

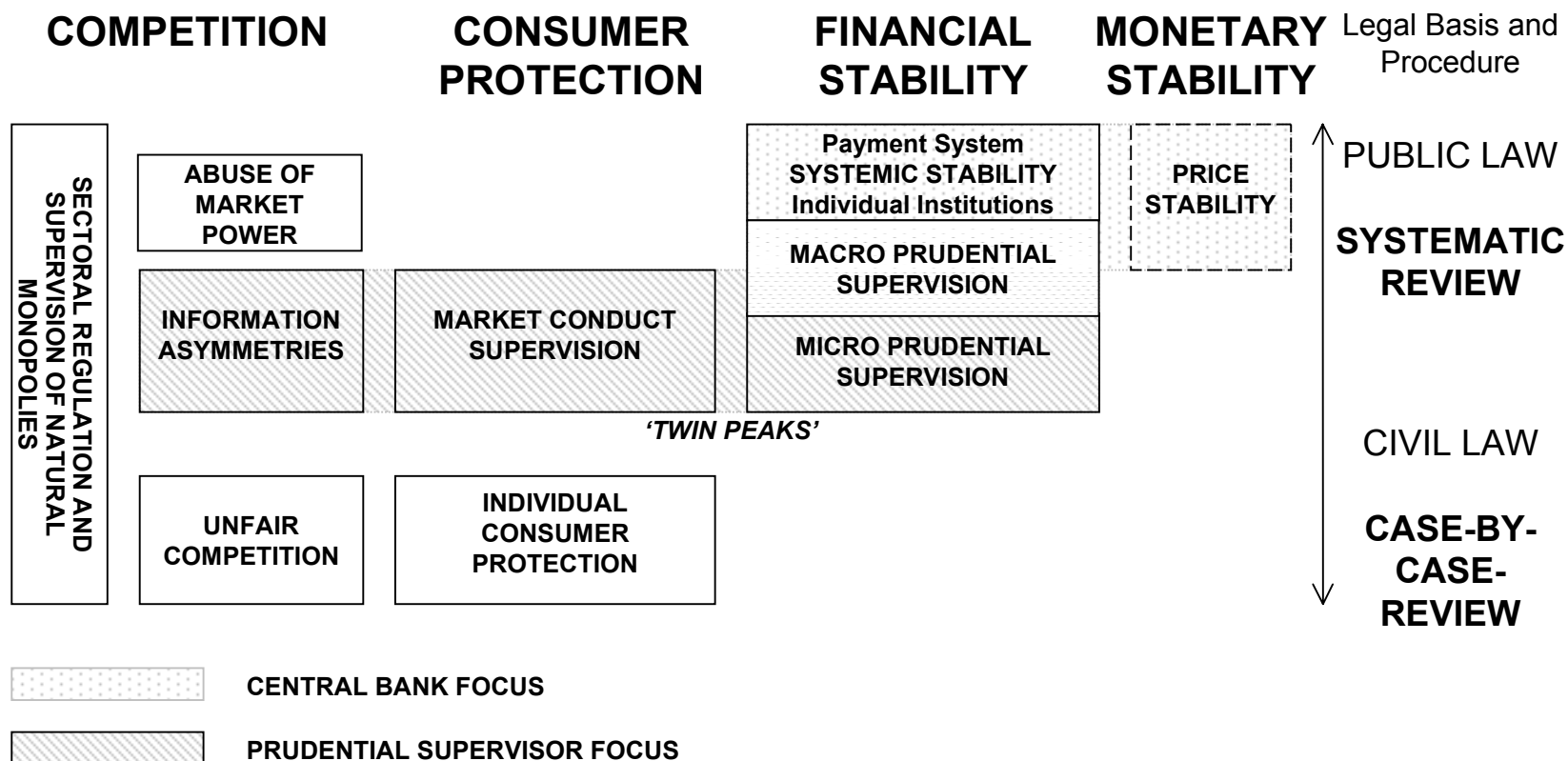
# **Regulation and Supervision of Financial Markets and Institutions**

## **A European Perspective**

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This presentation reflects the personal views of the speaker.  
They are not necessarily identical with the opinion of the FMA.

