory powers and sanctioning regime should be developed. This stage would include measures to reinforce the Level 3 Committees resources, upgrade the quality and impact of their peer review processes, and prepare the ground, including through the adoption of adequate supervisory norms, for the setting-up of supervisory colleges for all major cross-border financial firms in the EU by the end of 200.

In a second stage (2011-2012), the report suggests the EU to establish an integrated European System of Financial Supervision (ESFS). This would mean transforming the level 3 Committees into three European Authorities: a European Banking Authority, a European Insurance Authority and a European Securities Authority. In addition to the competences currently exercised by the level 3 committees, the Authorities should have, among others, key new competences such as legally binding mediation between national supervisors, adoption of binding supervisory standards, adoption of binding technical decisions applicable to individual financial institutions, oversight and coordination of colleges of supervisor, licensing and supervision of specific EU-wide institutions (e.g. Credit Rating Agencies, and post-trading infrastructures, and binding cooperation with the ESRC to ensure adequate prudential supervision.

| For more info

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