



EUROPEAN COMMISSION
INTERNAL MARKET DIRECTORATE GENERAL

Institutional Arrangements for the Regulation and Supervision of the Financial Sector

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ANNEX: Overview of Institutional Arrangements for the Regulation & Supervision of the Financial Sector

INTRODUCTION

This overview of fora in which regulators and supervisors of the financial services sector meet explains the origins, tasks and composition of the various groups. The overview distinguishes 'EU' from 'international' groups. Reference to the 'EU' does not mean that a group has a particular status derived from the Treaty or secondary Community legislation, but that a group has been established in the EU and is composed of representatives of EU Member States. The origins and formal of each group is described at the beginning of each section.

This overview follows a common format for the description of each group. Each section starts with a summary overview of the all different groups described under each heading : banking, insurance, securities and cross-sector. The description of the origin, status and tasks of each group is followed by a list of the institutions represented in its meetings. This list also identifies the secretariat and the current chairperson of each group.

Groups are identified as having a regulatory or a supervisory task. Caution should be exercised, however, as the distinction between the two is difficult to make in practice. Certain groups may be composed of supervisors only, but the group as such may not have supervisory competencies or may not even discuss individual and institution specific cases. On the other hand, groups of regulators may consider and discuss the practical application of prudential regulation in day-to-day supervisory practice.

This overview is completed with a one page overview of the groups and areas covered in each sector and across sectors. Although this provides only a very rough picture, and may not do complete justice to the work of the fora involved, it provides a useful picture of the ground that is already covered. It may also assist in identifying areas where work and co-operation between financial services authorities is possibly under developed and may require reinforcement.

This overview was updated in December 1999. The description of EU-fora has been checked for accuracy by their secretariats (and the members of the groups where possible).

I BANKING

SUMMARY

This section describes the various fora within which banking regulatory and supervisory authorities meet and discuss prudential regulations, their practical implementation, and supervisory issues concerning specific financial institutions.

Within the European Union, three such fora exist; two of which are attached to EU institutions. The Banking Advisory Committee (BAC) is attached to the European Commission, was set up in 1977 under the First Banking Directive, and comprises high level representatives of Member States' banking supervisory authorities, finance ministries and central banks. Chaired by a Member State banking supervisor, the BAC's primary role is to assist the Commission in preparing prudential legislation for the supervision of the EU banking sector and to discuss and give advice on any other issue concerning banking regulation and supervision in the Union. The BAC also assists the Commission in negotiating co-operation and information exchange agreements between EU and third country banking supervisors. The BAC adopts formal opinions on any proposal for EU banking legislation, which are communicated to the European Commissioner responsible for EU banking regulation. The BAC also has the competence to amend technical provisions in EU banking directives through a 'comitology' procedure. The BAC does not discuss issues relating to individual banks (although such issues may give rise to the preparation of new EU banking legislation or the amendment of existing directives).

More recently (October 1998), the Banking Supervision Committee (BSC) of the ESCB has been set-up (although it already functioned under the EMI). Chaired by a representative of a national central bank, the BSC comprises high level representatives of Member States' banking supervisory authorities and central banks. The main task of the BSC is to assist in a smooth conduct of supervisory and financial stability policies, which are examined from a macro-prudential perspective. The BSC also reviews developments in the banking and financial systems and promotes co-operation between the Eurosystem and banking supervisors. The BSC assists in preparing the ECB's advice on (proposals for) EU and national banking legislation. The BSC also has a second function not relating to the tasks of the Eurosystem: it functions as a forum for the exchange of views and information among EU banking supervisors and central banks at a high level and examines developments or incidents in the EU banking systems of systemic or of major relevance and their implications.

The longest-standing group (1972) of banking supervisors in the EU is the 'Groupe de Contact' (GdC). Although not formally attached to any of the institutions, its role and existence is acknowledged in EU banking directives. The GdC is composed of mid-management banking supervisors of the 15 Member States, who are involved in the day-to-day supervision of banks. The GdC is the established forum for the (confidential) exchange of information on individual cases relevant to banking supervision. The GdC reviews developments in members supervisory systems and it discusses and prepares comparative reports from the perspective of banking supervisors on supervisory and regulatory issues. The GdC may examine and prepare reports for consideration in the BAC and the BSC at its own initiative or upon request of those fora.

The most important banking regulatory forum outside of the EU is the Basel Committee on Banking Supervision. Established in 1974 by the Central Bank Governors of the G-10 the Basel and comprising high-level representatives from the G-10 central banks and banking supervisory authorities (8 EU Member States and the Commission and the ECB participate), this Committee issues non-binding but authoritative recommendations on the prudential supervision of banks. Its recommendations are usually translated into EU banking legislation, taking into account the specific nature of the EU banking sector.

European Commission Banking Advisory Committee

CHARACTER

Regulatory and legislative policy body.

ORIGIN

Established 'alongside the Commission' under the First Banking Co-ordination Directive (77/78/EEC) in 1978. Formal Title: 'Advisory Committee of the Competent Authorities of the Member States of the European Economic Community', commonly referred to as the Banking Advisory Committee (BAC).

TASKS

The BAC has a number of formal tasks. According to the First Banking Co-ordination Directive the BAC's first task is to 'assist the Commission in the preparation of new proposals to the Council concerning further co-ordination in the sphere of credit institutions'. The BAC is at the centre of the preparation and implementation of EU legislation which covers:

- authorisation requirements for banks (licensing, organisation, requirements for directors and major shareholders, minimum initial capital, minimum solvency requirements, large exposures, the constitution of own funds etc);
- the manner in which banks are supervised (consolidated supervision for groups of credit institutions) and the way in which holding companies are monitored;
- the way in which co-operation between the banking supervisory authorities of the EU is conducted, the flow of information between banking supervisors themselves and with other financial and non-financial authorities, the co-operation and exchange of information with third country banking supervisory authorities;
- procedures for cross-border banking business, and
- deposit guarantee schemes

The BAC advises the Commission on the need to adjust the EU-prudential regulations governing the supervisory system. Work initiated and undertaken within the BAC has resulted in many Commission proposals for Community acts. The BAC adopts a formal opinion on any (draft) proposal for EU banking legislation. This opinion is submitted to the College of Commissioners in advance of its decision to adopt a proposal for legislation. The European Commission has never proposed measures which were not in accordance with the majority view of the BAC.

A second, specific task of the BAC is also required by the EU Banking Directives. The BAC is entrusted with the task of establishing ratios for the solvency, liquidity and profitability of credit institutions. In the area of solvency, the requirements which the BAC and the Commission have prepared and which have been laid down in EU directives, provide the groundwork for the minimum capital norms which banks are obliged to observe (this norm reflects recommendations within the G 10 Basel Committee on capital adequacy). Reports on the observation of profitability and solvency ratios by the EU banking sector are prepared annually by the Groupe de Contact (described further on in this overview) for discussion in the BAC. Observation ratios for liquidity are still being monitored.

Third, the BAC assists the Commission in the proper implementation of the European Banking Directives. To this end the BAC considers how Member States have implemented banking directives into national legislation, whether this has been done in a consistent manner and whether there is a possible need for possible further regulatory convergence. In order to assist the BAC in its work, the Commission and the BAC rely on a Working Group on the Interpretation of the Banking Directives ('GTIAD'). This Group examines a number of questions of interpretation either at the BAC's request or on its own initiative. Its findings are submitted to the BAC for approval. The interpretation given of a particular provision of a directive constitutes an important point of reference, although it is not legally binding on Member States.

A fourth field of work for the BAC results from provisions in the EU banking directives for the BAC to advise the Commission on possible follow-up to be given to the implementation of the legislation. Most banking directives refer to the BAC as the forum for advising the Commission on extending transitional periods for certain Member states or lines of business, the need to maintain derogations for Member states, banks or lines of business, or the need to maintain exemptions in the EU directives. The advice of the BAC forms the basis for reports from the Commission to the Council on the course of action, or directly for proposals for EU banking legislation.

EU banking supervisors and regulators are also required to inform the BAC of certain national decisions in the area of banking supervision. For example of any agreements which may have been concluded with third countries on the application of the principle of consolidated supervision, of banking licences accorded by Member States' authorities to third-country banks, and of authorisations to third-country shareholders to take a majority participation in a Community bank. This information is regularly updated and disseminated in the BAC.

As a committee for deliberation among the EU banking regulators and supervisors the BAC functions as a forum for the general exchange of views and information among EU banking supervisors at a high level. The BAC considers important and topical general questions of banking supervision and discusses current banking regulatory and supervisory affairs in the broadest sense, ranging from the need to change banks' minimum capital requirements to the preparation of accession countries banking regulation and supervisory structures.

The BAC does not discuss specific problems relating to individual credit institutions. This remains the exclusive competence of the national banking supervisory authorities, and such issues are discussed in the Groupe de Contact. Nevertheless, circumstances may arise in which the conduct or financial position of one or more credit institutions causes problems of such a dimension that prudential issues are at stake requiring a response at Community level. Nevertheless, the BAC will examine major developments or cases in the EU banking sector which may have implications for the prudential regulation and supervision (e.g. the BCCI affair, or the BANESTO case). The BAC has in the past always been able to discuss such incidences in such a way that the focus of discussions has remained on the broader prudential regulatory and supervisory issues at stake, rather than the institution specific issue.

The Rules of Procedure of the BAC prescribe that its discussions and the outcome thereof are confidential, unless the Committee decides otherwise

The BAC's 'comitology' tasks

As financial markets are dynamic and subject to rapid developments and are moreover increasingly becoming global 24-hour markets there is a need for regulators to act swiftly in response to market changes. Certain technical provisions of the banking directives (Second

Banking Co-ordination Directive, Solvency Ratio Directive, Own Funds Directive, Large Exposures Directive) can be amended swiftly by a committee according to a specific ('comitology') procedure.

Although legally and technically, the BAC is separate from the committee instituted under the Second Banking Directive to make such technical amendments, the composition of this Committee coincides with that of the BAC. In practice, if an amendment of a banking directive is called for under a 'comitology' procedure, the BAC changes its chairmanship in its meetings to permit the Commission to assume the chair and assists the Commission in carrying out technical adaptations to the Banking Directives

The BAC also plays a role in any decisions in respect of third countries which the Commission may propose when a third-country does not grant EC banks national treatment which offers the same competitive opportunities as its domestic banks and if the conditions of effective market access are not fulfilled. The Commission may propose the limitation or suspension of applications submitted by banks from the third country concerned for authorisation to establish themselves in a Member State or to take a participation in a Community bank.

In cases of technical adaptations to the EC banking directives and in case of application of this reciprocity clause the Regulatory Committee is to give its opinion on draft measures. When acting in this capacity, the BAC decides according to the qualified majority laid down in Article 148(2) of the EEC Treaty, implying a weighting of the votes of the representatives of the Member States. The Chairman, who in this case is a representative of the Commission, does not have a vote.

COMPOSITION

Members & observers

The EU Directive setting-up the BAC provides clear indications as to the number of representatives per Member State, the participation of advisers, qualified persons and experts in the meetings, its meeting schedule and the confidential status of its documents and proceedings. The BAC is of wide composition: not only banking supervisory authorities are represented, but also officials of the Finance Ministries of the Member States. The Commission (Internal Market DG) is also a Member of the BAC. Members are nominated in a personal capacity by the competent national authorities and by the Commission. A member may not engage in any direct or indirect activity, which could result in a conflict of interest. A member's period of service is three years and is renewable. A list of authorities participating in the BAC is attached.

The European Central bank participates in the meetings of the BAC as an observer. Since July 1998 representatives from Norway, Iceland and Liechtenstein have also been admitted into the BAC meetings as observers in view of the requirement of the Agreement on the European Economic Area on these countries to implement the EU banking directives into their national law. Credit institutions originating in those countries may carry out banking activities in the European Community under the mutual recognition system. Conversely, Community credit institutions may carry out their activities in those three EFTA countries.

