

**Designing a Financial Stability Architecture for a  
Regionally Integrated Financial Space:  
The European Experience  
G. Heinrich (SPP)**

**FINANCIAL STABILITY, INTERCONNECTEDNESS  
AND RISK ASSESSMENT IN THE CARIBBEAN  
PORT OF SPAIN, 19-20 MARCH 2015**

- THANK YOU .....

- CL Financial (CLICO)

# Outline

- I. Caribbean – EU commonalities and differences
- II. Steps to the current European arrangements.
- III. Examples of ongoing challenges.
- IV. Conclusions

# Transitions

- From loose cooperative intentions + entirely autonomous institutions
- To the right to contribute to the functioning of policies set by others
- To Single Supervisory Mechanism:
  - centralised structure
  - Direct supervision by ECB of large banks in EU (euro area).

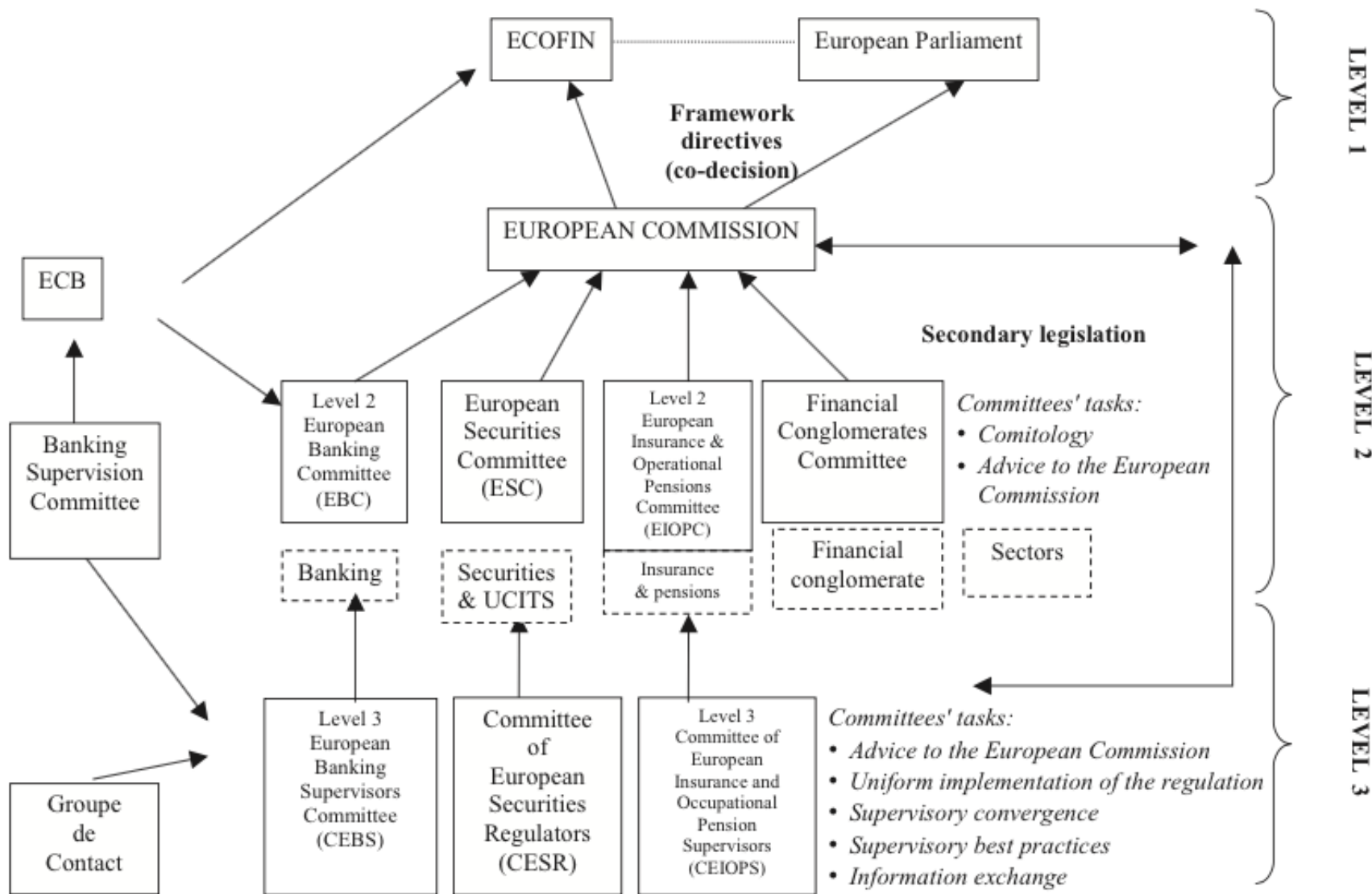
# Timeline 1

- 1985 Commission White Paper
  - introduces the single market approach to financial services
- 1989 – Delors Report
- 1992 Maastricht Treaty
  - set out framework for EMU and single currency, incl ESCB and ECB
- 1999 – introduction of the euro
- May 1999 Financial Services Action Plan
- 2001 – Lamfalussy Report
- Dec 2002 – ECOFIN reform of the architecture of financial regulation and supervision
  - Network of contacts
- 2003 – European regulatory system for the single financial market:
  - Still no transfer of authority to Community, rather: Committee structures
- 2005 – MoU supervisors, central banks, minfin on cooperation in financial crisis situation

# The Lamfalussy committee structure for financial regulation and supervision

	Banking	Insurance and pensions	Securities
Regulatory committees (Level 2)	European Banking Committee (EBC)	European Insurance and Occupational Pensions Committee (EIOPC)	European Securities Committee (ESC)
Committee of supervisors (Level 3)	Committee of European Banking Supervisors (CEBS) (London)	Committee on European Insurance and Occupational Pension Supervisors (CEIPOS) (Frankfurt)	Committee of European Securities Regulators (CESR) (Paris)

