EUROPEAN CENTRAL BANK

EUROSYSTEM

Financial supervision in Europe – on the right track?

Did we find the right link between micro- and macroprudential supervision?

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Disclaimer: The views expressed in the presentation are my own and do not necessarily reflect those of the ECB.

Key questions

1. Is the single rulebook appropriate for ensuring financial stability?

2. Is the macroprudential framework properly designed?

3. Is the toolkit sufficient to address risks posed by non-banks?

4. Is there a need for setting hierarchy between micro- and macroprudential policy?

1. Is the single rulebook appropriate for ensuring financial stability?

- Single rulebook important pillar of microprudential supervision
- However, it is not always appropriate for achieving macroprudential policy purposes
- The application of a single set of rules to countries with different cyclical and structural features may:
  - exacerbate the differences among Member States
  - increase the amplitude of the financial cycles
  - contribute to the build-up of systemic risks in various jurisdictions
- This could ultimately undermine the stability of the single market

➔ Justified deviations from a single set of rules to target build of risks in certain Member States are necessary for the protection of the Single Market

2. Is the macroprudential framework properly designed?

- Macroprudential authorities need appropriate tools and procedures to be in place to address systemic risks in certain sectors, jurisdictions and to address cross-border risks in the EU
- This requires:
  - Ensuring instruments currently available are more targeted and overlaps eliminated/significantly reduced
  - Broadening the toolkit with additional instruments
  - Streamlining the process such as notification or information procedures
  - Strengthening the centralised coordination mechanism in the SSM

➔ Macro-prudential framework for banks needs to be revised to ensure its effectiveness in the context of the European Commission's upcoming review of the CRR/CRDIV and the SSM Regulation.

3. Is the toolkit sufficient to address risks posed by non-banks?

- Addressing systemic risks in the non-bank sector warranted, anchored in a regulatory framework
- Institutional dimension
  - Coordinated approach for the macroprudential supervision of the different financial sectors is needed
  - Market authorities should add macroprudential aspects to their policy agenda
  - Need for single prudential supervisor for capital markets should be further explored
- Instruments dimension
  - Toolkit should include measures directed at non-bank entities and activities

➔ Common and broad macroprudential toolkit needed at the EU level to enable authorities to address risks arising from the continuously growing non-bank sector

4. Is a hierarchy needed between micro- and macroprudential policy?

- Cooperation between micro- and macroprudential supervision key
  - E.g. the designation of G-SIIs and O-SIIs and the calibration of their capital surcharge
- Risk of „*crowding out*“ between policy areas should be limited
  - Measures taken at the institution-level should not override, or undermine the effectiveness of measures taken at a system wide level
- Assessing spillovers and possible leakages are key determinants of policy effectiveness
  - Cross-border effects should underline the choice and use of instruments
- However, it may not always be possible to avoid conflicts of objectives between institution-specific and system-wide objectives

➔ It is desirable to define a hierarchy of objectives where macroprudential concerns override microprudential concerns.

Key messages

1. The single rulebook can only work with an effective macroprudential framework
2. To have an effective macro-prudential framework Europe needs to urgently review its regulatory toolkit for banks
3. …and broaden the toolkit to non-banks
4. Need to place macroprudential objectives at the top of any policy hierarchy