



HOUSE OF LORDS

INFORMATION

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LORDS CRITICISE EUROPEAN COMMISSION'S FINANCIAL REGULATION PROPOSALS FOR IGNORING ITS OWN "BETTER REGULATION PRINCIPLES"

The House of Lords EU Committee have today welcomed moves to improve the regulation and to strengthen the supervision of financial institutions and markets in the EU. But it criticised the European Commission for their failure to follow their own Better Regulation Principles in its latest proposals to regulate hedge funds.

The Committee's Report, *The future of EU financial regulation and supervision* also warned that there are some real difficulties with Commission proposals for reform of EU supervisory bodies. The Committee were concerned that the UK Government had not set out their own thinking to influence the debate on these reforms.

The Committee welcomed steps agreed in recent months at EU level to improve the regulation of financial services by revising the capital requirements of institutions, increasing deposit guarantees across the EU and regulating credit rating agencies. The Committee recommended that the Commission work towards an overt counter-cyclical capital regime through further amendments to the Capital Requirements Directive in conjunction with changes to the Basel rules.

But the Committee were critical of the speed and manner with which the Commission have brought forward their latest proposals on regulating alternative fund managers. Rapid action must not come at the expense of thorough consultation, impact assessment and risk analysis by the Commission in line with their own Better Regulation Principles, said the Committee. They warned that EU regulations must not stifle European participation in global financial markets.

The Committee supported moves to set up a macro-prudential supervision body for financial services and markets in the EU. However, it recognised that the role of the ECB in such a body is a difficult issue given that the ECB is the Central Bank for the Eurozone but not for the whole EU. The Committee said that the Government's thinking on role, powers and structure of this body appeared less than fully developed and urged the Government to remedy this if it is to influence final decisions in the coming months.

The Committee agreed that the de Larosière Report made a powerful case for reform of micro-prudential supervision of financial services in the single market. The Committee welcomed moves to establish colleges of supervisors for all major cross-border financial institutions in the EU. Going beyond that, the Committee recognised that further strengthening the powers of an EU-wide supervisory body is a matter of some controversy. There is a need

to reconcile the limitations of the EC Treaty, the location of fiscal authority with Member States and the drive to improve micro-prudential supervision of financial services in the single market. The UK Government appear to differ from other Member States on these issues and need urgently to set out their proposals to influence the debate in the EU, said the Committee.

Commenting Lord Woolmer, who chaired the Committee for this inquiry, said:

“The Government are right to enter discussions on EU efforts to strengthen EU-wide macro- and micro level supervision over the financial sector.

Globally, every effort must be made to avoid the systemic failures we saw during the financial crisis – and within Europe the inconsistencies and weakness in the single market need ironing out. London and the UK more generally have a great deal to gain from this.

“But there are concerns. Financial services are a key, strategic industry for the UK. London operates in a global market place as well as in Europe. Many other EU member states do not share this perspective. The UK government must ensure these national interests are properly reflected in new regulations or in structural reforms.

“There are some worrying signs. The timing and pace of Commission proposals appeared dictated by the timetable of the European Parliament elections and the twilight days of the old Commission. **The content of some proposals, especially those on regulation of Alternative Investment Funds, was rushed with insufficient consultation and a weak assessment of likely impacts. The UK government have appeared to be behind the ball game at times.**

“Getting things done right is now more important than getting things done fast.”

Notes to Editors

1. The report *The future of EU financial regulation and supervision* is available from The Stationery Office, House of Lords EU Committee (Sub Committee on Economic and Financial Affairs and International Trade), 14th report of 2008/09, HL Paper 106.
2. The report will be available online shortly after publication at: www.parliament.uk/hleub
3. Following publication Lord Woolmer will be discussing some of the main recommendations in the report in a video on Parliament's YouTube channel at: <http://www.youtube.com/user/UKParliament>

For copies of the report or to request an interview with Lord Woolmer please contact Owen Williams on 020 7219 8659