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FBF RESPONSE TO EUROPEAN COMMISSION CONSULTATION PAPER ON THE MACRO-PRUDENTIAL POLICY FRAMEWORK REVIEW

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 370 commercial, cooperative and mutual banks. FBF member banks have more than 37,500 permanent branches in France. They employ 370,000 people in France and around the world, and service 48 million customers.

The FBF welcomes the opportunity to comment on the European Commission's Consultation on the revision of the macro-prudential policy framework. Please find our main comments below and our detailed feedback to the questions raised in the consultative document.

I- Preliminary comments

There are several points that drive the attention of both the European Commission who has instigated that consultation and financial institutions who respond to it. They are three main issues:

1. Macro-prudential instruments : their scope, validity and efficiency in regards with existing prudential instruments and requirements ;
2. The application perimeter : capital-based, sectoral-based, activity-based and the importance of shadow banking system ;
3. Governance of the prudential framework and the interconnection between macro prudential, micro prudential, monetary and political authorities.

We believe that competent authorities should rethink the macro prudential framework with respect to their initial and main objective: assess and mitigate systemic risk. They should also be aware that they have a direct and indirect impact on the financial system structure and inherent risk beyond the achievement of its intermediary objectives (which are to improve the system's resilience). What we could call regulatory externalities for prudential regulations appear on two levels: regulatory arbitrage (within and between financial institutions) and governance issues.

First, prudential regulation has an indirect impact on the financial institutions' business and revenue model. Capital-based instruments tend to shift the credit supply to highly capitalized banks and constrain those who are smaller or more specialized in capital-consuming sector (such as real-estate).

Moreover, the ability of banks to meet different capital requirements is now seen as an investment signal on the market and it impacts their ability to find funding. High capital-requirements create also regulatory arbitrage towards non-regulated actors. If prudential authorities cannot widen their power to the shadow banking perimeter, the level of constraint they set for the banking system will influence indirectly the growing systemic risk of the non-regulated shadow banking system through sectoral leakages.

Second, the lack of cooperation between the competent authorities on prudential issues creates governance problems and information bias. A growing body of academic and operational literature is stressing the overlapping aspect of the existing prudential instruments. Non-cooperative institutions create a cumulative sub-optimal framework instead of revealing their equivalence or compensative aspect.

Competent authorities must be coordinated and prudential instruments, both macro and micro, must be articulated to each other (rather than being cumulative) and following each regulation body's own policy agenda. In that perspective, we appeal for a growing participation of banks and operational actors in the regulatory debate. They have the expertise, the private information (decisive to assess systemic risk) and the incentive to create synergies in both instruments and institutional framework.

II- <u>Answer to questions related to the consultation</u>

Scope of the review

Q1: Do you consider the degree of coordination between the different authorities in the current framework (i.e. ESRB, national macro-prudential authorities, Commission, Council, etc.) appropriate? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all), and explain your scoring.]

Rank: 5

Our primary concern is the link between the micro-prudential and macro-prudential levels and the way macro-prudential decisions impact the micro-prudential one. From this perspective, while it is not our role to make recommendations about the coordination between different authorities, we draw the attention of the Commission to the fragmentation of responsibilities as regards to the various layers of capital requirements and buffers that banks are subject to. We observe that the superposition of these buffers creates significant overlap and that the sum of the layers is not under a single responsibility. Therefore it requires that the competent authority assess the overall own funds requirements of the supervised entity, taking into account holistically all risks and all prevailing capital requirements and buffers, and takes its decision accordingly. This assessment should notably be based on macro-prudential inputs which should remain at national level, first of all because national economies are not synchronised, secondly because national authorities are in the best position to monitor and manage impacts on their own markets.

Following recommendations stated in the IMF/FSB/BIS report of 31 august 2016 and Knight (2006) we recall that an effective and sound institutional framework should have three main abilities:

1. Wilingness to act: that is to have well defined objectives and do not suffer from conflict of interest and national agendas.
2. Ability to act to EVOLVING systemic threats : provide the institution with information, calibration and designation power.
3. Effective cooperation in risk assessment and mitigation.