(Recine, Teixeira, 2009)



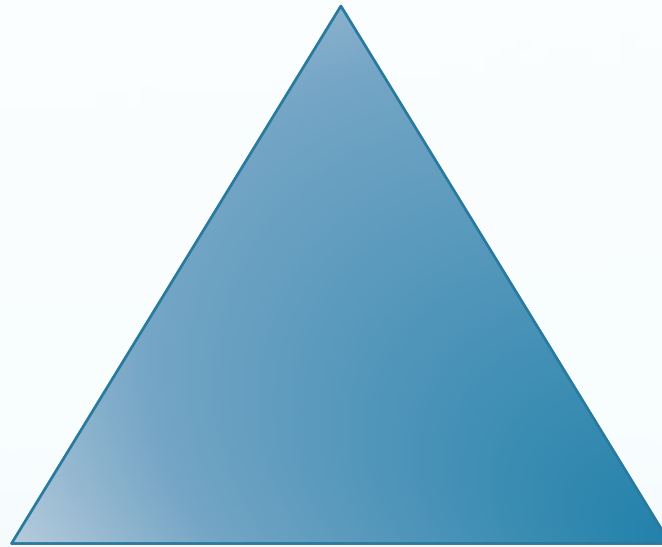
# Timeline 2

- 2007 – financial crisis starts in EU
- June 2008 - MoU on cross-border financial stability
- Sep 2008 – Lehman Brothers files for bankruptcy



# Trilemma of financial stability

Stable financial system



Integrated financial market

National financial policies  
(supervision)

# Timeline 2 a

- Oct 2008: Commission President Barroso mandate to group of experts to give advice on the future of European financial regulation and supervision.
- Feb 2009: [De la Rosiere report](#)
- Mar 2009 [A programme for market reform](#)  
(communication for the Spring Europ Council)

# Timeline 3

- Mar 2009: (Commission) Conference on a new supervisory architecture in Europe (Bxl)
- May 2009 - Commission proposals to replace the EU's existing supervisory architecture with a **European system of financial supervisors (ESFS)**, consisting of three European Supervisory Authorities – a European Banking Authority, a European Securities and Markets Authority, and a European Insurance and Occupational Pensions Authority
- 16 Dec 2010: publication of legislative texts

# ESRB and ESFS



- New: voting, not consensus in ESA Boards
- Financing: 60 % national, 40% EU
- Prepare tech standards – submit to commission (150 so far)
- Guidelines = non-binding – BUT: “comply or explain”
- EBA members in relevant int’l organisations

# What the ESRB does

- collects and analyses all information relevant for monitoring and assessing potential threats to financial stability that arise from macro-economic developments and developments within the financial system as a whole;
- identifies and prioritises such risks;
- issue risk warnings where risks appear to be significant;
- where necessary gives recommendations on the measures to be taken in reaction to the risks identified;
- monitors the required follow-up to warnings and recommendations, and
- liaises effectively with the IMF, the FSB and third country counterparts