The BAC may invite experts to its meetings to inform and discuss specific issues. This has occurred on a number of occasions in the past and will continue in the future (individual banking supervisors of the accession countries will participate in parts of BAC meetings to inform about and discuss their banking system and supervisory organisation).

Chairmanship

The chairmanship of the Banking Advisory Committee is provided by a representative of a banking supervisory authority of one of the Member States. The Committee elects its Chairman from the representatives of the Member States by a two-thirds majority. The Chairman serves a three-year term of office. The Committee also elects a Vice-Chairman who assists the Chairman in his duties and substitutes for him if necessary. The present Chairman is Claes Norgren (Swedish Financial Supervisory Authority). His predecessors were: 1994-1997 Jean-Louis Duplat (Belgium, Banking Commission), 1991-1994 Jean-Louis Butsch (France, Banking Commission), 1988-1991 Tomaso Padoa Schioppa (Italy, Central Bank), 1985-1988 Timothy O' Grady Walshe (Ireland, Central Bank), 1982-1985 Huib Muller (Netherlands, Central Bank), 1979-1982 Claus Köhler (Germany, Central Bank).

Meeting frequency

The BAC meets at four times a year, usually in Brussels.

Secretariat

The Commission (Internal Market DG Financial Institutions Directorate) provides its secretariat.

Technical areas in EU banking legislation which may be amended by the BAC acting in its capacity as a 'comitology' committee.

Second Banking Directive

The following areas may be the subject of technical adaptations:

- expansion (not: limitation) of banking activities on the list in the Annex of the Directive, or adaptation of the terminology used in that list to take account of developments on financial markets;
- modification of the amount of initial capital required in Article 4 of the Directive, to take account of developments in the economic and monetary field;
- modification of the areas in which the competent authorities must exchange information: any information on the owners and managers of a bank that may facilitate its supervision and the prior decision to grant an authorisation to that bank, as well as any information that may facilitate the monitoring of liquidity, solvency, deposit guarantees, limits on large exposures, administrative and accounting procedures and internal control mechanisms;
- clarification of the definitions, in order to ensure uniform application of the Second Banking Directive throughout the Community;
- clarification of the definitions, in order to take account of developments on financial markets; and
- alignment of the general terminology of the Second Banking Directive and its definitions so as to make them in accordance with any subsequent Community legislation concerning credit institutions and related matters.

Solvency Ratio Directive.

Areas to which technical adaptations may be made:

- a temporary reduction in the minimum solvency ratio or in the weightings attached to banking activities 'in order to take account of specific circumstances.
- the riskiness of a certain asset or off-balance sheet activity
- the definition of zone A, i.e. the enumeration of jurisdictions which are considered to be of less riskiness from the perspective of country risk than those which comprise 'zone B'
- the definition of 'multilateral development banks' in Article 2
- an amendment of the definition of the assets listed in Article 6, in order to take account of developments on financial markets, as well as
- the lists and classifications of off-balance sheet items in the Annexes to the Directive and their treatment in the calculation of the solvency ratio
- clarification of the definitions in order to ensure uniform application of the Solvency Ratio Directive throughout the Community
- clarification of the definitions in order to take account in the implementation of the Solvency Ratio Directive of developments on financial markets; and alignment of the general terminology of the Solvency Ratio Directive and its definitions so as to make them in accordance with any subsequent Community legislation concerning credit institutions and related matters.'

Own Funds Directive:

- clarification of the definitions in order to ensure uniform application of the Own Funds Directive throughout the Community
- clarification of the definitions in order to take account in the implementation of the Own Funds Directive of developments on financial markets; and alignment of the general terminology of the Own Funds Directive and its definitions so as to make them in accordance with any subsequent EC legislation concerning banking and related matters.

Large Exposures Directive

Areas in which technical adaptations may be made:

- clarification of the definitions in order to ensure uniform application of Directive
- clarification of the definitions in connection with developments on the financial markets
- alignment of terminology on and the framing of definitions in accordance with subsequent Community acts on credit institutions and related matters
- clarification of the exemptions envisaged in the Directive. The area in which exemptions which may be applied can thus be varied by way of technical adaptations to the Large Exposures Directive.

Authorities represented in the Banking Advisory Committee

Members

BELGIQUE/BELGIË
Commission Bancaire et Financière
Ministère des Finances
Banque Nationale de Belgique

DANMARK
Okonomiministeriet
Danmarks Nationalbank
Finanstilsynet

DEUTSCHLAND
Bundesministerium der Finanzen
Deutsche Bundesbank
Bundesaufsichtsamt für das Kreditwesen

ELLAS
Bank of Greece
Ministry of National Economy

ESPAÑA
Banco de España
Ministerio de Economía y Hacienda
(Tesoro y Política Financiera)

FRANCE
Commission Bancaire
Ministère de l'Économie
(Direction du Trésor)
Banque de France

IRELAND
Central Bank of Ireland
Department of Finance

ITALIA
Banca d'Italia
Ministero del Tesoro

LUXEMBOURG
Commission de Surveillance du Secteur
Financière
Ministère des Finances
Banque Centrale du Luxembourg

NEDERLAND
De Nederlandsche Bank
Ministerie van Financiën

ÖSTERREICH
Österreichische Nationalbank
Bundesministerium für Finanzen

PORTUGAL
Banco de Portugal
Ministro das Finanças

SUOMI - FINLAND
Bank of Finland
Ministry of Finance
Financial Supervision

SWEDEN
Sveriges Riksbank
Finansdepartementet
Finansinspektionen

UNITED KINGDOM
The Financial Services Authority
H.M. Treasury
(Bank of England: where appropriate)

EUROPEAN COMMISSION
Internal Market DG

Observers

European Central Bank
Authorities from Norway, Iceland and
Liechtenstein

Chairman: Mr C. Norgren, Director
General, Finansinspektionen,
Sweden

Secretariat: Mr P. Pearson European
Commission, Internal Market
DG/Financial Institutions
Directorate

Banking Supervision Committee of the European System of Central Banks

ORIGIN

A Committee with a long-standing tradition, recently re-confirmed as one of the Committees of the European System of Central Banks (ESCB) is the Banking Supervision Committee of the ESCB (BSC). The BSC started to work under its mandate as an ESCB Committee in October 1998. As an ESCB Committee the BSC has been established by the Governing Council of the ECB under Article 9 of the ECB's Rules of Procedure.¹ The BSC already functioned under the European Monetary Institute (EMI) as the 'Banking Supervisory Sub-Committee' since 1994 and earlier on as the Banking Supervisory Sub-Committee of the Committee of Governors of the Central Banks of the European Community, created in 1989.

TASKS

The Committee has a twofold mandate being an ESCB Committee and being in addition a forum for consultations among the EU banking supervisors on issues not related to the supervisory functions of the ESCB.

As an ESCB Committee, the BSC assists in the fulfilment of the ESCB's statutory tasks in the field of prudential supervision of credit institutions and the stability of the financial system, as laid down in the Treaty on European Union and the ESCB/ECB Statute. The BSC advises on policy issues of common interest to the EU banking supervisors and the ESCB concerning the area of prudential supervision of credit institutions and the stability of the financial system under the heading of Article 105 (5) of the Treaty on European Union. In this context the BSC examines issues of a macro-prudential nature, reviews developments in the banking and financial systems, and promotes a smooth exchange of information between the ESCB and banking and other supervisory authorities.

The BSC also assists in preparing the ECB's advice on (draft) EU and national banking legislation. The ECB's advisory function in the field of rulemaking follows from Article 105 (4) of the Treaty on European Union and from Article 25 (1) of the ESCB/ECB Statute. According to this latter Article the 'ECB may offer advice to and be consulted by the Council, the Commission and the competent authorities of the Member States on the scope and implementation of Community legislation relating to the prudential supervision of credit institutions and to the stability of the financial system'. ECB opinions may be addressed to the Council and the Commission, the latter Community institution being charged with overseeing the implementation of Community legislation. The 'competent authorities of the Member States' are the competent supervisory authorities.

As a forum for consultations among the EU banking supervisors on issues not related to the supervisory functions of the ESCB the Committee functions as a forum for the exchange of views and information among EU banking supervisors at a high level. In this context the BSC examines developments or incidents in the EU banking systems of systemic or of major relevance as well as possible implications for the conduct of prudential supervision.

¹ Published in the Official Journal No. L 125, of 19 May 1999, pp. 34 ff.

COMPOSITION

Members & observers

The BSC comprises high level representatives of Member States' central banks and the banking supervisory authorities from the Member States which have entrusted banking supervisory tasks to a separate organisation (i.e. the supervisory authorities entrusted with specific banking supervision tasks in Austria, Belgium, Denmark, Germany, Finland, France, Luxembourg, Sweden, and the United Kingdom). The ECB is also represented in the BSC.

The European Commission (Internal Market DG, Financial Institutions Directorate) and the Groupe de Contact participate as an observer in the BSC. Representatives of other Community bodies and of third parties may also be invited to attend meetings of the BSC if and where appropriate.

The BSC considers, on a case-by-case basis, reports prepared by the Groupe de Contact. The BSC closely co-operates with the European Commission (Internal Market DG), the Banking Advisory Committee, and the Groupe de Contact by regular meetings between the Chairpersons and the Secretariats of the Committees and the Commission observer.

Chairman

The Chairman of the BSC is appointed by the Governing Council of the ECB. At present the chair is held by Mr. Edgar Meister (Member of the Board of the Deutsche Bundesbank).

Secretariat

The secretariat of the BSC is provided by the ECB.

The ECB Rules of Procedure establish rules of confidentiality for the BSC as an ESCB Committee. In particular, they require that all proceedings by the Committee or one of its working groups shall be confidential unless the Governing Council decides otherwise. There are no written Rules of Procedure for the BSC acting as a forum of EU banking supervisors.

Meeting frequency

The BSC meets five times a year.

Central Banks and authorities represented in the BSC

BELGIQUE/BELGIË

Commission Bancaire et Financière
Banque Nationale de Belgique

DANMARK

Danmarks Nationalbank
Finanstilsynet

DEUTSCHLAND

Deutsche Bundesbank
Bundesaufsichtsamt für das Kreditwesen

ELLAS

Bank of Greece

ESPAÑA

Banco de España

FRANCE

Commission Bancaire et Banque de France

IRELAND

Central Bank of Ireland

ITALIA

Banca d'Italia

LUXEMBOURG

Commission de Surveillance du Secteur
Financier
Banque Centrale du Luxembourg

NEDERLAND

De Nederlandsche Bank

ÖSTERREICH

Oesterreichische Nationalbank
Bundesministerium für Finanzen

PORTUGAL

Banco de Portugal

SUOMI - FINLAND

Bank of Finland
Financial Supervisory Authority

SWEDEN

Sveriges Riksbank
Finansinspektionen

UNITED KINGDOM

Bank of England
The Financial Services Authority

EUROPEAN CENTRAL BANK

Observers

EUROPEAN COMMISSION (Internal Market DG)
Groupe de Contact

Chairman: Mr E Meister, Member of the
Board of the Deutsche
Bundesbank

Secretariat: Mr J. Priesemann, ECB

Groupe de Contact / Contact Group

CHARACTER

'Micro-prudential' supervision at mid management level and comparison of EU supervisory practices.

ORIGIN

In 1972, six years before the Community officially established the BAC; an informal group of European banking supervisors (at that time from eight countries) was formed. The 'Groupe de Contact' (GdC), as it is called, continued to exist after the establishment of the BAC, its function being acknowledged in the recitals to EU banking directives. It has expanded its Membership to all EEA countries.

TASKS

The purpose of the GdC is to promote practical co-operation and the exchange of (confidential and non-confidential) information relating to banking regulation and supervisory practices within the EEA.

The GdC is the only established conduit for the exchange of information on individual cases relevant to banking supervision. These cases are discussed in confidence and in the absence of the Commission observer. However, individual cases often stimulate thinking on wider supervisory issues, and are thus often a major source of inspiration for the Groupe's more general work.

