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 controle prudential 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