We stress that national macro-prudential authority (NMA) is the most competent actor for determining possible additional requirements for its jurisdiction. NMA has both a more global and more precise view of its national financial system risks than the ECB. In addition, NMA has a democratic legitimacy to decide on the objectives and means of macro-prudential policies at national level (notably in connection with national fiscal policy). NMAs are crucial in the macro-prudential European framework. In this way, it is essential to consider further the transnational aspects of macro prudential policymaking.

We do suggest that the decision making body should integrate more the expertise of the operational actors such as banks to enhance the institutional framework's independence from national and political risks and its soft power (literacy influence on decisions) and address cross-border issues. Those actors could enrich the regulator's expertise with more activity-based and sectoral instruments that are proved to be more efficient in mitigating systemic risk than capital-based tools. Furthermore, financial institutions are the most relevant to alert on evolving systemic risks and provide critical information on the financial system as a whole (we do specifically speak of the impact of disintermediation and risk bearing of "Shadow Banking"). Moreover, before any individual or global binding decision, a contradictory procedure shall be carried out. Finally the implication of ALL stakeholders is a step further into effective cooperation and risk assessment and mitigation.

Q2: (a) Would you consider appropriate to expand the macro-prudential framework beyond banking? [Please rank your answer from 1 (fully appropriate) to 5 (fully inappropriate), and explain your scoring.] (b) If deemed appropriate, what kind of systemic risks should be targeted and how?

Rank: 1

We strongly believe that the macro prudential framework should be extended to non-bank entities, especially in the context of the forthcoming CMU which promotes market based financing. Their role on the financial system has increased these previous years and risks should increase as well. As opposed to banking, non-banks business models diversity requires stronger coordination between supervisors which are more dispersed and asks for new macro-prudential tools.

As the macro-prudential framework aims at curbing the credit origination channel and avoiding the formation of asset bubbles and as the proposition of the economy financed by banks is set to decrease, the efficiency of these macro-prudential tools requires to capture all financial channels risks.

Cyber-risk is an example of a further type of systemic risk that could be targeted, in view of its possible implications for the financial system.

A level playing field must be assured given the new competitive landscape. It is common knowledge that those entities are difficult to supervise and regulate. Competent authorities shall bear in mind that the macroprudential framework has an indirect impact on the growing importance of the non-banking activities and associated risks.

The systemic risk that is contained in the non-bank institutions must be looked closely by the competent supervisory authorities as stated in a late ESRB report of july 2016[1] "Macroprudential policy beyond banking":

"Risks can originate from different sources including: (i) excessive credit growth and leverage, leading to credit booms and busts; (ii) excessive maturity and liquidity mismatch and market illiquidity, leading to fire sales of assets; (iii) direct and indirect exposure concentrations, leading to contagion amongst interconnected financial institutions; and (iv) misaligned incentives, reflecting perceptions that some institutions are "too big to fail". These sources of risk transcend sectoral boundaries. For example, while excessive leverage has been associated with banks it can also be created outside the banking sector through collateralised lending, such as securities financing transactions (SFTs) or through collateralised mortgage financing. »

Macro-prudential application of micro-prudential instruments

Q3: Do you see a need to strengthen the coordination between designated and competent authorities when using stricter Pillar 1 measures for real estate exposures to address systemic risks? [Please rank your answer from 1 (strong need) to 5 (no need), and explain your scoring.] If you see a need, how should their coordination be strengthened?

Rank: 1

Competent authorities hold decision-making authority regarding Pillar 1 measures. However designated authorities have a better view of global risks within the national financial system. Therefore competent authorities must coordinate with designated authorities before making a decision in order to avoid both a bad assessment and interfering with designated authorities' policies. This is true in general and of course in particular regarding possible implementation of higher risk weight on real estate exposure for financial stability purposes in relation to article 124 of CRR.