# Policy Aspects in Financial Markets



# Definition of Financial Stability

- Monetary Stability vs. Financial Stability
- Issing (2003):
  - ‘**systems approach**’ definitions: unimpaired capacity of financial institutions and markets to efficiently mobilise savings, provide liquidity and allocate investment (Mishkin 1991)
  - related to volatility of **directly observable** financial **variables**: absence of banking crises, price stability, interest rate smoothness,...
- Tolerance for financial institutions’ failure

# Regulation and Supervision

- Academic perspective vs. real world
- Supervisors with rule-making powers for refining legislation

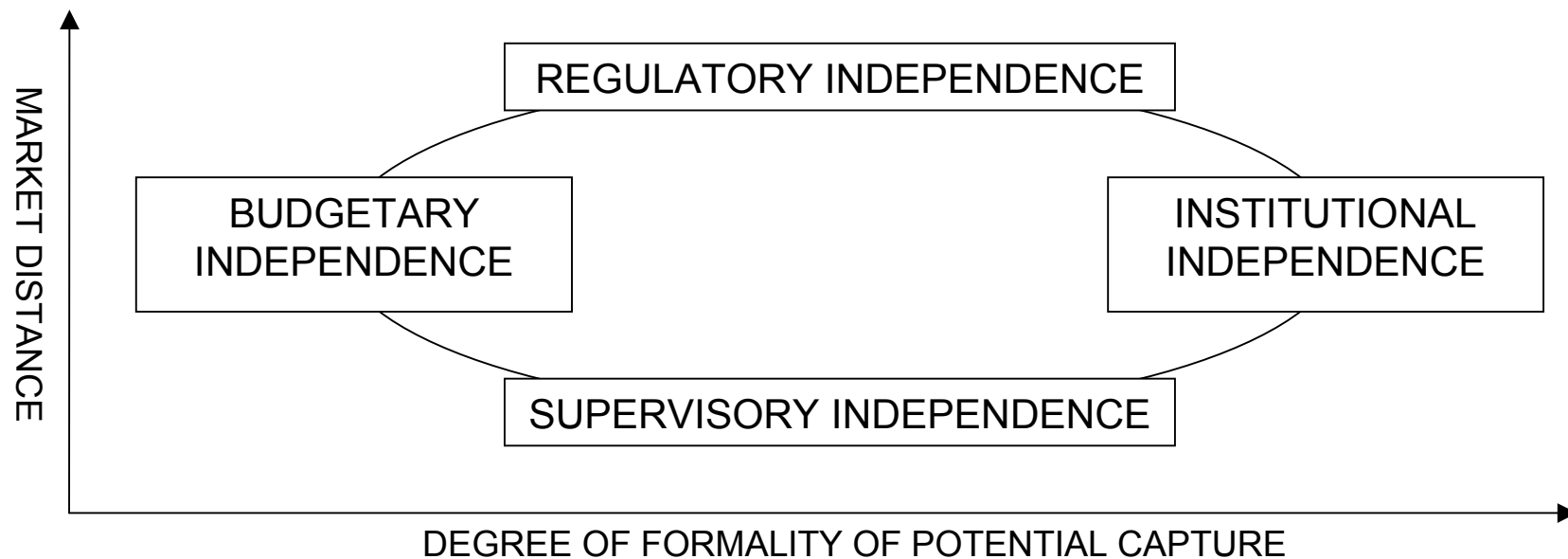
# Behavioural Views on Market Intervention

- Stigler (1971) and Posner (1974):
  - self-interest of bureaucratic agents
  - idea of a political economy where those interest groups best organised make themselves heard (public choice)
- Results:
  - vague regulatory targets
  - entry barriers
  - undermined competition

# National Perspective

- Central Bank to integrate macro- and micro-financial stability supervision, i.e. payment system and banking supervision
  - consolidation of macro and micro aspects of monetary and financial stability supervision
- Integrated Supervisory Body to integrate the supervision of all financial market intermediaries
  - consolidation of the supervision of all sectors of financial intermediaries whether systemically relevant or not
- Integration of all tasks

# Dimensions of Independence



# Dimensions of Independence 1

- ‘Vertical’ distance of control operations from the market
- Regulatory independence: ability to have an appropriate degree of autonomy in setting (technical) rules and regulations
    - may be restrained by political interference
  - Supervisory independence:
    - maintenance of a certain degree of discretion
    - system not rendering the right of appeal a means of cheap escape.
    - appropriate salary and legal protection for the individual supervisor



