



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

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Mr Charlie McCreevy
Commissioner for the Internal Market
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Dear Charlie

CROSS-BORDER BANKING IN THE EU AND EEA

We are witnessing unprecedented turmoil in global financial markets. The current priority must be for governments and other authorities to ensure that stability is maintained. But, at the same time, we must lay the foundation for reform to help ensure there is less chance a crisis such as this one can happen again and to help us manage it if it does.

One key challenge is to ensure that we have the tools and expertise to deal with cross-border banks effectively, especially within the EU and EEA. Failures of cross-border banks within the EEA over recent months raise important questions that need to be addressed. I believe that these challenges must be tackled urgently. If we cannot ensure that there are sufficient safeguards for depositors and others then it will undermine support for financial integration more widely.

I therefore set out below a series of issues and proposals for further action over the next few months. Some are for the Commission to initiate or take forward work on legislative proposals; others will be largely for finance ministers.

Risk assessment and monitoring

Ensuring that our national supervisory authorities have sufficient information to assess the risks in their jurisdiction is crucial. I propose action on three fronts:



- **Supervisory colleges.** Given that international supervisory colleges for each of the largest cross-border groups are expected to be in place by the end of the year, it is all the more important that the EU moves at a rapid pace, to ensure that supervisory colleges in place for the remaining biggest cross-border EU groups and branches by mid-2009. While the Capital Requirements Directive, as amended, will require this by law, I believe that we should, in practice, move much faster, to foster further supervisory coordination through the current disruption.
- **Sharing supervisory information.** We must ensure that host supervisors of significant cross-border branches of banks receive all the necessary supervisory information commensurate to the risks the branch poses. I propose that this should be elaborated in the forthcoming guidelines from the Committee of European Banking Supervisors on the operation of colleges, including consideration of how to promote further co-operation in respect of risk management of branch liquidity within the existing powers and responsibilities of Article 41 of the Capital Requirements Directive.
- **Quality of financial supervision.** Quality of supervision is vital. We should encourage supervisory peer review, where supervisors jointly assess the quality and effectiveness of each others' supervisory practices. Similarly, supervisors within the EU must be encouraged to boost staff exchanges and common training.

Crisis prevention and mitigation

To reduce the risk of future cross-border crises we need to look again at the roles and responsibilities of supervisors:

- **Early interventions in banks facing difficulties.** The Commission's work on "early intervention" by supervisors needs to be extended in scope to include analysis of the arrangements for branches and other cross-border activities.
- **Intra-group exposures.** I look forward to the review that the Commission is due to undertake on this matter as part of its work on asset transferability. Our experience of recent months suggests that it essential to allow countries to continue to impose intra-group exposure limits – and



indeed, there is a case for requiring more rigorous assessments of intra-group exposures across national borders by all Member States.

I also believe that it is essential to consider carefully, against risks to financial stability, any proposals to delegate additional powers to the lead supervisors of banking groups, especially with respect to subsidiaries, and the need to keep roles for local supervisors. The lessons associated with this need to be drawn to the attention of the Larosiere “high level group”.

Crisis resolution

It is critical that in times of financial market disruption, authorities take appropriate actions to effectively manage and minimise the dangers of contagion. It is also important that all depositors and creditors are treated fairly, regardless of nationality. In this respect, I believe that the following steps are essential:

- **Deposit guarantee schemes.** I am disappointed that the recent amendment to the Deposit Guarantee Scheme Directive has not included further steps to require cooperation between national schemes. It will be important for the Commission to consider urgently as part of its further review of deposit guarantee schemes that we go beyond simply stress-testing, by ensuring that schemes are peer-reviewed to ensure that they have adequate funding and pay out procedures that will be effective during a crisis. Furthermore, we should ensure that the legally binding requirement for schemes to cooperate with each other extends to providing for a single point of contact for depositors.
- **Cross-border stability groups.** Despite the conclusion of the MoU between national authorities in the EU, the establishment of cross-border stability groups, including central banks, finance ministries and supervisors with common financial stability concerns, remains slow. I propose that we should consider setting deadlines for the establishment of CBSGs.
- **Crisis management tools.** It is essential for all Member States to have effective national crisis management tools and to remove any barriers that hinder their use. It is also essential that these and other national tools can be used on a non-discriminatory basis, recognising legal obligations not to discriminate on the basis of nationality. The UK has enhanced, and continues to consider improvements, to its national toolkit, to ensure that it



is able to appropriately and promptly respond in a crisis, while meeting legal requirements.

I am copying this to Christine Lagarde, as President of ECOFIN.

Yours sincerely

Adh

ALISTAIR DARLING