As of today, there is no aggregated vision that fully assesses the question of overlapping tools and double risk assessement. Those questions need to be looked at closely by a designated task force as it is the case for the shadow banking at the ESRB (where there is a dedicated group of mixed operational and scientific committee to analyse this issue). The dedicated group should furthermore make precious use of the contribution of financial institutions which have the willigness to act and the information power on that matter.

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[1] https://www.esrb.europa.eu/pub/pdf/reports/20160718_strategy_paper_beyond_banking.en.pdf

Focus and scope of activity-based EU macro-prudential instruments

Q4: Do activity-based instruments in the current framework allow to effectively tackle risks stemming from specific risk exposures? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]

Rank: 2

It could make sense, in France, to differentiate residential real estate and commercial real estate when applying activity based instruments.

However, we do not think that the CCB, which is applied to all domestic credit exposures, can be used to tackle specific risk exposures. Generally, in the current prudential framework too much emphasis is put on the CCB, irrespectively of the systemic risks issues identified by the NMAs. We would rather prefer more targeted tools.

Q5: Do you consider a CCB for sectoral imbalances (e.g. in the real estate sector) a useful complementary instrument? [Please rank your answer from 1 (necessary complement) to 5 (useless complement), and explain your scoring.] If yes, how would you see the interaction of this sectoral CCB with the CCB already in place?

Rank: 5

The CCB mechanism is particularly complex, especially for internationally diversified banks as they need to monitor large numbers of countercyclical buffer rates and that it applies to all credit exposures, we do not consider it as an efficient macro-prudential tool. Hence we do not see any material benefit in introducing an additional buffer. Moreover, such sectoral imbalances are already covered by the SRB and don't need another complexifying tool that creates leakages and miss their initial objectives (mitigating systemic risks) when they operate in open financial systems like the EU especially without the UK (Cerutti et al. 2015). A CCB that doesn't take into account the sectoral specificities and history of EU members create distortions of the level playing field and could lead to cross-border leakages to most advantaged countries whereas activity-based tools such as LTV, LTI and DSTI are more effective (see IMF-FSB-BIS report and Reinhardt and Sowerbutts, 2015 for economics[2]).

More generally capital surcharge is not the most appropriate tool. For real estate, measures such as LTV, LTI ratios etc are likely to be more effective than a sectorial CCB. As opposed to capital charges, these instruments which play at the origination level, on the asset side of the balance sheet, have an instantaneous impact and they apply both to banks and non-banks. The recent change in the UK CCB (the 0.5% increase announced in May 2016 for March 2017 was cancelled in July) is a good example of capital buffers inertia.

[2] All academic studies cited with no bibliographic reference are attached to the IMF-FSB-BIS report

Q6: Do you see a need for adjusting measures targeting risks associated with banks' real estate exposures? If so, please explain your answer.

No, because the current framework has to be stabilised and effective before thinking about adding new tools.

IMF-FSB-BIS report mentions that sectoral CCB appear to have limited effect on loan growth but instead will shift loan supply towards better-capitalised institutions which is not the macro-prudential tool objective (see Basten and Koch, 2015).

Q7: Do you see a need for disentangling different responsibilities between competent and designated authorities? If so, please explain your answer.

Yes, more clarification is needed.

Q8: Do you see merit in better distinguishing the activity-based from the institution-based instruments under Article 458 CRR, also in view of applicable activation procedure(s)? [Please rank your answer from 1 (a better distinction is necessary) to 5 (a better distinction is not necessary).]

Rank: 5

Regarding, the different activation mechanisms for the macro prudential instruments in CRR and CRD 4 FBF member banks see a risk that a more burdensome activation procedure for some of the instruments (art. 458 CRR) might push the responsible authority towards the instruments for which the authority has own powers, for instance Pillar 2.