# ESRB and ESFS

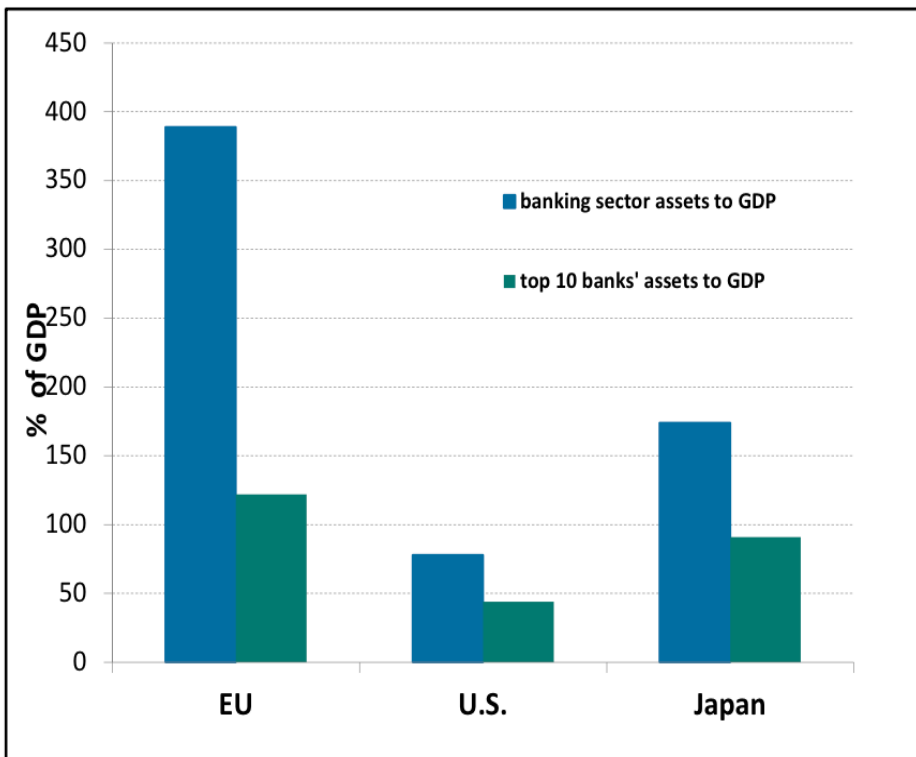


- New: voting, not consensus in ESA Boards
- Financing: 60 % national, 40% EU
- Prepare tech standards – submit to commission (150 so far)
- Guidelines = non-binding – BUT: “comply or explain”
- EBA members in relevant int’l organisations

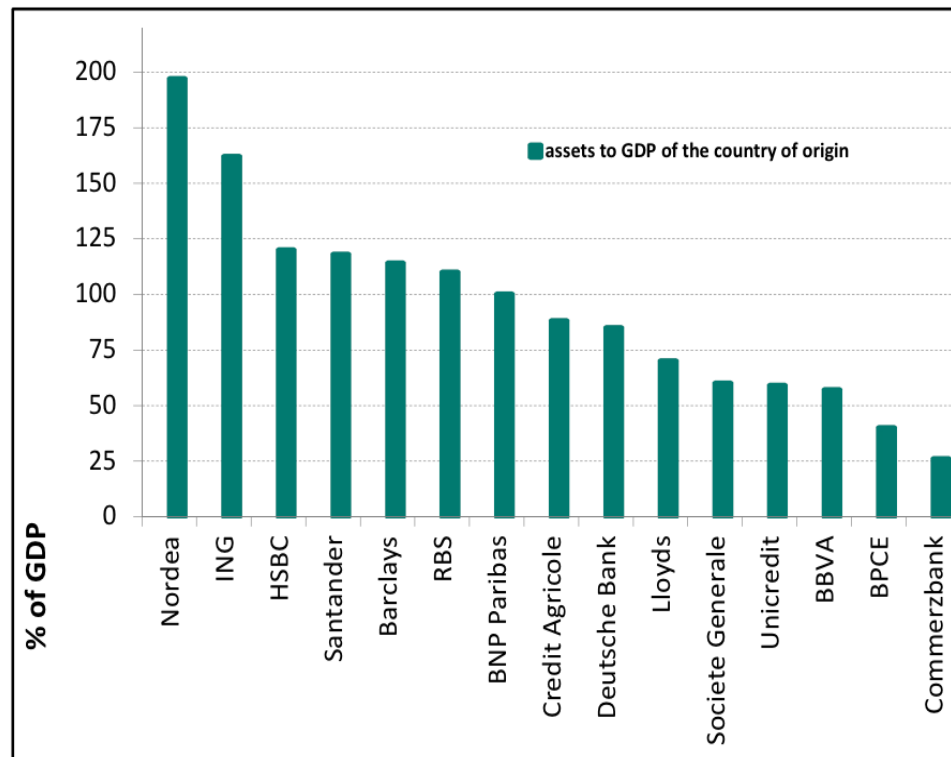
# Timeline 4

- 2010 Entry into force of legislation
- 1.1.2011- the new European Authorities start work
- 12.9.2012 – proposal for Single Supervisory Mechanism
- April 2013 consultation for review process
- August 2014 Review reports

