

# THE SUPERVISORY AND REGULATORY WORLD POST BASEL III

Integrated Approach to Regulation and Supervision  
ESE CONFERENCE 2015, CNB PRAGUE

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FEBRUARY 5, 2014

## GATES SPENDS ENTIRE FIRST DAY BACK IN OFFICE TRYING TO INSTALL WINDOWS 8.1

BY ANDY BOROWITZ



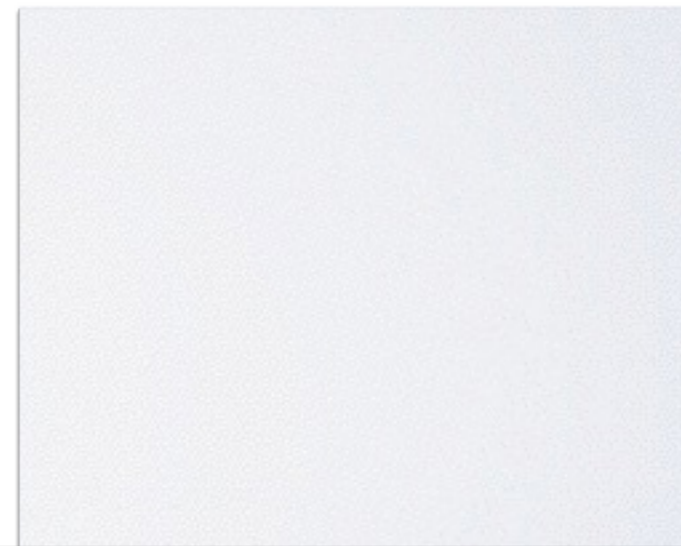
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REDMOND, WASHINGTON (*The Borowitz Report*) — Bill Gates's first day at work in the newly created role of technology adviser got off to a rocky start yesterday as the Microsoft founder struggled for hours to install the Windows 8.1 upgrade.

The installation hit a snag early on, sources said, when Mr. Gates repeatedly received an error message informing him that his PC ran into a problem that it could not handle and needed to restart.

After failing to install the upgrade by lunchtime, Mr. Gates summoned the new Microsoft C.E.O. Satya Nadella, who attempted to help him with the installation, but with no success.

While the two men worked behind closed doors, one source described the situation as “tense.”

“Bill is usually a pretty calm guy, so it was weird to hear some of that language coming out of his mouth,” the source said.

**A Microsoft spokesman said only that Mr. Gates's first day in his new job had been “a learning experience” and that, for the immediate future, he would go back to running Windows 7.**

# REGULATORY PACKAGE

Pillar I Capital Requirement

Pillar II Capital Requirement

Capital Stress Tests

Capital Buffers

Liquidity Requirement

Capital Definition

Leverage Ratio

Liquidity Stress Tests

Resolution Tools

Internal Control Mechanism Requirements

Management Requirements

Recovery Tools

# SUPERVISORY ACTIVITIES

- ▶ Prevention of imprudent behavior
- ▶ Authorization procedures
- ▶ Analysis based on pre-defined set of data
- ▶ Day-to-day communication with industry's staff
- ▶ Comprehensive analysis
- ▶ Middle and top management interviews
- ▶ Enforcement actions