The GdC reviews developments in Members' supervisory systems and conducts comparative studies of different aspects of these systems, from the perspective of the hands-on supervisor. Where the conclusions of such studies are considered to be of interest to other fora, they are submitted to these for discussion.

Although the GdC is independent in setting its own work programme and agenda, it may also examine and prepare reports for consideration in the BAC and the ECB's BSC, at its own initiative (see above) or upon request of those fora. For example, the GdC prepares regular overviews of the solvency (as required under 1BCD) and profitability of the EU banking system for the BAC, and is assisting the BAC in the current review of the regulatory capital regime. It should be stressed that there is no official hierarchy between Contact Group and BAC or the ECB's BSC. Nevertheless, many of the subjects which the BAC covers, have been prepared by analyses within the Contact Group.

COMPOSITION

Members & observers

The GdC is composed of mid-management banking supervisors of the 18 EEA Member States, who are involved in the day-to-day supervision of banks (central banks are represented only where they fulfil a supervisory function, finance ministries are not represented). Representatives

from Norway, Iceland and Liechtenstein are, technically, observers, although they participate in all discussions and contribute to all papers.

The European Commission attends the non-confidential discussions as an observer.

Chairmanship

The Chair of the GdC is provided by a representative of a supervisory authority of one of the Member States.

Meeting frequency

The GdC meets at least three times a year. The meetings are hosted, in rotation, by Members.

Secretariat

The secretariat of the GdC is provided by the Financial Services Authority in the UK.

Authorities represented in the Groupe de Contact

BELGIQUE/BELGIË
Commission Bancaire et Financière

DANMARK
Finanstilsynet

DEUTSCHLAND
Deutsche Bundesbank
Bundesaufsichtsamt für das Kreditwesen

ELLAS
Bank of Greece

ESPAÑA
Banco de España

FRANCE
Commission Bancaire

IRELAND
Central Bank of Ireland

ITALIA
Banca d'Italia

LUXEMBOURG
Commission de Surveillance du Secteur
Financière

NEDERLAND
De Nederlandsche Bank

ÖSTERREICH
Bundesministerium für Finanzen

PORTUGAL
Banco de Portugal

SUOMI - FINLAND
Financial Supervision

SWEDEN
Finansinspektionen

UNITED KINGDOM
The Financial Services Authority

Observers

EUROPEAN COMMISSION
Internal Market DG

ICELAND

Financial Supervisory Authority

LIECHTENSTEIN
Amt für Finanzdienstleistungen

NORWAY

Banking, Insurance and Securities
Commission

Chairman: Mr T. Kjoller, Finanstilsnet,
Denmark

Secretariat: Ms L.Field, Financial Services
Authority, UK

INTERNATIONAL FORA

G-10: Basle Committee on Banking Supervision

CHARACTER

International standard-setting body.

ORIGIN

The Basle Committee was established as the Committee on Banking Regulations and Supervisory Practices by the central-bank Governors of the Group of Ten countries at the end of 1974 in the aftermath of serious disturbances in international currency and banking markets (notably the failure of Bankhaus Herstatt in West Germany). The first meeting took place in February 1975 and meetings have been held regularly three or four times a year since.

TASK

The Committee provides a forum for regular co-operation between its member countries on banking supervisory matters. Initially, it discussed modalities for international co-operation in order to close gaps in the supervisory net, but its wider objective has been to improve supervisory understanding and the quality of banking supervision worldwide. It seeks to do this in three principal ways: by exchanging information on national supervisory arrangements; by improving the effectiveness of techniques for supervising international banking business; and by setting minimum supervisory standards in areas where they are considered desirable.

The Committee does not possess any formal supranational supervisory authority. Its conclusions do not have, and were never intended to have, legal force. Rather, it formulates broad supervisory standards and guidelines and recommends statements of best practice in the expectation that individual authorities will take steps to implement them through detailed arrangements - statutory or otherwise - which are best suited to their own national systems. In this way, the Committee encourages convergence towards common approaches and common standards without attempting detailed harmonisation of member countries' supervisory techniques.

The Committee reports to the Committee of central bank Governors of the Group of Ten countries, which meets at the Bank for International Settlements (BIS), and seeks the Governors' endorsement and commitment for its major initiatives. In addition, however, since the Committee contains representatives from institutions which are not central banks, the decisions it takes carry the commitment of many national authorities outside the central banking fraternity.

One important objective of the Committee's work has been to close gaps in international supervisory coverage in pursuit of two basic principles: that no foreign banking establishment should escape supervision; and that supervision should be adequate. In June 1992 certain of the principles were formulated as Minimum Standards. These Standards were communicated to other banking supervisory authorities who were invited to endorse them, and in July 1992 the Standards were published. The Committee is constantly exploring the mechanics of enforcing these Standards.

As an outcome of the ongoing collaboration in the supervision of international banks, the Committee has addressed a number of related topics. It has collected information on most national systems for supervising banks' foreign establishments; it has examined the obstacles to effective supervision arising from bank secrecy regulations in different countries; and it has studied authorisation procedures for new foreign banking establishments. In October 1996 the Committee released a report drawn up by a joint working group also containing supervisors from offshore centres, which presented proposals for overcoming the impediments experienced by banking supervisors in conducting effective consolidated supervision of the cross-border operations of international banks.

The topic to which most of the Committee's time has been devoted in recent years is banks' capital adequacy. In the early 1980s the Committee became concerned that the capital ratios of the main international banks were deteriorating just at the time that international risks, notably those vis-a-vis heavily indebted countries, were growing. Backed by the Group of Ten Governors, the members of the Committee resolved to halt the erosion of capital standards in their banking systems and to work towards greater convergence in the measurement of capital adequacy. This resulted in the emergence of a broad consensus on a weighted approach to the measurement of risk, on and off the balance sheet. Since 1988, this framework has been progressively introduced not only in member countries but in virtually all other countries with active international banks. (This Basle Capital Adequacy Framework formed the basis for agreement within the EC on the Own Funds' and Solvency Ratio Directives. Quite some groundwork for the Basle agreement was done within the EC during the course of preparations for a set of normative ratios on solvency. The work in Basle and the successful conclusion thereof in 1988, in its turn, greatly facilitated the adoption of formal EC legislation in this field a year later). A major review of the 1988 Capital Adequacy framework is currently on its way in the Basel Committee and the BAC.

The wider role of the Committee in promoting sound supervisory standards worldwide has intensified. The Communiqué issued by the G-7 Heads of Government following the Lyon Summit in June 1996 called for the Committee to participate in efforts to improve supervisory standards in the emerging markets. As a result, and in close collaboration with many non-G-10 supervisory authorities, the Committee developed in 1997 a set of *"Core Principles for Effective Banking Supervision"* which provides a comprehensive blueprint for an effective supervisory system. A number of steps have been taken to encourage countries to implement the "Core Principles", including the establishment of a Liaison group and of a Consultation group comprised of both G-10 and non-G10 countries, and the preparation of a survey to be conducted in advance of the International Conference of Banking Supervisors in October 1998.

The Basle Core Principles comprise twenty-five basic Principles that need to be in place for a supervisory system to be effective. The Principles relate to:

- Preconditions for effective banking supervision
- Prudential regulations and requirements
- Methods of ongoing banking supervision
- Information requirements
- Formal powers of supervisors, and
- Cross-border banking

The Principles are minimum requirements and in many cases may need to be supplemented by other measures designed to address particular conditions and risks in the financial systems of individual countries. The Basic Core Principles are intended to serve as a basic reference for

supervisory and other public authorities in all countries and internationally. It will be for national supervisory authorities, many of which are actively seeking to strengthen their current supervisory regime, to use the attached document to review their existing supervisory arrangements and to initiate a programme designed to address any deficiencies as quickly as is practical within their legal authority. The Principles have been designed to be verifiable by supervisors, regional supervisory groups, and the market at large.

Progressively over recent years, the Basle Committee has been actively expanding its links with supervisors in non-G10 countries with a view to strengthening prudential supervisory standards in all the major markets. These efforts have taken a number of forms, including:

- The development and dissemination of policy papers on a wide range of supervisory matters;
- The pursuit of supervisory co-operation at local level through the creation of regional supervisory committees;
- The increasing provision of supervisory training both in Basle and at regional or local level.

The Bank for International Settlements has recently decided, in a joint initiative with the Basle Committee, to establish an Institute for Financial Stability which will take over and build on the present training programme.

COMPOSITION

Members and Observers

The Committee's members come from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, United Kingdom and United States. Countries are represented by their central bank and also by the authority with formal responsibility for the prudential supervision of banking business where this is not the central bank.

The European Commission (Internal Market DG) and the ECB participates as observer in the Basel Committee.

Chairman

The present Chairman of the Committee is Mr. William J. McDonough, President and Chief Executive Officer of the Federal Reserve Bank of New York. The previous Chairmen were, from 1974-77, Sir George Blunden (then Executive Director, Bank of England); from 1977-88, Mr. W.P. Cooke (Associate Director, Bank of England); from 1988-91, Mr. H.J. Muller, (Executive Director of De Nederlandsche Bank); from 1991-1993, Mr. E. Gerald Corrigan, (President of the Federal Reserve Bank of New York), from 1993 to 1997, Dr. T. Padoa-Schioppa (Deputy Director General of the Bank of Italy) and from 1997 to 1998, Mr. T. de Swaan, Executive Director of de Nederlandsche Bank.

Secretariat

The Committee's Secretariat is provided by the Bank for International Settlements in Basle, where nearly all the Committee's meetings take place. The Secretariat, currently ten strong, is mainly staffed by professional supervisors on temporary secondment from member institutions.

Meeting frequency

The Basel Committee meets four times a year, usually in Basle.

Organisations participating in the discussions in the Basle Committee on Banking Supervision are:

BELGIQUE/BELGIË
Commission Bancaire et Financière
Banque Nationale de Belgique

EU
European Commission
European Central Bank

CANADA
Superintendent of Financial Institutions Bank
of Canada

Chairman: Mr W. McDonough (Chairman of
the New York Federal Reserve
Bank)

DEUTSCHLAND
Deutsche Bundesbank
Bundesaufsichtsamt für das Kreditwesen

Secretariat: Ms D. Nouy, Basel Committee for
Banking Supervision

FRANCE
Commission Bancaire Banque de France

ITALIA
Banca d'Italia

JAPAN
Bank of Japan Ministry of Finance

LUXEMBOURG
Institut Monétaire Luxembourgeois

NEDERLAND
De Nederlandsche Bank NV

SWEDEN
Sveriges Riksbank Swedish Bank Inspection
Board

SWITZERLAND
Schweizerische Nationalbank

UNITED KINGDOM
Bank of England Financial Services Authority

UNITED STATES
Federal Reserve Board
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency
Federal Reserve Bank of New York

II INSURANCE

SUMMARY

This section describes the various fora within which insurance regulatory and supervisory authorities meet and discuss prudential regulations, their practical implementation, and supervisory issues concerning specific financial institutions.

Within the European Union, two such fora exist, one of which is attached to an EU institution. The Insurance Committee (IC) is attached to the European Commission, and was set up by an EU Directive in 1991. The IC comprises high level representatives of Member States' insurance supervisory authorities and finance ministries. Chaired by the European Commission, the IC's primary role is to assist the Commission in preparing prudential legislation for the supervision of the EU insurance sector and to discuss and give advice any other issue concerning insurance regulation and supervision in the Union. The IC adopts formal opinions on any proposal for EU insurance legislation which are communicated to the European Commissioner responsible for EU insurance regulation. The IC also has the competence to amend technical provisions in EU insurance directives through a 'comitology' procedure. The IC does not discuss issues relating to individual insurance undertakings.