## Size of the banking sector



## Bank assets in relation to GDP of the country of origin

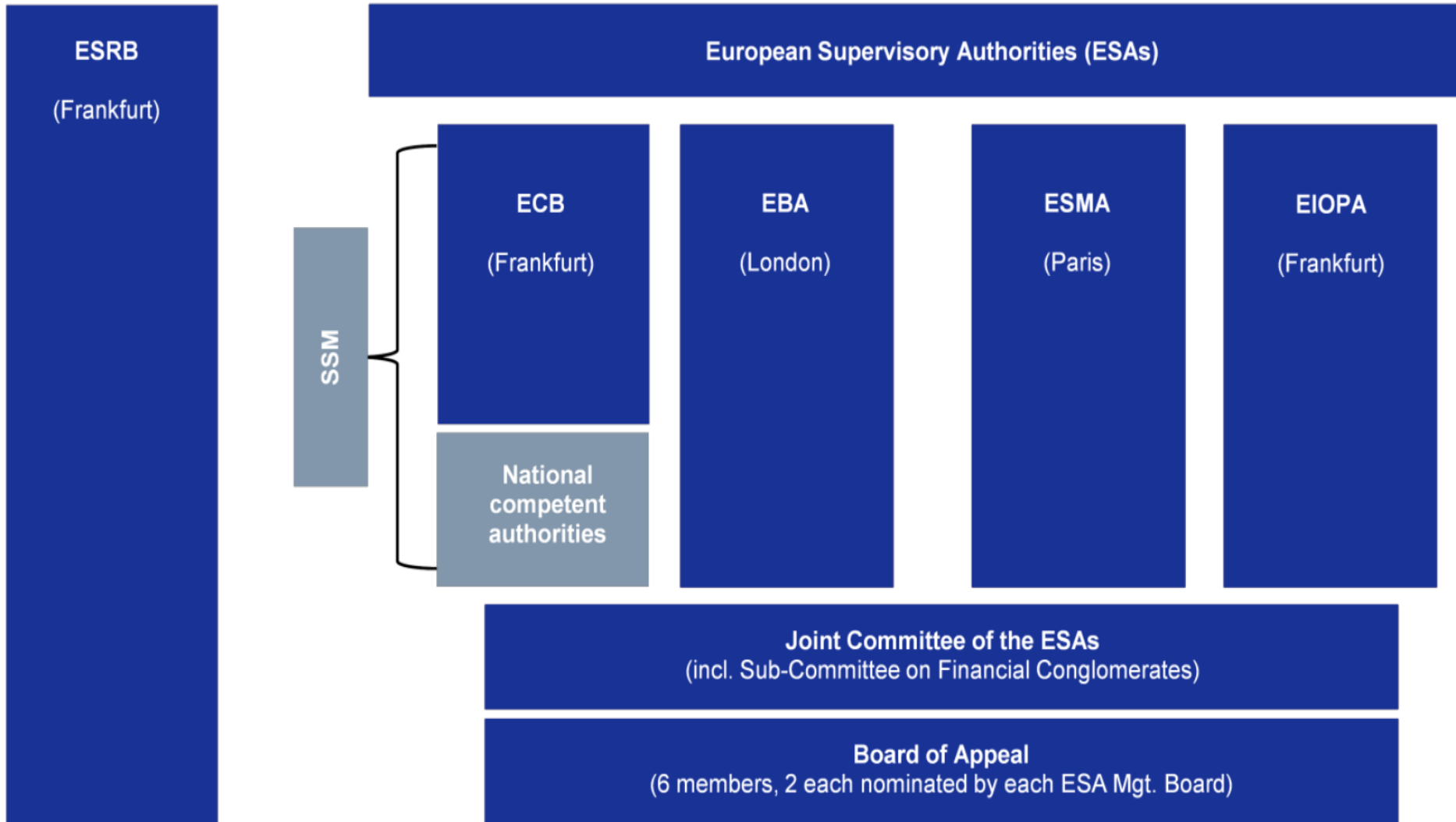


(Single Resolution Mechanism - Why is this important and how to achieve it?, NBP, March 2014)