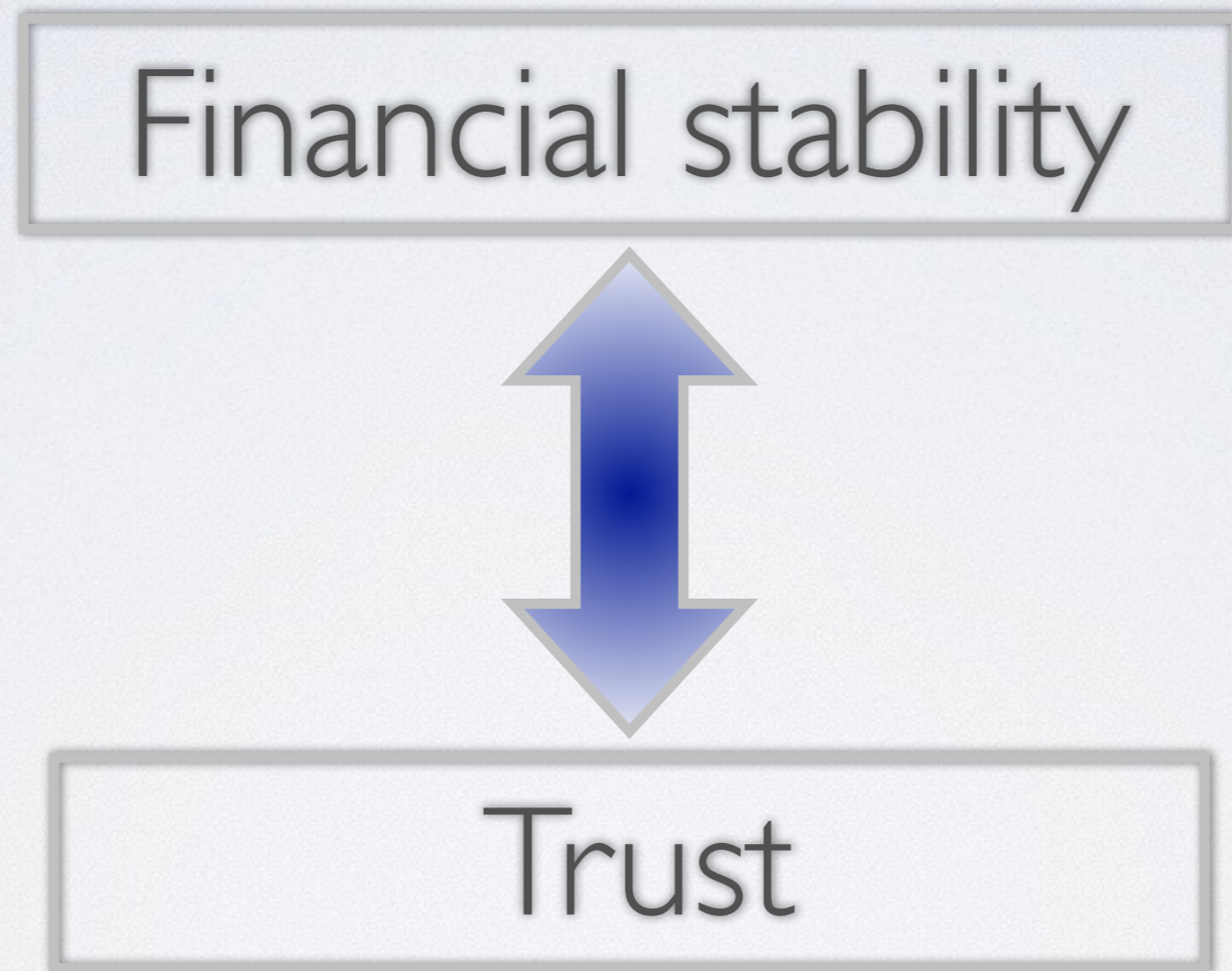
# REGULATORY CHALLENGES

- ▶ For effective use of regulation, necessary precondition is foreseeable response
- ▶ Challenge is (not only) complexity:
  - ✓ Overall risk awareness
  - ✓ Unforeseen interlinkages
  - ✓ Flexibility of use and flexibility of change
  - ✓ Public trust
- ▶ Challenge is (above all) reflection of patterns of human behavior

# REGULATORY FAILURES

- ▶ Regulation did not sufficiently support multilayer (interconnected) communication within banks and between banks and supervisors.
- ▶ Regulation did not sufficiently contribute to its primary goal: financial stability (which is dependent on psychological setting/comfort of its users).
  - ✓ Failures towards professionals.
  - ✓ Failures towards general public.