The longest-standing group (1957) of insurance supervisors in the EU is the 'Conference of Insurance Supervisory Authorities of the Member States of the European Union' ('the Conference'). The Conference is not formally attached to any of the EU institutions. The Conference is composed of high-level insurance supervisors of the 15 Member States and the 3EEA States. The Conference considers topics of mutual interest from the insurance supervisory perspective. The Conference may examine and prepare reports for consideration in the IC at its own initiative or upon request of those fora.

At the international level and in comparison to the fields of banking supervision and securities supervision, an equivalent of the Basle Banking Supervisory Committee or IOSCO has taken long to materialise in the area of insurance supervision. At the international level, the International Association of Insurance Supervisors was created in 1993 to reinforce the co-operation and the exchange of information between insurance supervisory authorities, and to collect and disseminate insurance and statistical and other technical information. The IAIS also seeks to establish minimum requirements for world-wide insurance supervisory practices.

Insurance Committee

CHARACTER

Regulatory and legislative policy body.

ORIGIN

The Insurance Committee (IC) was created in December 1992 under a Council Directive specifically setting up the Committee (Directive 91/675/EEC).

TASKS

The Commission's motives for creating the IC were threefold. First, the insurance directives that have as their objective the creation of an Internal Market for insurance entail the need for a close co-operation between insurance supervisors and the Commission, in particular as regards the system of prudential control by the home State supervisor and a single authorisation to undertake insurance activities throughout the EC (more than half of the operative provisions in the insurance internal market directives refer to new or extended tasks for the home State insurance supervisor, while more than a quarter of their provisions deal with the exchange of information and co-operation between those supervisors). The need for a close and formal relationship at Community level is therefore essential.

There was also a need for insurance supervisors to be represented at the same level within the Community structure as banking supervisors in the BAC to consider the prudential issues raised by "financial conglomerate" type groups consisting of banks, insurance companies, securities firms. The need for supervisors exercising prudential control over these institutions to cooperate and to discuss common supervisory concerns and responses to this phenomenon amongst each other goes without saying. In this respect, the Insurance Committee Directive makes a specific reference to the need for the IC to co-ordinate its activities with its counterparts in the financial services sector (read: in particular the Banking Advisory Committee) set up under other Community acts.

The last reason for setting up the IC was because a number of insurance directives required a committee structure to adopt, when necessary, rapid technical changes to the insurance directives.

The IC has two main tasks. Its first task is to provide a high-level Community advisory and policy steering forum for insurance related matters for the Commission.

The Committee's advisory function relates to its task to "examine any question relating to the application of Community provisions concerning the insurance sector, and in particular Directives on direct insurance". This remit provides the IC with a very wide ambit to discuss not only any possible aspect of the Community directives on direct insurance (e.g. life, non-life - including tourist assistance, winding-up, credit insurance and legal expenses), but also other acts in the insurance sector such as for instance pension funds, reinsurance, coinsurance, insurance accounts, insurance intermediaries or motor insurance. Also EEC measures outside of the

immediate sphere of insurance may appear on the IC's agenda, such as consumer policy measures, issues related to large financial groups ("financial conglomerates") containing a mixture of other financial institutions (banks, securities firms), or in the context of or insurance developments at the international level (e.g. GATS, or any particular Third Country). As long as there is a question related to Community rules on insurance, i.e. the relevant Treaty provisions or any secondary legislation (regulation, directive, decision or recommendation). Discussions in the Committee may lead to the conclusion that Community action is required, be it legislative or otherwise of nature.

There is, however, one limitation to this wide scope of competence: the Committee may not discuss any specific problems relating to individual insurance undertakings. The conduct or position of individual insurance companies is not discussed in the Committee because the Commission does not possess any direct competence in this area: this remains the exclusive competence of the competent national insurance supervisory authorities. Nevertheless, circumstances may arise in which the conduct or financial position of one or more insurance undertakings causes problems of such a dimension that prudential issues are at stake requiring a response at Community level.

The IC's advisory function also extends to being consulted by the Commission on any new proposals for directives (or other legal instruments) it intends to submit to the Council in the field of direct life- and non-life insurance. The Commission seeks the opinion of the IC, or the Committee may take its own initiative and call upon the Commission to be consulted. In terms of its day-to-day work, a very large proportion of the Committee's work focuses on the advisory tasks described so far.

Insurance Committee's 'comitology' function

The second task of the IC is to take decisions based on Commission proposals to make technical amendments to the Third Life- and Non-Life Directives, and on proposals to take measures against Third Country insurers following application of the so-called "reciprocity" clauses. As the insurance sector is dynamic in its development there is a need for regulators to be able to act swiftly in response to market changes. The Third Life- and Non-Life Directives take account of the fact that some of their provisions may, from time to time, need to be modified to keep up with the development of new insurance products, a change in insurance activities and developing prudential requirements. The directives contain a limited list of areas in which the Directives may be modified rapidly, without requiring a Council/EP directive that needs to follow the normal and lengthy institutional procedure for the adoption of directives. Instead, a specific 'comitology' procedure is followed in which the Insurance Committee plays an important role according to specific committee procedure.

Furthermore, decisions in respect of market entry of third-country insurers which the Commission may propose in the life and non-life insurance sectors, will need to be adopted following the same procedure. These decisions may entail the limitation or suspension of authorisation procedures for the establishment of third- country insurance undertakings within the EC, or for the acquisition by non-EC nationals of holdings in Community insurance companies.

COMPOSITION

Members & observers

The Directive setting-up the Committee requires the IC to be composed of "representatives of the Member States". Its members are appointed from the insurance supervisory and regulatory

authorities in the 15 Member States. Each Member State has two Members in the Committee; this may accommodate those States in which the supervisory and the legislative competencies in the field of insurance belong to the competence of different authorities (in most cases an independent supervisory authority and a ministry of finance or economic affairs). The level of representation on the IC is of an appropriate high level nature for it to fulfil its tasks.

Representatives from Norway, Iceland and Liechtenstein have also been admitted into the IC meetings as observers in view of the requirement of the Agreement on the European Economic Area on these countries to implement the EU insurance directives into their national law. Insurance undertakings originating in those countries may carry out insurance activities in the European Community under the mutual recognition system. Conversely, Community insurance undertakings may carry out their activities in those three EFTA countries.

The deliberations and documents of the IC are of a confidential nature, subject to the provisions following the new 'comitology' Decision of the Council of June 1999.

Chairmanship

The Chairmanship (and vice-chairmanship) of the IC is in the hands of the European Commission (Internal Market DG, Financial Institutions Directorate). The reason for this lies in the Community rules on conferring "comitology powers" to the Commission: those rules explicitly state that committees in which the Commission exercises such powers should be chaired by a Commission representative. (This is in contrast to the Banking Advisory Committee, which is chaired by a representative from one of the Member States; a situation that could not provide a precedent for the IC in view of the fact that the Banking Advisory Committee had been in existence long before the decisions on "comitology" were taken).

In order to maintain close links and avoid overlap of work with the 'Conference of Insurance Supervisory Authorities' (see next chapter), the Chairman of the IC is assisted by a 'Bureau' consisting of one elected Member of the IC from a supervisory authority in a Member State, the present and the next chairman of the Conference. The Bureau also decides on the composition of the agenda and the handling of the meetings of the Insurance Committee.

Secretariat

The secretariat is provided for by the European Commission (Internal Market DG, Financial Institutions Directorate).

Meeting frequency

The IC meets at least 3 times a year in Brussels.

'Comitology' powers of the Insurance Committee

Non-Life Insurance

Article 51 of the Third Non-Life Insurance Directive contains a list of areas in the Directive to which "technical adjustments" may be made, on a proposal from the Commission and involving the Insurance Committee by applying a specific 'comitology' procedure in the following areas:

- extension of the agreed legal forms for setting up an insurance undertaking;
- amendments and terminological adaptation of the list in the Annex to the First Directive, classifying those risks into classes of insurance, describing authorisations that are valid for more than one class, and defining 'ancillary' risks, in order to take account of the development of insurance markets ;
- clarification of the items constituting the solvency margin in the First Directive, to take account of the development of new financial instruments. Such amendments may only seek to clarify the constituent items of the solvency margin and may not lead to the introduction of new elements. For the introduction of new elements, the Commission will be obliged to follow the far more lengthy procedure set forth in the Treaty concerning the adoption of a new directive and involving European Parliament in the so-called 'co-operation procedure';
- alteration of the minimum guarantee fund provided for in the First Directive, to take account of developments in the economic and financial field. There is a political understanding between the Council and the Commission, that such alterations may in particular concern the general level of inflation in the Community;
- amendments, to take account of the creation of new financial instruments, to the list of assets acceptable as cover for the technical provisions and to the diversification rules for such assets as set out in the Third Directive. This competence is required in order to supplement the list with any such instruments (e.g. in the area of 'derivatives');
- changes in the relaxation in the matching rules provided for in the Annex to the Second Non-Life Directive, to take account of the development of new currency-hedging instruments or progress made towards economic and monetary union;
- clarification of the definitions to the directive in order to ensure uniform application of the First, Second and third Directives in the twelve Member States.

Life assurance

The Third Life Assurance Directive lists exactly the same areas to which technical modifications may be made by the Commission as in the Non-Life Directive, with the following addition:

- any necessary technical adjustments to the rules for setting the maxima applicable to interest rates when establishing technical provisions. This may be required in particular to take account of progress made towards economic and monetary union in the European Community.

There has not yet been an opportunity for the Commission and the Insurance Committee to introduce any of the changes described above.

Authorities represented in the Insurance Committee

Members

BELGIQUE/BELGIË
Office de Contrôle des Assurances
Ministry of Economic Affairs

DANMARK
Ministry of Industry
Finanstilsynet

DEUTSCHLAND
Bundesministerium der Finanzen
Bundesaufsichtsamt für das
Versicherungswesen

ELLAS
Ministry of Commerce

ESPAÑA
Ministerio de Economía y Hacienda
(Insurance Directorate General)

FRANCE
Ministère de l'Économie
(Direction du Trésor)
Commission de Contrôle des Assurances

IRELAND
Department of Enterprise and Employment

ITALIA
Ministry of Industrial Affairs
ISVAP

LUXEMBOURG
Commissariat aux Assurances

NEDERLAND
Verzekeringkamer
Ministerie van Financiën

ÖSTERREICH
Bundesministerium für Finanzen

PORTUGAL
Instituto de Seguros de Portugal

SUOMI - FINLAND
Ministry of Social Affairs and Health

SWEDEN
Ministry of Finance
Finansinspektionen

UNITED KINGDOM
H.M. Treasury

EUROPEAN COMMISSION
Internal Market DG / Directorate Financial
Institutions

Observers

Authorities from Norway, Iceland and
Liechtenstein

Chairman: Mr J.F. Mogg, Director General,
Internal Market DG, European
Commission

Secretariat: Mr M. King, European
Commission, Internal Market
DG / Financial Institutions

Conference of Insurance Supervisory Authorities of the Member States of the European Communities

CHARACTER

Comparative supervisory practices and co-operation.

ORIGIN

The first steps to set up the Conference of Insurance Supervisory Authorities of the Member States of the European Economic Community ("the Conference") were taken in 1957. After the signature of the Treaty of Rome, the heads of insurance supervisory authorities of the then six Member States of the EEC, acknowledged the need to examine together the many issues that European integration would pose to the insurance sector. Such collaboration was also required to prepare the discussions that would take place within the EEC institutions. First contacts took place in Paris in December 1957 at the initiative of the French authorities. After receiving support from their governments, the Conference was officially set up in 1958.

The Conference is not attached to any of the EU institutions nor is it an institution under public international law. It is a forum for co-operation and the exchange of information between insurance supervisors. As such it has fulfilled an important role in creating a useful climate of mutual understanding between those authorities. It is noteworthy, however, that the Insurance Committee Directive in one of its recitals acknowledges the existence of the Conference and calls for close co-operation between the two supervisory fora.

TASKS

The Conference is a forum for co-operation and the exchange of information between insurance supervisors. It may discuss any issue related to insurance supervision in the EU. Although discussion of insurance regulatory matters is not excluded, such matters will usually be dealt with in the Insurance Committee.