G Heinrich (SPP), European experience



# ESFS – multiple players



# SSM Main Features

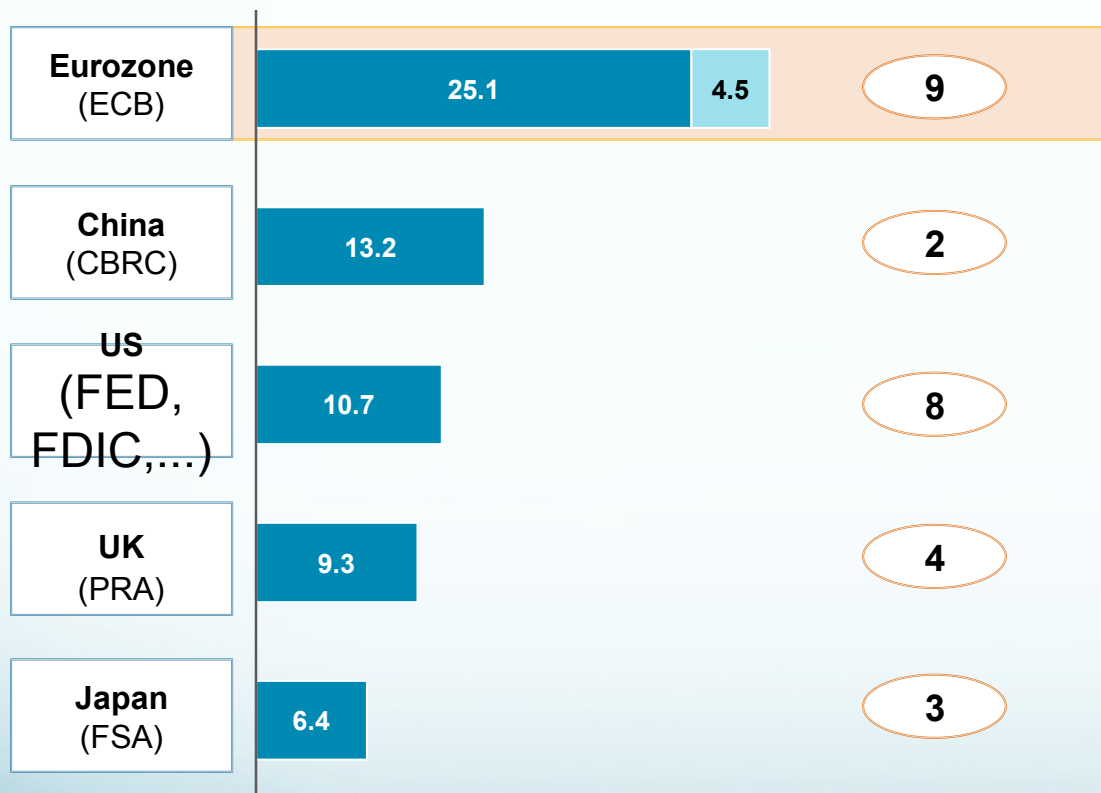
- Single system of supervision
- The ECB takes decisions regarding the banks, banking groups and respective components categorised as “significant” (around 150 banks in the euro area countries)
  - Banks with more than €30 billion in total assets
  - Banks representing more than 20% of domestic GDP (unless <€5 billion in assets)
  - 3 most significant banks in each country (unless justified by particular circumstances)
  - Banks receiving direct assistance from the EFSF/ESM
- Periodic list of supervised banks / ca 80 % of system covered
- The ECB can decide to exercise direct supervision of other banks
- Decentralisation of operational tasks to national level
- Opt-in for non-euro EU countries