## Dimensions of Independence 2

‘Horizontal’ aspect: formality of potential interference

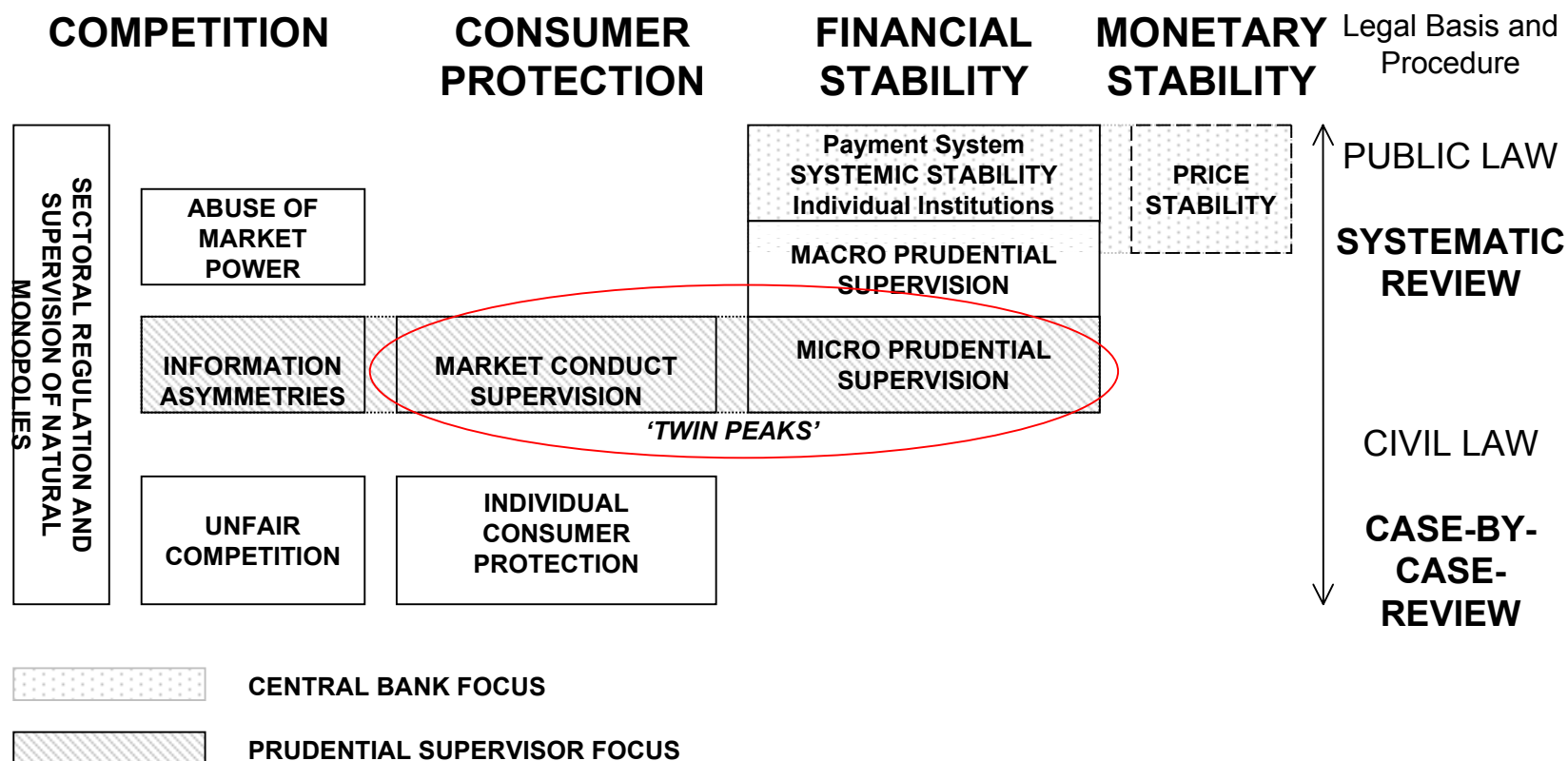
- Budgetary independence
- Institutional independence
  - terms of employment (appointment and dismissal) of senior personnel
  - governance structure
  - openness and transparency of decision making.