One of the most noteworthy tasks of the Conference has been its work in the area of co-operation between supervisors following the practical implementation of EC-insurance directives. A detailed set of rules and procedures has been agreed by the insurance supervisory authorities in the form of so-called 'protocols'. The protocols constitute a multilateral memorandum of understanding between insurance supervisors. The protocols are not Community legal instruments as they reflect agreements reached in a forum which is itself not a formal Community institution. Instead, the protocols may be deemed to be formal agreements between the twelve insurance supervisory authorities on how to commonly proceed towards the effective supervision of insurance undertakings that operate under the EC-insurance directives.

The agenda is drawn up in a flexible manner, while discussion papers are provided for by the delegation requesting inclusion of a point on the agenda. Often a questionnaire will be drawn-up for the authorities to reply to. The Conference has in the past frequently set up working groups to examine a particular issue and to report back to the full meeting, thus reports and studies have been drawn up over the years on a wide range of topics including inter alia transport insurance,

reinsurance, solvency, the borderlines of insurance, and financial conglomerates. A form of co-operation has also developed by which certain studies that have been undertaken by the Conference have been of use in examining issues that have arisen in the Commission's field of work.

The Conference has the opportunity to discuss supervisory issues relating to individual insurance undertakings if the need arises. Such discussion will be confidential, and observers to the meeting will not participate in these exchanges of views.

There exists no hierarchical relationship between the Conference and the IC. The good working relationship between the two fora is reflected by the fact that the IC may request the Conference to examine particular supervisory problems that have arisen as a result of the application of EC insurance directives. At the request of the IC the Conference has reported on the need to amend the insurance solvency provisions in the directives: this work is the basis of the present review of the solvency margin within the European Commission.

COMPOSITION

Members & observers

The delegations of the fifteen EC-Member States and the three EEA States are composed of high-level representatives from national insurance supervisory authorities and regulators. Although there exists no formal link whatsoever between the Conference and the institutions of the EEC, in practice, many of the participants in the Conference gatherings are also Members of the EC Insurance Committee.

A representative of the Commission (Internal market DG, Directorate for Financial Institutions) has participated in the Conference meetings as an observer since 1967. Representatives of the insurance supervisory authorities from the EEA States also participate in the Conference as observers.

Chairmanship

The order of States organising the meetings is determined alphabetically. The Chairmanship of the Conference accordingly also rotates between its members in an alphabetical order: the head of the insurance supervisory authority of the Member State organising the meeting assumes the role of acting chairman. In order to provide continuity in its meeting a 'troika' of the previous, present and next chair of the Conference will discuss the composition of the agenda and the handling of the meetings.

Secretariat

The secretariat is provided for by the French Ministry of Economy and Finance in Paris.

Meeting frequency

The Conference as a rule meets twice a year. It does not have a fixed meeting venue, but meets in a different EC-State each time, depending on the Member State holding its presidency.

Authorities participating in the Conference of Insurance Supervisory Authorities

Members

BELGIQUE/BELGIË
Office de Contrôle des Assurances

DANMARK
Finanstilsynet

DEUTSCHLAND
Bundesministerium der Finanzen
Bundesaufsichtsamt für das
Versicherungswesen

ELLAS
Ministry of Commerce

ESPAÑA
Ministerio de Economía y Hacienda
(Insurance Directorate General)

FRANCE
Ministère de l'Économie
(Direction du Trésor)
Commission de Contrôle des Assurances

IRELAND
Department of Enterprise and Employment

ITALIA
ISVAP

LUXEMBOURG
Commissariat aux Assurances

NEDERLAND
Verzekeringkamer
Ministerie van Financiën

ÖSTERREICH
Bundesministerium für Finanzen

PORTUGAL
Instituto de Seguros de Portugal

SUOMI - FINLAND
Ministry of Social Affairs and Health

SWEDEN
Finansinspektionen

UNITED KINGDOM
H.M. Treasury

EUROPEAN COMMISSION
Internal Market DG / Directorate Financial
Institutions

Observers

European Commission, Internal Market DG /
Directorate Financial Institutions Authorities
from Norway, Iceland and Liechtenstein

Chairman: (rotating basis)

Secretariat: Ministère de l'Économie
(Direction du Trésor)

International Association of Insurance Supervisors

CHARACTER

International standard-setting body.

ORIGIN

The IAIS was established in 1994 to provide insurance regulators from around the world with a official forum in which to discuss insurance regulatory and supervisory issues. Prior to the founding of the IAIS, international insurance regulators had met informally in the margins of meetings of the National Association of Insurance Commissioners (NAIC), the umbrella organisation of US state insurance regulators.

OBJECTIVES

The objectives of the organisation are:

- To co-operate together to ensure improved supervision of the insurance industry in order to maintain efficient, fair, safe and stable insurance markets for the benefit and protection of policy holders;
- To develop practical standards for supervision of insurance;
- To co-operate with other relevant entities, such as the BCBS, IOSCO, the Joint Forum and the Financial Stability Forum;
- To provide mutual assistance; and
- To exchange information in order to promote the development of strong domestic insurance markets.

ACTIVITIES OF THE IAIS

In 1997, the IAIS issued its first four papers:

- Insurance Supervisory Principles, which form a first set of core principles for insurance supervision;
- Guidance on Insurance Regulation and Supervision for Emerging Market Economies; this guidance is designed to encourage supervisors in emerging markets to comply with the broad principles specified in the Insurance Supervisory Principles paper;
- Insurance Concordat, which contains principles applicable to the supervision of international insurers and insurance groups and their cross border establishments, and is intended to improve the supervision of internationally active insurance companies; and
- Model Memorandum of Understanding that should be used by supervisors to improve the exchange of information and to facilitate cooperation with each other.

In 1998, the IAIS issued three further papers which, in addition to the Insurance Supervisory Principles, set detailed standards in three areas;

- Supervisory Standard on Licensing, which contains requirements that should be met by an insurer seeking a license and deals with the prudential aspects of licensing;
- Supervisory Standard on On-site Inspections, which is intended to provide insurance supervisors with some general supervisory standard for the conduct of on-site inspections as a vitally important part of the supervisory process; and

- Supervisory Standard on Derivatives, which provides guidance to supervisors in assessing how insurers control risks in derivatives.

At present, the IAIS is working on a number of other papers containing principles and standards for different areas of insurance supervision, such as solvency requirements and assessments, asset management, conduct of insurance business, extension of the Insurance Concordat to cross border services, reinsurance, electronic commerce, etc.

The aim is that the principles and standards the IAIS develops would be implemented worldwide, particularly in emerging economies which often lack a sufficient regulatory system and the necessary professional expertise. Therefore another area the IAIS is working on is organising regional training courses in order to help emerging market economies to implement principles and standards on insurance supervision that the IAIS has developed, and thus ensure an effective insurance supervisory system.

COMPOSITION

Members & observers

At present over 100 countries are members of the IAIS, representing all 5 continents of the globe (in view of their number a list of members is not attached to this section). This is a great strength of the organisation, in view of its mission to provide sound prudential standards to emerging market countries around the world.

The European Commission (Internal Market DG, Financial Institutions Directorate) is a full member of the IAIS.

Observer status at the IAIS is currently granted to the OECD. The Executive Committee is currently considering a form of observer status that may be granted in future to insurance industry bodies.

Secretariat

The secretariat of the IAIS is currently located in Basel, sharing office space with the Bank for International Settlements.

Meeting frequency

In addition to its annual conference, attended by both the international insurance industry and regulators from around the world, the Technical Committee of the IAIS meets four times a year in different venues. Meetings of other key committees, such as the Emerging Markets Committee and Executive Committee are also often scheduled to coincide with meetings of the Technical Committee. The sub-committees and working groups established by the Technical Committee meet as and when necessary.

III Securities

SUMMARY

This section describes the various fora within which securities regulatory and supervisory authorities meet and discuss securities and derivatives markets regulations, their practical implementation, and supervisory issues concerning specific financial institutions. Within the European Union, four such fora exist, three of which are attached to EU institutions.

The High Level Securities Supervisors Committee (HLSSC) is an informal group set up by the Commission in 1985, comprises high level representatives of member States' securities supervisory authorities, finance ministries and central banks. Chaired by the Commission, the HLSSC's primary role is to assist and advise the Commission on policy issues relating to securities markets and the development of the relevant European legislation, rather than detailed technical questions.

The longest-standing group attached to EU institutions is the Securities Contact Committee set up by the Listing Admission Directive (1979). Subsequent EU directives on listing and those on half-yearly report, major shareholdings, insider dealing and public offer prospectus refer back to this same Contact Committee, providing it with similar consultative and advisory functions as in the 1979 directive. Notwithstanding the fact that this is a formal Committee, it has never adopted rules of procedure and its members have never been officially appointed by the Member States. They are nominated on a case by case basis depending on the agenda of the meeting called by the Commission. The mandate is basically to facilitate the harmonised implementation of the directives through regular consultations, to facilitate a concerted attitude between Member States on certain matters where the directives leave certain discretion to Member States and lastly to advise the Commission on any supplements or amendments to be made to the directives. It has also limited comitology functions.

The UCITS contact committee was set up in 1985. Members of this group are representatives from the Member States' competent authorities and Ministries of Finance. It is chaired by the Commission. The tasks of this Committee are once again to facilitate harmonised implementation, to provide a forum for consultations between member States and to advise the Commission, if necessary, on additions or amendments to the UCITS directive.

More recently (December 1997) the chairmen of EU Securities Commissions have created FESCO (Forum of European Securities Commissions). It is chaired by a representative one of its member authorities and it now assembles 17 statutory securities commission of the EEA. FESCO's work concentrates on developing common regulatory standards and enhancing co-operation between members on enforcement and market surveillance issues. Regular meetings of FESCO, attended by the chairmen of each authority decide on policy issues and mandates for new work. The secretary general with the support of the four members of the secretariat is responsible for the day to day work of FESCO. FESCO experts groups staffed by experts from member authorities draft papers according to agreed mandates.

The most important securities regulatory forum outside of the EU is IOSCO (International Organisation of Securities Commissions). It has become the world-wide organisation of securities regulators. IOSCO issues authoritative recommendations on securities regulation and effective surveillance of international securities transactions. IOSCO also provides mutual assistance to promote the integrity of the markets by a rigorous application of the standards and by effective enforcement against offenses.

High Level Securities Supervisors Committee

CHARACTER

Regulatory and legislative policy.

ORIGIN

Established in 1985, this committee has no formal legal basis. It functions as a Commission working group until such a time as the Securities Supervisors Committee is formally established by an EU directive. It is commonly referred to as the HLSSC.

TASKS

EU securities legislation covers:

- Listing conditions, prospectuses (listing and public offer), half-yearly report, information to the public, disclosure of major holding in listed companies, insider dealing on securities traded on regulated markets;
- Access (also via remote membership) to regulated markets and regulated markets transparency minimum requirements
- Authorisation and operating requirements for investment firms (organisation, requirements for directors and major shareholders, conduct of business rules, minimum initial capital and ongoing capital requirements, etc.)
- Investor compensation schemes

The HLSSC discusses policy issues relating to securities markets in Europe, it assists the Commission in the preparation of new proposals of legislation. However, being an informal committee, it does not have formal tasks. Work undertaken within the HLSSC has resulted in providing valuable contributions in various Commission proposals for Community acts (such as the directives on major holding, public offer prospectuses, insider dealing but mainly the investment services directive).

The HLSSC also examines problems or disputes among member States in the implementation of existing legislation. The interpretation given of a particular provision of a directive constitutes an important point of reference, although it is not legally binding on member States.

COMPOSITION

Members & observers

The HLSSC is of wide composition: not only securities supervisory authorities are represented, but also officials of the Finance Ministries of the member States.