# The ECB supervises more assets and more global systemically important institutions than any other regulator

Bank Assets under supervision, € TN

# of G-SIFI <sup>1</sup>

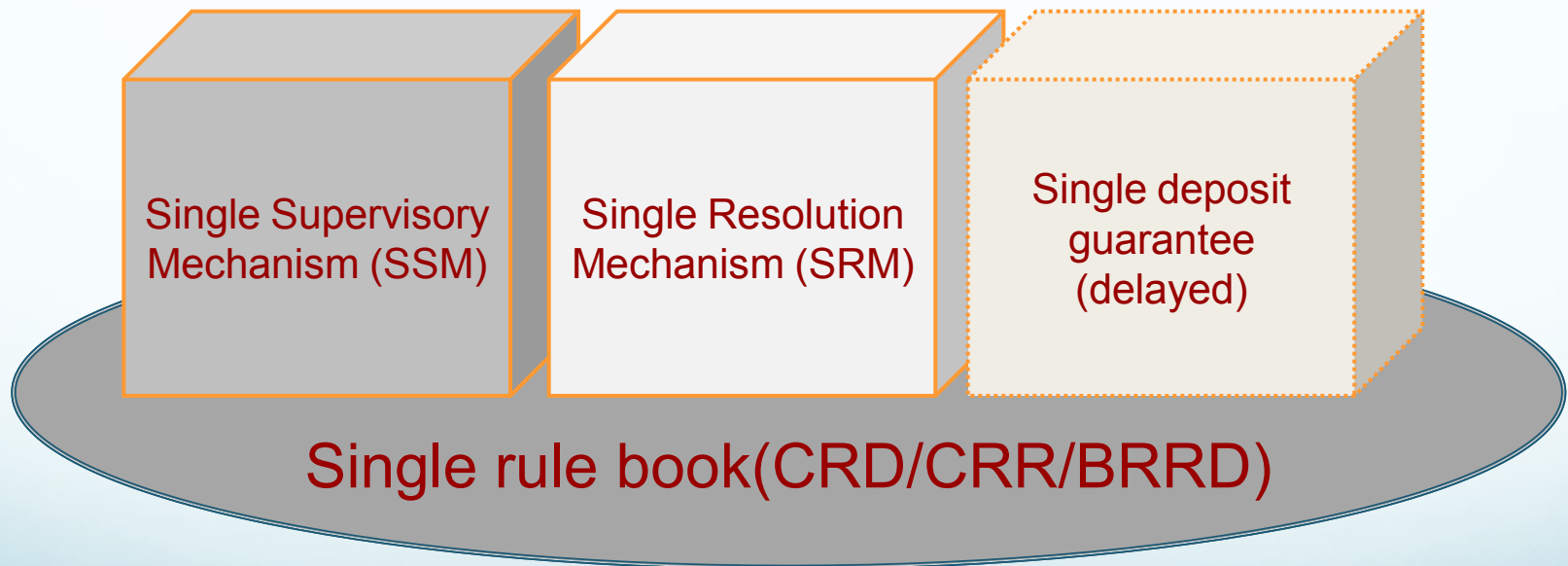
Details on institutions supervised by ECB



- Direct supervision of:
  - **120 Banking Groups<sup>2</sup>**
  - Located in **19 countries**
  - Corresponding to 1,258 Legal Entities – some of which located outside of the Eurozone
- Through the indirect supervision mechanism, the ECB supervises additional 3,500 institutions