## Dimensions of Independence 3

Discretion and individual protection in individual cases

- Statutory vs. Case law
- Law-based system of sanctions and interventions more transparent and more amenable to judicial review
- Protection of supervisor

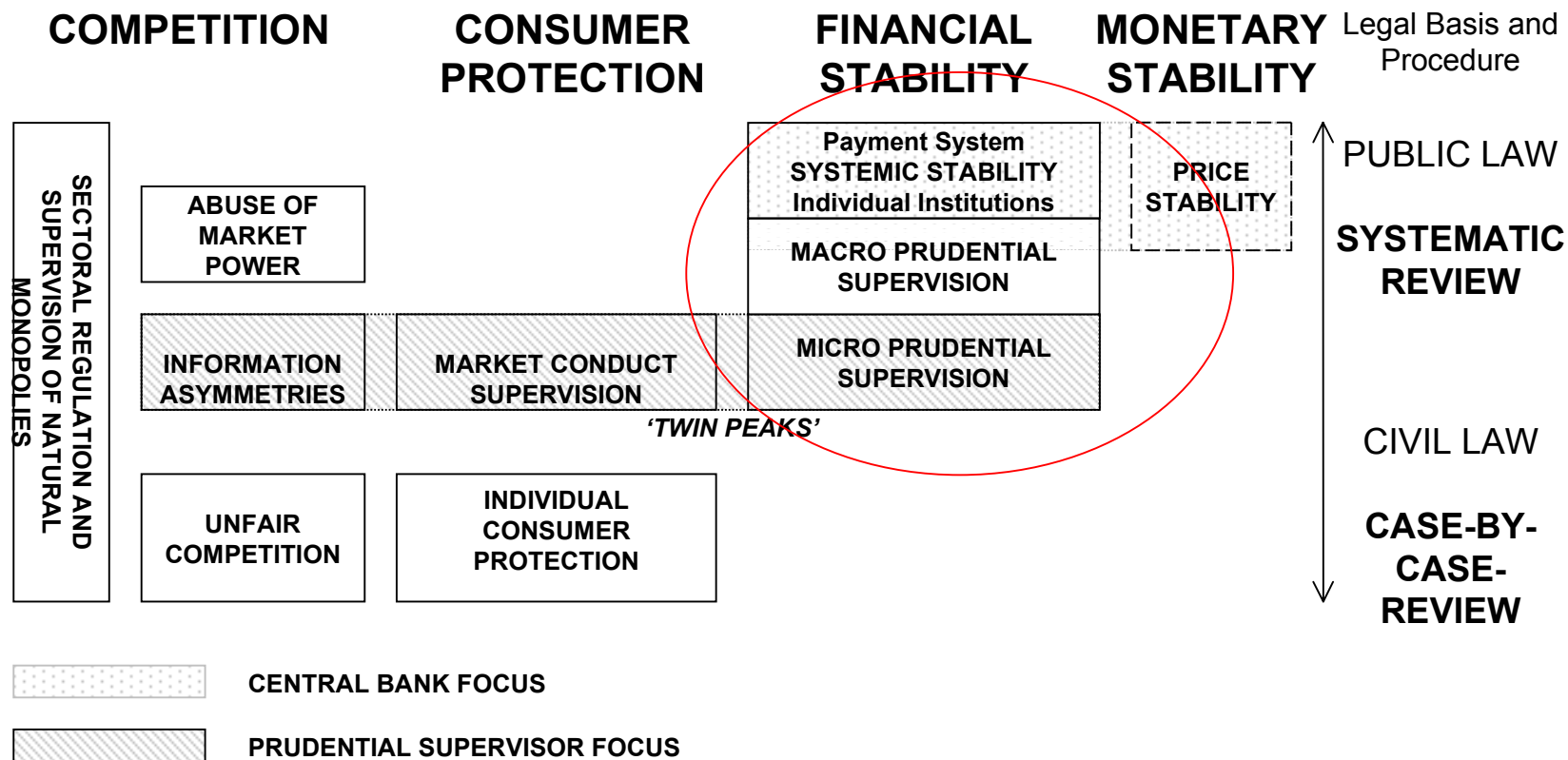
# Horizontal Cooperation in Supervision



## Horizontal Cooperation 2

- Conduct of business
  - Different legal objectives across sectors
    - Different focus in banking and insurance
    - Prudential view strengthened in insurance regulation (Solvency II)