Representatives from Norway, Iceland and Liechtenstein, as well as of the EFTA Surveillance Authority participate in the meetings as observers in view of the requirement of the Agreement on the European Economic Area on these countries to implement securities directives into their

national law (and the Surveillance Authority to ensure the correct implementation). Investment firms originating in those countries may carry out investment services in the European Community under the mutual recognition system. Conversely, Community investment firms lay carry out their activities in those three EFTA countries.

Since June 1999 FESCO participates in the meetings of the HLSSC as an observer in view of the common interest in co-operating and discussing securities markets relating matters.

Chairmanship

The Chairmanship of the HLSSC is provided by the Commission (Internal Market DG Financial Institutions Directorate).

Meeting frequency

The HLSSC meets normally three times a year, in Brussels.

Secretariat

The Commission (Internal Market DG Financial Institutions Directorate) provides its secretariat.

Authorities represented in the HLSSC

BELGIQUE/BELGIË
Commission Bancaire et Financière
Ministère des Finances

DANMARK
Økonomiministeriet
Danmarks Nationalbank
Finanstilsynet

DEUTSCHLAND
Bundesministerium der Finanzen
Bundesaufsichtsamt für den
Wertpapierhandel

ELLAS
Capital Market Commission
Ministry of National Economy

ESPAÑA
Comision nacional del Mercado de Valores
Ministerio de Economía y Hacienda
(Tesoro y Política Financiera)

FRANCE
Commission des opérations de bourse
Ministère de l'Économie
(Direction du Trésor)

IRELAND
Central Bank of Ireland
Department of Finance

ITALIA
CONSOB (Commissione Nazionale per le
Società e la Borsa)
Banca d'Italia
Ministero del Tesoro

LUXEMBOURG
Commission de Surveillance du Secteur
Financière

NEDERLAND
Stichting Toezicht Effectenverkeer
Ministerie van Financiën

ÖSTERREICH
Bundes-Wertpapieraufsicht
Bundesministerium für Finanzen

PORTUGAL
Comissao do mercado de Valores
Mobiliarios
Ministro das Finanças

SUOMI - FINLAND
Ministry of Finance
Financial Supervision

SWEDEN
Finansdepartementet
Finansinspektionen

UNITED KINGDOM
The Financial Services Authority
H.M. Treasury

EUROPEAN COMMISSION
Internal Market DG

Observers

FESCO
EFTA Surveillance Authority
Authorities from Norway, Iceland and
Liechtenstein

Chairman: Mr J-M Fombellida (European
Commission Internal Market DG)

Secretariat Mr J. Arteagoitia European
Commission Internal Market DG
Financial Institutions Directorate

Securities Contact Committee

CHARACTER

Regulatory and legislative policy.

ORIGIN

This Contact committee was set up by the 1979 directive (79/297/EEC, Article 20) co-ordinating the conditions for the admission of securities to official stock exchanges. The subsequent listing directives (80/390/EEC on listing particulars as amended), half-yearly report (82/121/EEC), major holding (88/627/EEC), public offer (89/298/EEC), insider dealing (89/592/EEC) refer back to this same Contact Committee giving it additional functions.

TASKS

The Contact Committee has three broad tasks :

- to facilitate the harmonised implementation of the above-mentioned directives through regular consultations on any practical problems arising from their application and on which exchanges of view are deemed useful;
- to facilitate the establishment of a concerted attitude between the member States on the more stringent or additional conditions and obligations, which pursuant to the directives, they may lay down at national level;
- to advise the Commission, if necessary, on any supplements or amendments to be made to the above-mentioned directives.

According to directive 79/297/EEC the Contact Committee also has a limited Comitology role. It is entitled to deliver its opinion on any adjustment to be made to the requirement of the minimum amount of the foreseeable market capitalisation provided for in the said directive. This function has never been exercised in practice.

COMPOSITION

Members & Observers

The Contact Committee is of wide composition: not only securities supervisory authorities are represented, but also officials of the Finance Ministries of the member States. There is no fixed composition. It is up to the member States to decide on a case by case basis (according to the agenda) who has to attend the meetings.

Representatives from Norway, Iceland and Liechtenstein, as well as of the EFTA Surveillance Authority may be invited by the Commission to participate in the meetings as observers in view of the requirement of the Agreement on the European Economic Area on these countries to implement securities directives into their national law (and the Surveillance Authority to ensure the correct implementation).

Chairmanship

The Chairmanship of the Securities Contact Committee is provided by the Commission (Internal Market DG Financial Institutions Directorate).

Secretariat

The Commission (Internal Market DG Financial Institutions Directorate) provides its secretariat.

Meeting frequency

The Contact Committee does not meet on a regular basis. It is up to the Commission to decide if and when a meeting has to be organised. The last meeting was held in autumn 1998 to discuss about updating existing prospectus directives.

Authorities in the Securities Contact Cttee.

BELGIQUE/BELGIË
Commission Bancaire et Financière
Ministère des Finances

DANMARK
Økonomiministeriet
Danmarks Nationalbank
Finanstilsynet

DEUTSCHLAND
Bundesministerium der Finanzen
Bundesaufsichtsamt für den
Wertpapierhandel

ELLAS
Capital Market Commission
Ministry of National Economy

ESPAÑA
Comision nacional del Mercado de Valores
Ministerio de Economía y Hacienda
(Tesoro y Política Financiera)

FRANCE
Commission des opérations de bourse
Ministère de l'Économie
(Direction du Trésor)

IRELAND
Central Bank of Ireland
Department of Finance

ITALIA
CONSOB (Commissione Nazionale per le
Società e la Borsa)
Banca d'Italia
Ministero del Tesoro

LUXEMBOURG
Commission de Surveillance du Secteur
Financière

NEDERLAND
Stichting Toezicht Effectenverkeer
Ministerie van Financiën

ÖSTERREICH
Bundes-Wertpapieraufsicht
Bundesministerium für Finanzen

PORTUGAL
Commissao do mercado de Valores
Mobiliarios
Ministro das Finanças

SUOMI - FINLAND
Ministry of Finance
Financial Supervision

SWEDEN
Finansdepartementet
Finansinspektionen

UNITED KINGDOM
The Financial Services Authority
H.M. Treasury

EUROPEAN COMMISSION
Internal Market DG

Observers

FESCO
EFTA Surveillance Authority
Authorities from Norway, Iceland and
Liechtenstein

Chairman: Mr J-M Fombellida (European
Commission Internal Market DG)

Secretariat Mr J. Arteagoitia European
Commission Internal Market DG
Financial Institutions Directorate

UCITS Contact Committee

CHARACTER

Regulatory and legislative policy

ORIGIN

This Contact committee was set up by the 1985 directive on UCITS (85/611/EEC, Article 53) co-ordinating the laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities.

TASKS

Facilitate the harmonised implementation of the UCITS directive through regular consultations on any practical problems arising from its application and on which exchanges of view are deemed useful;

Facilitate the establishment of a concerted attitude between the member States on the more stringent or additional conditions and obligations, which pursuant to the directive, they may lay down at national level;

Advise the Commission, if necessary, on any supplements or amendments to be made to the above-mentioned directive.

The bulk of the work of this Committee in the past years was to discuss the text of the two UCITS draft proposals (lately adopted by the Commission and under negotiation in the Council)

COMPOSITION

Members & Observers

The Contact Committee is of wide composition: not only UCITS supervisory authorities are represented, but also officials of the Finance Ministries of the member States. There is no fixed composition. It is up to the member States to decide on a case by case basis (according to the agenda) who has to attend the meetings.

Representatives from Norway, Iceland and Liechtenstein, as well as of the EFTA Surveillance Authority may be invited by the Commission to participate in the meetings as observers in view of the requirement of the Agreement on the European Economic Area on these countries to implement securities directives into their national law (and the Surveillance Authority to ensure the correct implementation).

Chairmanship

The Chairmanship of the UCITS Contact Committee is provided by the Commission (Internal Market DG Financial Institutions Directorate).

Meeting frequency

The Contact Committee does not meet any longer on a regular basis. It is up to the Commission to decide if and when a meeting has to be organised. Last meeting was held in Autumn 1998 to

discuss about possible Commission's initiatives in the field of venture capital (basically closed-ended funds).

Secretariat

The Commission (Internal Market DG Financial Institutions Directorate) provides its secretariat.

FESCO

ORIGIN

FESCO (Forum of European Securities Commissions) was founded in December 1997 by the statutory securities Commission of the EEA area transforming the pre-existing Informal Group of Chairmen into an international organisation.

TASKS

According to the FESCO Charter, the members have committed themselves:

- To foster the fair and efficient realisation of the European single market in financial services by close co-operation;
- To develop common European regulatory standards for regarding the supervision of financial services and markets, especially where European directives may be built upon;
- To enhance market surveillance and enforcement in the EEA by mutual assistance and cross-border co-operation

The three main areas of FESCO's activities are: investor protection; market integrity and market transparency. FESCO work concentrates on developing common regulatory standards and enhancing co-operation between members on enforcement and market surveillance.

Work is carried out through different structures: regular meeting, secretariat general, experts groups. Regular meeting of FESCO, attended by the Chairmen of each authority, decide on policy issues, mandates for new work and approval of final reports and standards. The FESCO Secretary General is responsible for day to day work with the support of the four members of the secretariat.

Technical work is carried out through FESCO experts groups (i.e. working groups staffed by experts from member authorities). Each experts group has a secretary (member of the FESCO secretariat) in charge of preparing papers and meetings. These groups draft paper according to mandate agreed by the Chairmen in regular meeting. These papers are made public after appropriate consultation and approval by FESCO members. Presently the following groups have been created: standards for investor protection, standards for regulated markets, standards for alternative trading systems, market abuse and European offering.

Each FESCO member is committed to implementing, where possible, the standards adopted by FESCO in its home jurisdiction. If a FESCO member does not have the authority to implement a certain standard it will commend the standard to its government and/or responsible regulatory authority.

Up to now, FESCO has adopted a paper on Standards on fitness and propriety for investment firms (work started under the previous informal Group) while to papers are currently under consultation: standards for regulated markets and market conduct standards for participants in an offering (work started under the previous informal group).

FESCO members have signed in January 1999 a multilateral memorandum of understanding (MOU) for mutual assistance and exchange of information in order to foster cross border co-operation for surveillance and enforcement purposes. It has also created FESCOPOL, a group of senior official responsible for ensuring the co-operation process functions smoothly.

COMPOSITION

Members & Observers

FESCO comprises 17 statutory securities commission of the European Economic Area. The Commission participates in FESCO (and FESCO experts groups) as an observer. The Chairman of the IOSCO European Regional Committee is also invited as an observer.

Chairmanship

FESCO is chaired by the Chair of one of its member authorities for a term of two years. The present Chairman is Georg Wittich (BAWe). His predecessor (since FESCO creation until May 1998) was Tommaso Padoa Schioppa (CONSOB)

Meeting frequency

Regular meetings are held normally on a quarterly basis.

Secretariat

The secretariat is located in Paris. The secretariat is composed of five members seconded to FESCO by its members. Members of the Secretariat are staffed by the COB, FSA, CMVM, BAWe and STE. The present Secretary General is Mr Fabrice Demarigny.

Authorities represented in FESCO

BELGIQUE/BELGIË
CBF

NEDERLAND
Security Board of the Netherlands

DANMARK
Finanstilsynet

NORWAY
Kredittilsynet

DEUTSCHLAND
BAWe

ÖSTERREICH
Bundes-Wertpapieraufsicht

ELLAS
Capital Market Commission

PORTUGAL
CNMV

ESPAÑA
CNMV

SUOMI-FINLAND
Rahoitustarkastus

FRANCE
COB

SWEDEN
Finansinspektionen

ICELAND
Financial Supervisory Authority

UNITED KINGDOM
FSA

IRELAND
Central Bank of Ireland

Observer

European Commission (Internal Market DG
Financial Institutions)

ITALIA
CONSOB

Chairman: Mr G. Wittich, BAWe

LUXEMBOURG
Commission de surveillance du secteur
financier

Secretariat Mr F. Demarigny, FESCO

IOSCO

CHARACTER

International standard setting body

ORIGIN

IOSCO gathers world's securities regulators. It was created in the early eighties developing a pre-existing Interamerican Organisation.