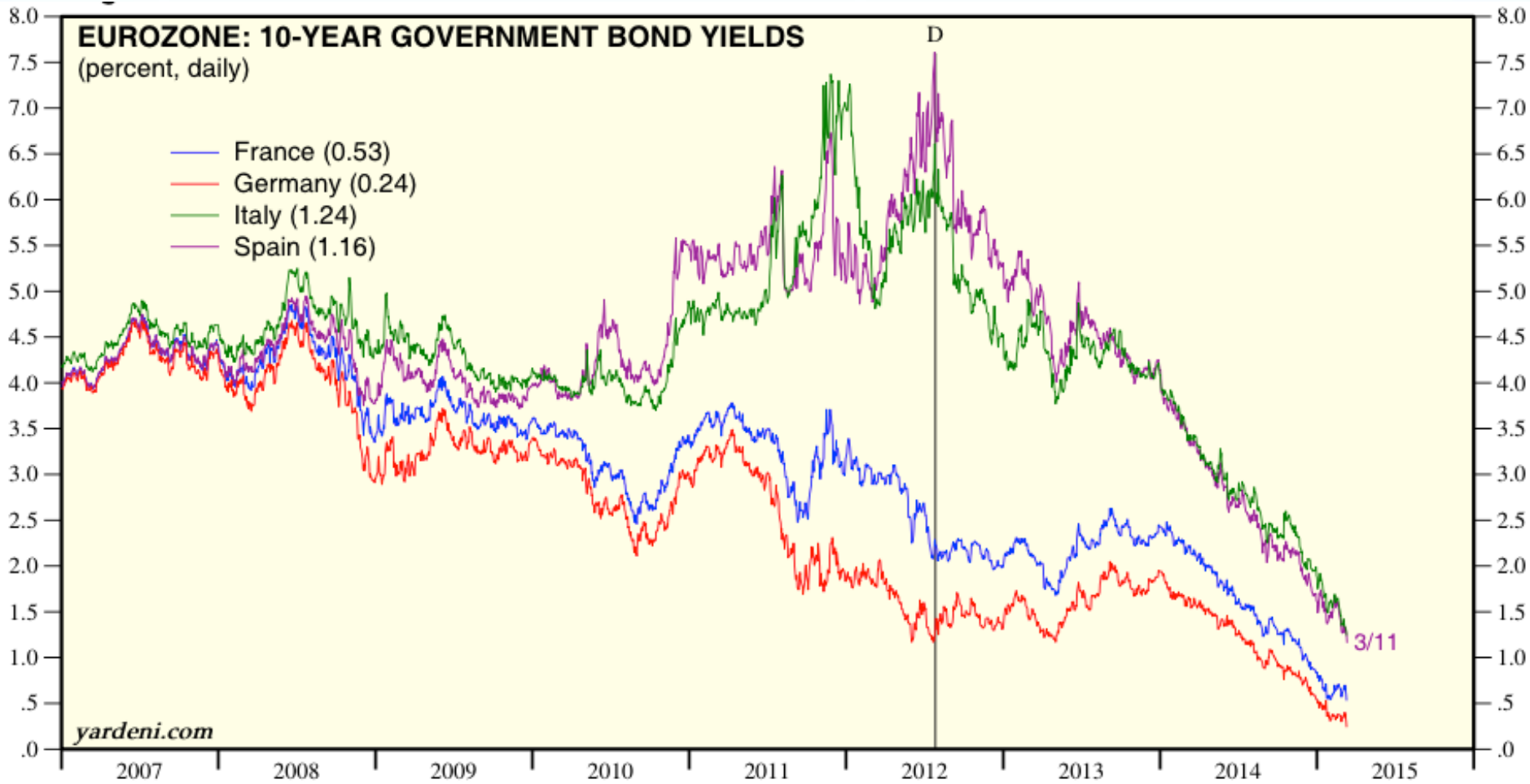
Direct supervision
  Indirect supervision

# Banking Union



# Some of the proposals for ESAs

- Increase focus on supervisory convergence
- More and better use of peer reviews, and more systematic follow-up
- Enhance the transparency of the process for preparing draft technical standards
- Higher priority for consumer/investor protection tasks
- Enhance internal governance
- Transparency of the work of the stakeholder groups could be strengthened.
- Improve role and influence of ESA staff within preparatory bodies
- Better use of right to direct access to data / strengthening of role of Chair or Managing Board



D = On July 26, 2012, ECB President Mario Draghi pledged to do "whatever it takes" to defend the euro.  
Source: Haver Analytics.

Source: Yardeni Research, Country briefing Eurozone, 12.3.2015; www.yardeni.com

# Conclusion

## “The Six Cs”

- Collect
- Cooperate
- Coordinate
- Compare
- Consolidate
- Create commonalities

# THANK YOU



Contact:

Gregor C. HEINRICH

Basel, Switzerland

[gh@the-spp.com](mailto:gh@the-spp.com)

Cell: +41-79-104 9879

Systemic Policy Partnership

London

[www.the-spp.com](http://www.the-spp.com)

## Selected References (1)

- EU Commission and related:
  - Completing the Internal Market. White Paper from the Commission to the European Council (Milan, 28-29 June 1985). COM (85) 310 final, 14 June 1985
  - Delors Report, 1989, [http://aei.pitt.edu/1007/1/monetary\\_delors.pdf](http://aei.pitt.edu/1007/1/monetary_delors.pdf)
  - Treaty on European Union, 1991, <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:C:1992:191:TOC> consolidated Version 2012: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12012M/TXT&from=EN>
  - “Evaluation of the economic impacts of the Financial Services Action Plan, March 2009.
  - Final report of the Committee of Wise Men on the reugulation of securities markets, 15.2.2001, [http://ec.europa.eu/internal\\_market/securities/docs/lamfalussy/wisemen/final-report-wise-men\\_en.pdf](http://ec.europa.eu/internal_market/securities/docs/lamfalussy/wisemen/final-report-wise-men_en.pdf).
  - Memorandum of Understanding on high-level principles of co-operation between the banking supervisors and central banks of the European Union in crisis management situations”, 10 March 2003; press release: [http://www.ecb.europa.eu/press/pr/date/2003/html/pr030310\\_3.en.html](http://www.ecb.europa.eu/press/pr/date/2003/html/pr030310_3.en.html)
  - Driving Euroepan Recovery”, communication for the Spring European Council, 4.3.2009
  - Report, The high-level group on financial supervision in the EU, Chaired by Jacques de Larosière, Brussels, 25.2.2009, [http://ec.europa.eu/finance/general-policy/docs/de\\_larosiere\\_report\\_en.pdf](http://ec.europa.eu/finance/general-policy/docs/de_larosiere_report_en.pdf)
  - “European financial supervision”, Commission of the EU, 27.5.2009, COM(2009) 252 final; [http://ec.europa.eu/internal\\_market/finances/docs/committees/supervision/communication\\_may2009/C-2009\\_715\\_en.pdf](http://ec.europa.eu/internal_market/finances/docs/committees/supervision/communication_may2009/C-2009_715_en.pdf)
  - Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, <http://bit.ly/1dJpPy9>
  - Evaluation report on ESAs, 8.8.2014: [http://ec.europa.eu/finance/general-policy/docs/committees/140808-esfs-review\\_en.pdf](http://ec.europa.eu/finance/general-policy/docs/committees/140808-esfs-review_en.pdf) ;
  - Evaluation Report on ESRB: 8.8.2014, [http://ec.europa.eu/economy\\_finance/articles/governance/pdf/2014-08-08\\_esrb\\_review\\_en.pdf](http://ec.europa.eu/economy_finance/articles/governance/pdf/2014-08-08_esrb_review_en.pdf)

