

6th ECRF Symposium



Erasmus School of Law

Some challenges facing Central Banks as supervising authorities

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1. Introduction

- Some Member States have recently changed their model of financial supervision;
- The favoured model now seems to be Twin Peaks with – usually - a heavy supervisory duty for the central bank;
- At EU level however reinforcement of vertical model: supervision along three main sectors

2. Duties of a central bank



Traditional duties of most central banks:

- Controlling a country's monetary policy;
- Lender of last resort.

When performing supervisory duties:

- Investor protection (usually not done by central bank);
- Micro- and macro prudential supervision.

3. Types of central bank

- Autonomous: politically and financially independent.
- Semi-autonomous: depends on political parties and especially the Ministry of Finance.

4. Belgium



Now has a Twin Peaks model:

- National Bank of Belgium is principal prudential supervisor on macro and micro level;
- Close relationship with the Minister of Finance;
- Financial Services and Markets Authority conduct of business supervisor.

5. United Kingdom



Is moving towards a Twin peaks model.

- Prudential Regulation Authority will be responsible for prudential supervision. PRA is subsidiary of Bank of England with its own CEO, meaning supervision is set apart from central banking duties;
- Financial Conduct Authority will be an independent business regulator.

6. France



Now has a Twin Peaks model.

- Autorité de contrôle prudentiel as prudential supervisor. Close links with Banque de France: Governor is chair of ACP, but ACP is an independent administrative authority;
- Autorité des Marchés Financiers: conduct of business supervisor.

7. Germany



Now has a model very similar to Twin Peaks.

- Deutsche Bundesbank as prudential supervisor;
- Bundesanstalt für Finanzdienstleistungsaufsicht as conduct of business supervisor.

8. The Netherlands



Has implemented Twin Peaks model in 2002

- De Nederlandsche Bank as prudential supervisor;
- De Autoriteit Financiële Markten as conduct of business supervisor.

Experiences have not led to major changes.

However: reputational risk for bank president

9. Interim conclusion



- Twin Peaks model in The Netherlands has not prevented banks failing;
- Growing interdependency of financial markets throughout the world should be reflected in supervision. Challenge is: to link micro-prudential information with macro-prudential and combine this with monetary policy.

10. The European Central Bank



ECB should:

- Maintain price stability in the euro zone;
- Keep the financial system stable by making sure financial markets and institutions are properly supervised.

11. EU supervision of financial markets



Since 1 January 2011:

- European Systemic Risk Board;
- European System of Financial Supervisors:
 - European Banking Authority (EBA);
 - European Insurance and Occupational Pensions Authority (EIOPA);
 - European Securities and Markets Authority (ESMA).

13. EBA



Number of tasks and competencies, such as:

- Ensure common, uniform and consistent application of EU law;
- Facilitate and coordinate any emergency actions by national supervisors;
- Settling disputes between national competent authorities.

14. Conclusion

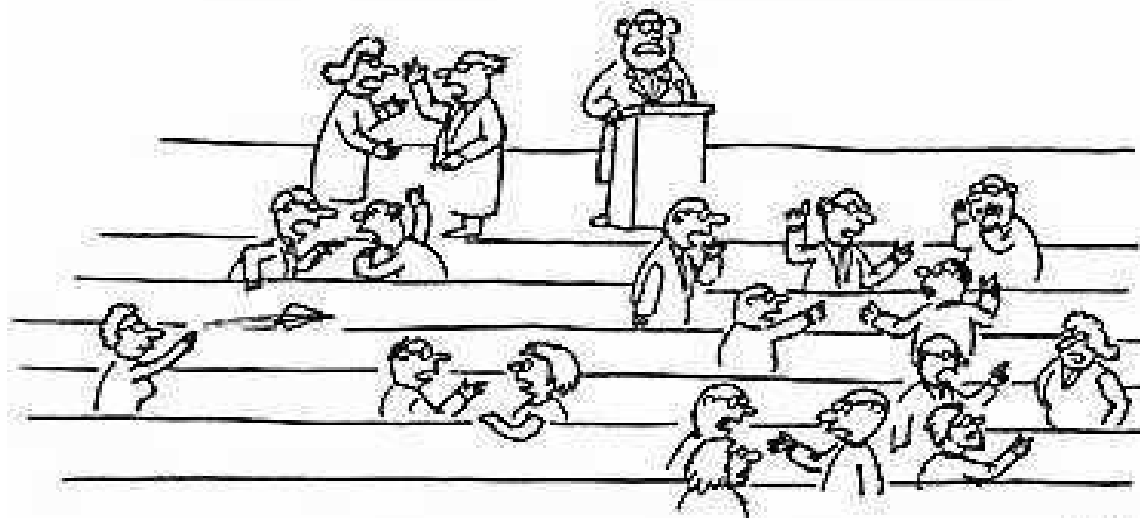
- Discrepancy between member states and EU: member states move towards Twin Peaks, EU reinforces sectoral model;
- Will national supervisors find their EU counterpart and vice versa?
- Good supervision is not per se related to a certain model: it's the people that make the difference.

Chaos breeds life while order breeds habits



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"Order... ladies and gentlemen, please...
...order...order..."