TASKS

IOSCO members have agreed, through IOSCO permanent structures:

To co-operate together to promote high standards of regulation in order to maintain just, efficient and sound markets;

- To establish standards and an effective surveillance of international securities transactions
- To exchange information
- To provide mutual assistance to promote the integrity of the markets by a rigorous application of the standards and by effective enforcement against offenses

These objectives are achieved through the permanent structures of the organisation. These are the Presidents' Committee, the Executive Committee, the Technical Committee and the Emerging market Committee. There are also four Regional Standing Committees (Africa-middle-East; Asia-Pacific; Europe, Inter-American).

The Presidents' Committee, which meets once a year during the Annual Conference, has all the powers necessary or convenient to achieve the purposes of the organisation. In practical terms it adopts recommendations and resolutions submitted by the Executive Committee.

The *Executive Committee* is composed of 19 members (the Chairmen of the standing Committees plus members elected by the Presidents' Committees and the representatives of each Regional Committee). It meets periodically during the year and, consistently with the by-laws, takes all decisions and undertakes all actions necessary or convenient to achieve the objectives of the organisation.

The *Executive Committee* has established two permanent Committees: the Technical Committee and the Emerging markets Committee.

The *Technical Committee* is made up of sixteen agencies that regulate some of the world's larger, more developed and internationalised markets. Its objective is to review major regulatory issues and to elaborate responses providing answers, etc. The technical work is carried on by five standing working parties on the following subjects:

- Multinational Disclosure and Accounting
- Regulation of Secondary Markets
- Regulation of market Intermediaries
- Enforcement and Exchange of Information
- Investment Management

The members of the working parties meet several times during the year and tackle, almost on a continuous basis the mandate received by the Technical Committee. Special task forces may be created to discuss and study specific issues. The technical committee has established in February 1999 a specific Task force on Hedge Funds and Other Highly Leveraged Institutions.

The *Emerging Markets Committee* endeavours to promote the development and improvement of efficiency of emerging securities markets by establishing principles and minimum standards, preparing training programs and facilitating exchange of information and transfer of technology and expertise. It has set up working groups mirroring the ones in the Technical Committee.

The four *Standing Regional Committees* discuss specific regional issues. There is also a SRO Consultative Committee gathering the self-regulatory organisations that are affiliate members of IOSCO.

In September 1998 (Nairobi Conference), IOSCO adopted the document "IOSCO Objectives and Principles of Securities Regulation". In order to ensure its implementation, an Implementation Committee has been set up. The aim of this Committee is to ensure the completion and to monitor the self-assessment process and to co-operate with international financial institutions (World Bank, IMF), the OECD and the regional development banks in relation to their use of the IOSCO Principles in their work.

COMPOSITION

IOSCO memberships currently stands at 164 organisations representing more than 90 countries. There are different level of membership, ordinary (full members) affiliate and associate. Only securities regulators with day to day regulatory responsibilities may become ordinary members. It is allowed only one ordinary member per country.

The European Commission is mentioned as international organisation in IOSCO members' list. This means that is entitled to participate to activities such as the Annual Conference.

CROSS-SECTOR FORA

EU

BAC/IC/HLSS

Although there is no single cross-sector forum for financial conglomerates (mixed bank/insurance/securities groups), since 1991 work on prudential rules for the supervision of financial conglomerates and issues for discussion and decision have been co-ordinated on a pragmatic basis between the three sectoral Committees (Banking Advisory Committee - BAC, Insurance Committee – IC and High Level Securities Supervisors Committee - HLSS) functioning under the European Commission. When appropriate the three committees may meet together: a first such meeting took place beginning 1994. In 1996, the BAC, IC and HLSS endorsed a report from the three committees considered the prudential issues for supervisors raised by financial conglomerates and presented possible solutions but requested the Commission to wait for the recommendations of the Joint Forum which had started a similar exercise. Following the publication of the Joint Forum's Recommendations beginning 1999 the Commission, after consulting the BAC, IC and HLSS, set up and mandated a new mixed technical group to report to the parent committees on a possible EU legislative response to financial conglomerates.

No cross-sector forum exists in the EU for supervisors to discuss specific supervisory issues arising from cross-border financial conglomerate types groups.

International

The Joint Forum on Financial Conglomerates

Beginning 1996, the Joint Forum on Financial Conglomerates was constituted under the aegis of the Committee, IOSCO and the IAIS, to take forward the work of the 'Tripartite Group'. The Joint Forum was mandated to elaborate ways to facilitate the exchange of information between supervisors and to enhance supervisory co-ordination, and to develop principles toward the more effective supervision of financial conglomerates. In February, 1998, the Basle Committee, IOSCO and the IAIS issued several consultative papers prepared by the Joint Forum. Those papers address important issues that arise for supervisors and provide concrete proposals for facilitating the exchange of information and for enhancing co-operation between supervisors.

The G-7 Financial Stability Forum

In response to disturbances in international financial markets beginning 1998, G-7 finance ministers set up a Financial Stability Forum (FSF). Participants in the FSF are the three international regulatory bodies (Basle Committee for Banking Supervision, IOSCO, International Association of Insurance Supervisors); the G-7 ministries of finance, IMF, IBRD, BIS and OECD. The FSF discusses possibilities to strengthen the supervision and surveillance of the international financial system. Its focus is on vulnerabilities in financial systems. The FSF does not attempt surveillance of individual countries. Its main objectives are to strengthen financial regulation and supervision without duplicating work and to centralise information about work in other groupings, identify gaps and propose solutions to fill-in these gaps. Issues for consideration in the FSF are wide ranging and include: developing and implementing high regulatory standards, consistency of capital standards and regulatory practices, enhancing accounting and disclosure standards, promoting supervisory information exchange, hedge funds, capital flows, off-shore centres.

Committee on the Global Financial System

The CGFS is a committee of the central banks of the Group of Ten Countries. It discusses the functioning and stability of the global financial markets.

IC/BAC/HLSS

CHARACTER

Regulatory and legislative policy body.

ORIGIN

Although there exists no single cross-sector forum for financial conglomerates, over the years issues for discussion and decision have been co-ordinated between the three sectoral Committees (Banking Advisory Committee - BAC, Insurance Committee – IC and High Level Securities Supervisors Committee - HLSS) functioning under the European Commission. The BAC, IC and HLSS commenced their work on prudential rules for the supervision of financial conglomerates (mixed bank/insurance/securities groups) in 1991. The first joint meeting of the three committees took place beginning 1994. That meeting identified a number of issues that required further technical analysis which subsequently resulted in a report to the BAC, IC and HLSS from a mixed technical working group in 1995. The report considered the prudential issues for supervisors raised by financial conglomerates and presented possible solutions. In 1996, the BAC, IC and HLSS endorsed the report but requested the Commission to wait for the recommendations of the Joint Forum which had started a similar exercise. Following the publication of the Joint Forum's Recommendations beginning 1999 the Commission, after consulting the BAC, IC and HLSS, set up and mandated a new mixed technical group to report to the parent committees on a possible EU legislative response to financial conglomerates.

TASKS

The mixed technical group (MTG) set-up under the BAC, IC and HLSS has been mandated by its parent committees to consider the following areas requiring prudential attention:

- Capital adequacy at group-wide level;
- Fitness and propriety of shareholders and managers;
- Information sharing between supervisors on a cross-sectoral and cross-border basis;
- Co-ordination of prudential supervision;
- Intra-group transactions and exposures; and
- Risk concentrations across a financial conglomerate.

The MTG has been asked to come forward with proposals for improving the prudential framework applicable to conglomerates. As most of this work was already carried out at great length and detail between 1991 and 1995, the MTG will need to update that work and take into account any new developments in EU and national legislation.

Technical input into the MTG is provided for by small, specialised working groups comprised of experts with practical experience with the issues on hand. These groups prepare technical papers for discussion in the MTG. The composition of each working group is limited to 8-10 members for the sake of efficiency and their overall composition is representative for each sector.

The mandate of the MTG requires it to report its findings and suggestions for the prudential supervision of financial conglomerates to its parent committees by summer 2000. The European Commission will draw on this work when it presents its regulatory proposals in this field, as announced in the European Commission's Action Plan for Financial Markets of May 1999.

- The MTG will be chaired by the Commission and will meet as often as necessary to achieve its objective. The Group will report to three parent Committees at regular intervals. The Financial Services Policy Group will also be kept informed of general developments.

COMPOSITION

Members & Observers

The Mixed Technical Group is comprised of experts of the banking, insurance, and securities supervisory and regulatory authorities of all Member States. An overall balance is achieved between banking, securities and insurance authorities.

The EEA countries and the ECB participate in the meetings of the MTG as observers.

Chairmanship

The European Commission (Internal market DG, Financial Institutions Directorate) chairs the meetings.

Meeting frequency

The MTG will meet 4 four times in order to fulfil its mandate

Secretariat

The secretariat is located in the European Commission (Internal market DG, Financial Institutions Directorate)

Joint Forum on Financial Conglomerates

CHARACTER

Standard-setting policy body.

ORIGIN

Beginning 1996, the Joint Forum on Financial Conglomerates was constituted under the aegis of the Basel Committee for Banking Supervision, IOSCO and the International Association of Insurance Supervisors (IAIS), to take forward the work of the 'Tripartite Group' of banking, insurance and securities supervisors that was established in 1994.

TASKS

The Joint Forum was mandated to:

- elaborate ways to facilitate the exchange of information between supervisors;
- to enhance supervisory co-ordination; and
- to develop principles toward the more effective supervision of financial conglomerates

Work was carried out between 1996 and 1998 in a number of working groups of the Joint Forum to prepare a considered and acceptable set of prudential principles that should be applied to financial conglomerates. As a result of this work and after a consultation of the financial industry on a global basis, in February 1999, the Basle Committee, IOSCO and the IAIS released the Recommendations of the Joint Forum and recommended their application by members of the parent organisations. The Recommendations comprise six separate papers addressing five prudential issues for supervisors.

Capital adequacy principles

Measurement techniques and principles have been outlined to facilitate the assessment of capital adequacy on a group-wide basis for financial conglomerates. The principles do not replace existing sectoral rules for the assessment of capital adequacy but should be used to complement existing approaches. Illustrations of situations that can be faced by supervisors in practical applications of the measurement techniques are provided. The Joint Forum also conducted practical testing exercises on its work on capital adequacy.

The fitness and properness of the top managers and directors of financial conglomerates

Guidance is provided to ensure that supervisors of entities within a financial conglomerate are able to exercise their responsibilities to assess whether those entities are soundly and prudently managed.

The exchange of information and co-operation between supervisors.

A general framework to facilitate information-sharing between supervisors of regulated entities within internationally active financial conglomerates is provided. Guiding principles are set-out, with a reference to the Ten Key Principles on information Sharing issued by the G-7 Finance Ministers in 1998.

The need for a coordinating supervisor

Guidance is provided to supervisors for the possible identification of a coordinator or coordinators and a catalogue of elements of coordination from which supervisors can select the role and responsibilities of a coordinator or coordinators in emergency and non-emergency situations.

The Joint Forum is continuing its work and is considering further issues of cross-sector interest that may extend beyond the narrow issue of financial conglomerates. Work is underway on intra-group transactions and risk concentrations within a financial conglomerate: draft papers on these issues were circulated globally to industry for comments in June 1999. The work of the Joint Forum is prepared by technical working groups, which submit draft papers to the Joint Forum for endorsement.

COMPOSITION

Members & Observers

The Joint Forum is comprised of an equal number of senior bank, insurance and securities supervisors representing each supervisory constituency (finance ministries and central banks with no supervisory function do not participate). Thirteen countries are represented. The Basel Committee for Banking Supervision, IOSCO and the IAIS are also represented.