# Vertical Cooperation in Supervision



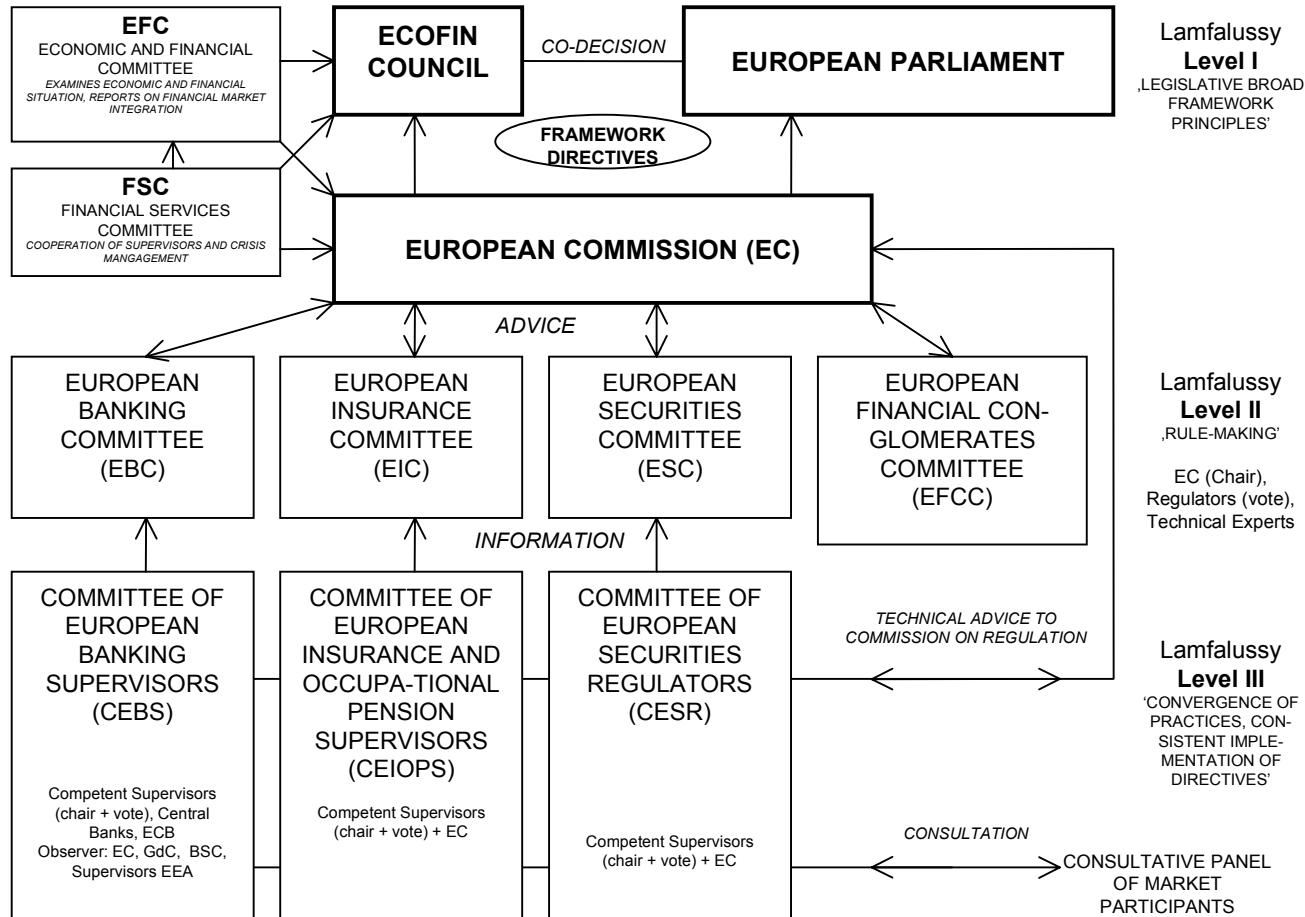
# Central Banks

- Monetary Stability
  - Price stability
    - Tools
      - Interest Rate Policy
      - Open Market Policy
- Transmission mechanism
- Financial Stability
  - Payment system stability

# Organising Europe

- Trend towards integrated regulators and supervisors
- Cooperation: Home country control (mutual recognition)
- Coordination: Secretariats
- Comitology:

# The Comitology Architecture





# Pan-European Perspective

- Conglomerates
- One-Stop-Shopping
- Regulatory Arbitrage
- Transaction costs

# Pan-European Supervisor?

- Virtues of decentralisation/ need of concentration
- Transaction costs at another level
- Regulatory competition

## Summing up

- Potential conflicts of interest
- Behavioural aspects
- Separation of tasks / clear target functions
- European view:
  - Necessity for harmonisation and coordination
  - Pan-European supervisor vs home country control with cooperation and convergence