## Selected References (2)

- ACC, "[Banking reform updater 11 - the single resolution mechanism examined](#)", 27.1.2015
- C Borio, Towards a macroprudential framework for financial **supervision** and regulation?, BIS WP, Feb 2003,
- C Borio, Macroprudential frameworks: (too) great expectations?, speech, 5.8.2014,
- Central Banking, "[Europe's banking union gets single resolution mechanism](#)", 20.3.2014;
- Caruana, Redesigning the central bank for financial stability responsibilities. Speech on the occasion of the 135th Anniversary of the Bulgarian National Bank, 6 June 2014. ([www.bis.org](http://www.bis.org))
- Clement, The term "macroprudential": origins and evolution, BIS, March 2010, [http://www.bis.org/publ/qtrpdf/r\\_qt1003h.htm](http://www.bis.org/publ/qtrpdf/r_qt1003h.htm)
- CGFS Report No 51, "EME banking systems and regional financial integration", BIS, March 2014, ECB, "Eurosystem oversight report", February regarding financial market infrastructures and payment instruments between 2011 and June 2014, February 2015, <https://www.ecb.europa.eu/pub/pdf/other/eurosystemoversightreport2014.en.pdf>
- Elderfield, "Single Supervisory Mechanism – benefits and challenges from a practical supervisory perspective", remarks by Mr Matthew Elderfield, Deputy Governor of the Central Bank of Ireland, Brussels, 31 January 2013, <http://www.bis.org/review/r130201b.pdf>
- Goodheart/Schoenmaker, "Burden sharing in a banking crisis in Europe", LSE FMG Speical Paper no 164, March 2006,

## Selected References (3)

- G Heinrich, "Central Banking in a Regional Economic Setting: Possible Contributions to Integration", paper, based on a presentation at the Central Bank of Barbados' 35th Anniversary Lecture/Panel Discussion, 10 May 2007, <http://mpra.ub.uni-muenchen.de/47416/>
- Nieto/Peñalosa, "The European architecture of regulation, supervision and financial stability: A central bank perspective", *Journal of Banking Regulation* (2004) **5**, 228–242; <http://www.palgrave-journals.com/jbr/journal/v5/n3/abs/2340168a.html>
- Ogawa/Park, et al (2013), Financial Interconnectedness and Financial Sector Reforms in the Caribbean, IMF WP/13/175, <http://www.imf.org/external/pubs/ft/wp/2013/wp13175.pdf>
- Padoa Schioppa 'Central Banks and Financial Stability: Exploring a Land in between', 24–25th October, 2002, <http://www.ecb.int/home/conf/cbc2/tps.pdf>
- Recine/Teixeira, "The new financial stability architecture in the EU", Paolo Baffi Centre Research Paper No 2009-62
- Schoenmaker, The financial crisis: Financial trilemma in Europe, Vox, 19.12.2009;
- Schoenmaker, The trilemma of financial stability, *Economic Letters*, [Volume 111, Issue 1](#), April 2011, Pages 57–59 Working Paper: SSRN #1340395
- Schoenmaker/Osterloo, Financial supervision in an integrated Europe – Measuring cross-border externalities, FMG Special Papers, 2014, <http://www.lse.ac.uk/fmg/documents/specialPapers/2004/sp156.pdf>