The European Commission (Internal Market DG, Financial Institutions Directorate) participates as an observer.

Chairmanship

The Joint Forum is chaired by Mr A. Cameron from the Australian Securities and Investments Commission. He succeeded the first chairman of the Joint Forum, Mr T. de Swaan from the Netherlands Central Bank in 1998.

Meeting frequency

The Joint Forum meets twice a year in different venues.

Secretariat

The secretariat of the Joint Forum is provided by the Bank for International Settlements in Basel.

Authorities represented in the Joint Forum

AUSTRALIA
Australian Prudential Regulation Authority
Australian Securities & Investments
Commission

BELGIQUE/BELGIË
Commission Bancaire et Financière

CANADA
Ontario Securities Commission

DEUTSCHLAND
Bundesaufsichtsamt für das
Versicherungswesen
Bundesaufsichtsamt für das Kreditwesen
Bundesaufsichtsamt für den
Wertpapierhandel

FRANCE
Commission Bancaire
Ministry of Finance
Commission des Opérations de Bourse

ITALIA
Banca d'Italia
Commissione Nazionale per le Società e la
Borsa

JAPAN
Financial Supervisory Agency
Bank of Japan

NEDERLAND
Verzekeringkamer

SPAIN
Comision del Mercado de Valores

SWEDEN
Financial Supervisory Authority

SWITZERLAND
Federal Banking Commission

UNITED KINGDOM
FSA
Treasury

USA
Federal Reserve Board
OCC
SEC
Connecticut Insurance Dept

BASEL COMMITTEE FOR BANKING
SUPERVISION,

IOSCO

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

EUROPEAN COMMISSION (Internal Market
DG Financial Institutions Directorate)

Chairman: Mr A. Cameron. Australian
Securities and Investments Commission

Secretariat: D. Sicotte, BIS Basel

The G-7 Financial Stability Forum

ORIGIN

The Financial Stability Forum (FSF) was established in February 1999 by the G-7 Ministers of Finance and Central Bank Governors, based on a proposal prepared by Mr Tietmeyer, then President of the German Bundesbank.

TASKS

The FSF's objective is to promote international financial stability through enhanced information exchange international co-operation in financial supervision and surveillance. Its mandate is to assess vulnerabilities affecting the international financial system; to identify and oversee action needed to address these vulnerabilities, and to improve co-ordination and information exchange among the authorities responsible for financial stability.

In April 1999, the FSF set up three working groups that will produce final reports by April 2000:

- i) on Highly Leveraged Institutions – to address the concerns raised by the activities of HLI in the financial markets of industrial and small and medium sized open economies;
- ii) on Capital Flows – to recommend measures to be taken in borrower and creditor countries to reduce the volatility of capital flows and to improve the assessment and management of the risk associated with excessive short-term external indebtedness
- iii) on Off-Shore centres (OFC's) – to assess the role of OFC's in the international financial system and to recommend action to address any concerns.

In September 1999, the FSF asked a task force to examine issues related to fostering the implementation of standards, and formed a study group to evaluate the feasibility of setting-out international guidance on deposit insurance schemes. It also commissioned studies on vulnerabilities in the insurance industry, and on the supervisory and regulatory issues raised by the dissemination of financial products on the internet.

The FSF has created a compendium of standards relevant to sound financial systems; sponsored the creation by the IMF, World Bank and the BIS of a global directory of training opportunities in the area of financial supervision; and endorsed work by a multidisciplinary group to explore enhanced public disclosure by all types of financial intermediaries.

COMPOSITION

The FSF is composed of the ministries of finance, central banks and supervisory authorities of the G-7 countries, and the central banks of Australia, Hong Kong, Netherlands and Singapore; the IMF, World Bank, BIS and OECD; the three international supervisory and regulatory groupings (Basel Committee on Banking Supervision; IOSCO, and the International Association of Insurance Supervisors); and two groups of central bank experts (the Committee on the Global Financial System, and the Committee and Payment Settlement Systems). The ECB Board attends meetings as an observer. Representation is at a high level.

Working groups are composed of representatives from a wide range of industrial and emerging market economies, and they may consult relevant private and public sector bodies.

Meeting frequency

The FSF meets as often as is needed, currently twice a year. A technical sub-group, composed of the chairs of the working groups, the chairs of the international groupings and the members of the IFI's meets in between FSF meetings. Working Groups meet more frequently.

Chairmanship

The FSF are chaired by Andrew Crockett, General Manager of the Bank for International Settlements, appointed in a personal capacity and for a term of three years.

Secretariat

The secretariat is supported by a small secretariat based in Basel and composed of staff from the BIS, the IMF, the World Bank, and other member institutions.

Authorities represented in the FSF

BASEL COMMITTEE FOR BANKING
SUPERVISION,

NETHERLANDS
De Nederlandsche Bank

IOSCO

AUSTRALIA
Central Bank

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

HONG KONG
Central Bank

IMF

SINGAPORE
Central Bank

WORLD BANK

Observer: ECB

IBRD

BIS

Chairman: Mr A.Crockett, General Manager
Bank for International
Settlements

OECD.

Secretariat Basel based, BIS, IMF, WB
composed

COMMITTEE ON THE GLOBAL FINANCIAL
SYSTEM

COMMITTEE ON PAYMENT AND
SETTLEMENT SYSTEMS

UNITED STATES
Treasury

JAPAN
Ministry of Finance

CANADA
Ministry of Finance

DEUTSCHLAND
Bundesministerium der Finanzen

FRANCE
Ministère de l'Economie
Direction du Trésor

ITALIA
Treasury

UNITED KINGDOM
Treasury

Committee on the Global Financial System

ORIGIN

The Committee on the Global Financial System (CGFS – formerly named the Euro-Currency Standing Committee) is a committee of the central banks of the Group of Ten countries. It has been a forum since the 1960s for the regular exchange of views on international monetary and financial issues among senior central bank officials. After having acted in the 1960s as an informal forum for the regular exchange of views on international monetary and financial issues among senior central bank officials, the ECSC first received a formal mandate from the Governors in 1971. The initial focus of the Committee was on the monetary policy implications of the rapid growth of the euromarkets. In the late 1970s, attention shifted to concerns relating to financial stability. After the international debt crisis had subsided, the Committee's work was principally devoted to an examination of financial innovation and of the longer-term changes in the structure of the financial system, with particular reference to their potential impact on systemic risk. In addition, it has been responsible for developing and overseeing the implementation of the various sets of BIS statistics on international banking, derivatives and foreign exchange market activity.

TASKS

The CGFS serves as a central bank forum for the monitoring and examination of broad issues relating to financial markets and systems. It seeks to elaborate appropriate policy recommendations to support the central banks in the fulfilment of their responsibilities for monetary and financial stability. The Committee's work has focused on concerns relating to financial stability, including examinations of the potential impact of financial innovations on systemic risk. In recent years, a particular focus of the Committee has been examining ways of enhancing the transparency of the financial activities of market participants.

The tasks performed by the Committee will fall into three categories:

- systematic short-term monitoring of global financial system conditions, so as to identify potential sources of stress;
- in-depth longer-term analysis of the functioning of financial markets;
- the articulation of policy recommendations aimed at improving market functioning and promoting stability (see the attached mandate).

This mandate recognises that the causes of financial instability can arise from both the behaviour of markets and the complex interrelationships that exist between institutions, markets, infrastructures and macroeconomic policy.

Besides its regular monitoring tasks, the Committee is currently working on a number of initiatives. Following the recommendation of a template for the disclosure of foreign currency reserves and potential drains on them endorsed by the Governors in late 1998, the Committee is now investigating ways of enhancing the transparency of the financial activities of market participants more generally. Two working groups, including representatives of emerging market countries, are addressing this issue. One group is concerned with disclosure practices by individual financial institutions. Building on a previous report issued by the ECSC in 1994, it is focusing on the disclosure of information that would allow users to form a meaningful view of the institutions' risk profile. The second group is examining what kind of aggregated information would help improve the functioning of markets. These efforts are a natural complement to initiatives undertaken by the Basle Committee on Banking Supervision in related areas, including its recent report on banks' interactions with highly leveraged institutions. In addition, a third working group is exploring the possibility of aggregating information drawn from risk management models of individual

firms in order to facilitate the assessment of market vulnerabilities. These efforts run parallel to other initiatives aimed at studying the preconditions for well-functioning and liquid markets and which could serve as a basis for future policy recommendations in this area.

COMPOSITION

Members

The central banks of the Group of Ten member countries. Increasingly, representatives of central banks from non-G10 member countries have participated in CGFS monitoring discussions, as well as joined working groups created by CGFS.

Chairmanship

The CGFS is chaired by Yutaka Yamaguchi, Deputy Governor, Bank of Japan.

Meeting frequency

The CGFS meets 4 times a year.

Secretariat

The secretariat is located in the BIS in Basel.

Authorities represented in the CGSF

USA
Federal Reserve Board

JAPAN
Bank of Japan

CANADA
Bank of Canada

UK
Bank of England

FRANCE
Banque de France

GERMANY
Deutsche Bundesbank

NETHERLANDS
De Nederlandsche Bank

ITALY
Banca d'Italia

SWEDEN
Sveriges Riksbank

EU
European Central Bank

Institutional Arrangements for the Regulation and Supervision of Financial Institutions

Banking

| | Area | Forum | Formal Institutional status | Level | Members |
|------------|--|------------------------|-----------------------------|----------|--|
| EU | Regulation of prudential supervision | <u>BAC</u> (Comm) | yes | senior | °Finance Ministries, °Supervisors, °Central banks |
| | Systemic risk monitoring | <u>BSC</u> (ESCB) | yes | senior | °Supervisors °Central banks |
| | Supervision & supervisory practices | <u>GdC</u> | no | mid rank | °Supervisors °Central banks with supervisory tasks |
| | | | | | |
| INT | Supervision & regulation: best practices | <u>Basel Committee</u> | no | senior | °Supervisors °Central banks with supervisory tasks |

Insurance

| | Area | Forum | Formal Institutional status | Level | Members |
|--|--|---|-----------------------------|--------|--|
| | Regulation of prudential supervision | <u>IC</u> (Comm) | yes | senior | °Finance & Economic Ministries, °Supervisors |
| | Supervision & supervisory practices | <u>Insurance Supervisors Conference</u> | no | senior | Supervisors |
| | | | | | |
| | | | | | |
| | Supervision & regulation: best practices | <u>IAIS</u> | no | | Supervisors |

Securities

| | Area | Forum | Formal Institutional status | Level | Members |
|--|---|---------------------------------|-----------------------------|----------|-----------------------------------|
| | Regulation of securities markets | <u>HLSS</u> (Comm) | no | mid-rank | °Finance Ministries, °Supervisors |
| | Regulation & implementation of securities admission | <u>Securities Contact Cttee</u> | Yes | mid-rank | °Finance Ministries, °Supervisors |
| | Regulation of prudential supervision | <u>UCITS Contact Cttee</u> | yes | mid-rank | °Finance Ministries, °Supervisors |
| | Supervision & supervisory practices | <u>FESCO</u> | no | senior | supervisors |
| | Supervision & regulation: best practices | <u>IOSCO</u> | no | senior | supervisors |

Cross sector

| | Area | Forum | Formal Institutional status | Level | Members |
|------------|---|-----------------------|-----------------------------|-----------------|--|
| EU | Conglomerates: Regulation of prudential supervision | <u>BAC/ IC / HLSS</u> | No | Senior/mid-rank | °supervisors °finance and economic ministries °central banks |
| INT | Conglomerates: Supervision & regulation: best practices | <u>Joint Forum</u> | No | Senior | °supervisors from 13 countries ° Basel, IAIS, IOSCO |
| | Financial stability | <u>FSF</u> | No | Senior | °G-10 finance ministries °International organisations IMF, WB, OECD, IBRD °International standard setters (Basel, IAIS, IOSCO) |
| | Financial stability | <u>CGFS</u> | No | Senior | °G-10 central banks |