# SUPERVISORY GOAL





# TRUST

- ▶ One party is willing to rely on the actions of another party; the situation is directed to the future.
- ▶ Firm belief in the reliability, truth, or ability of someone (person or institution) or something.
- ▶ Acceptance of the truth of a statement without evidence or investigation.
- ▶ Society needs trust because it increasingly finds itself operating at the edge between confidence in what is known from everyday experience, and contingency of new. Without trust, all contingent possibilities should be always considered, leading to a paralysis of inaction.
- ▶ Trusting requires that we can,
  - ✓ be vulnerable to others (vulnerable to betrayal in particular);
  - ✓ think well of others, at least in certain domains; and
  - ✓ be optimistic that they are, or at least will be, competent in certain respects.

# WILL CURRENT FRAMEWORK PREVENT NEXT CRISIS?

- ▶ Individual elements of regulation are right in substance..
- ▶ ..they only need to be..
  - ✓ ..(slightly) reshaped and
  - ✓ reassembled..
- ▶ ..in order to target right and clear incentives leading to financial stability..
- ▶ ..which is solely dependent on perception of users of regulation not on level of sophistication of its individual elements.

# REGULATORY INTEGRATED TOOLKIT

- ▶ Streamlined tools designed to work in accord
- ▶ Tools supporting formal and informal actions
- ▶ Tools allowing flexibility
- ▶ Tools enabling/supporting effective communication with all stakeholders (across banks and general public) and timely actions
- ▶ Tools supporting accountability and responsibility of all stakeholders

# SUPERVISORY INTEGRATED TOOLKIT

- ▶ Enhances qualities of integrated approach to regulation
- ▶ COMMUNICATION IS KEY
  - ✓ Clear and well-aimed
  - ✓ Based on strong authority of supervisors
  - ✓ Using right (rather pragmatic) angle of view
- ▶ Regulation enables structuring our communication
- ▶ Target is to incentivize human behavior in order to reach general goal: financial stability

# WHERE TO START?

- ▶ Establishing interdisciplinary open-minded view on regulation and supervision
- ▶ Defining steering element of regulatory toolkit
  - ✓ Natural part of day-to-day banking business
  - ✓ Center of system with interconnected satellites (elements of current framework)
- ▶ Redesigning system of regulatory tools - in every moment:
  - ✓ Work with all interlinkages
  - ✓ Have in mind general goals (and overall implications)

# SUPERVISORY COMMUNITY

- ▶ Challenge for ECB & EBA
- ▶ Multi-cultural environment within ECB
- ▶ Steering JSTs' work
- ▶ Establishing relations between colleges and JSTs
  - ✓ New setup should not lead to tensions and overlaps
  - ✓ Colleges
    - *Conceptual platform*
    - *Strategic perspective on supervised groups*

# BENEFITS

- ▶ Stable system of regulation and supervision (in long run):
  - ✓ Covering all important risks
  - ✓ Gaining public support for supervisory actions
  - ✓ Supporting public confidence in financial system

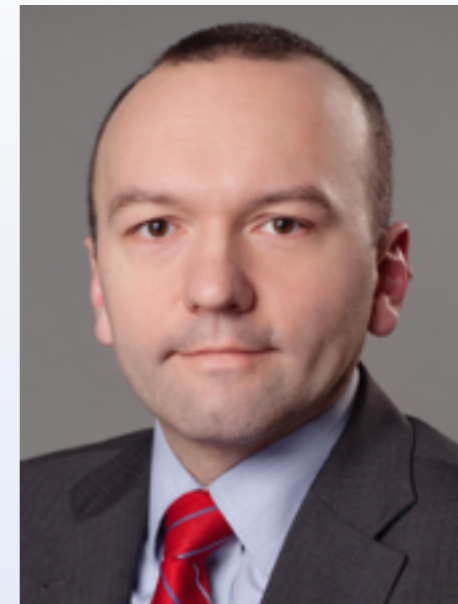
Financial stability

# THANK YOU FOR YOUR KIND ATTENTION

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