Q9: Do you see the need to better frame either the focus (targeted risks) or the scope of the SRB (i.e. applicability to the entire stock only or also to subsets of exposures)? If so, please explain your answer.

Due to the flexibility offered to authorities to use the SRB to address "country-specific structural vulnerabilities", which is very broad, it is necessary to better frame the focus of the SRB. Notably in connection with SII buffers (they can add up).

Q10: Should the SRB be explicitly defined as either an activity based or an institution specific tool? Please explain your answer.

It seems more accurate to define the SRB as activity-based, as it should theoretically be applied on the basis of exposures or subset of exposures. But there is always the need to avoid duplication with other capital layers (such as Pillar 2 or G- and O-SII). As already said, we think that capital surcharges are not the most appropriate tool (See Q5).

Focus and scope of institution-specific EU macro-prudential instruments

Q11: How do you assess the interactions of institution-specific instruments in the current framework?

By nature G-SII buffer, O-SII buffer and SRB (without mentioning Pillar 2) may overlap, the same risk being covered more than one time if more than one instrument is activated. Again, clear and well defined provisions for the instruments use would reduce the risk for such overlapping risk coverage.

Or more radically, the elimination of the systemic risk buffer would simplify the framework whilst increasing transparency.

Q12: How do you assess the main weaknesses of institution-specific instruments in the current framework?

We do not clearly understand what exactly is addressed in each case.

Q13: Do you consider that the capital buffers for systemically important institutions are appropriately calibrated in the current framework? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]

Rank 5

The G-SII requirement became applicable only recently (as of 1 January 2016) and is based on the EU methodology for identifying a bank as G-SII mirroring the methodology established at the level of the Basel Committee on Banking Supervision (BCBS). It is based on five categories: size, interconnectedness, substitutability, complexity, and cross-border activities. It follows the perspective of national jurisdictions adopted by the BCBS which does not adequately reflect the specificities of the Eurozone. This asymmetry has been recently recognized by the EC in its consultation document on the Review of the EU macro-prudential policy framework[3].

Among the 5 categories defined by the EU methodology for identifying a G-SII, Article 131(2) of CRD IV defines category (e) “Cross-jurisdictional activity” as “cross-border activity of the group, including cross border activity between Member States and between a Member State and a third country”. This entails that intra-Eurozone banking activities are accounted for in the cross-border activity indicator, thereby increasing the measured systemic relevance of Eurozone banking institutions. This is at odds with the two main pillars of Banking Union which implies that within the Eurozone, participating Member States, beyond sharing the same currency and a single monetary union, also benefit from having a Single Supervisory Mechanism, a Single Resolution Board and a Resolution fund intervening in case of failure of Eurozone banking institutions. In addition these single authorities apply a single “corpus“ of rules: CRR, BRRD.

[3]Even the EC has recently recognized in the consultation document on REVIEW OF THE EU MACRO-PRUDENTIAL POLICY FRAMEWORK, 16 August 2016, Pg. 51 of EC consultation text that Europe specificities have not been fully taken into consideration in BCBS methodologies for defining the G-SII buffer.

As an economic and monetary integrated area, the euro zone is the domestic market of euro area large banks. However, since the cross-border criterion relies on national rather than economic borders and the euro area is not a country, banking operations between two euro area countries are considered as cross-border operations. This criterion does not take into account the reality of the single jurisdiction created by Banking Union and is completely at odds with the full integration of the Eurozone. Thus from the foregoing, this indicator is in our view wholly unsuitable for gauging systemic importance of Eurozone banks as regards their activities within the Banking Union.

In July 2013 the BCBS updating its methodology for the identification of G-SIIs[4] with regard to cross jurisdictional activity stated the following:

21. *Given the focus on G-SIBs, the objective of this indicator is to capture banks' global footprint. Two indicators in this category measure the importance of the bank's activities outside its home (headquarter) jurisdiction relative to overall activity of other banks in the sample: (i) cross-jurisdictional claims; and (ii) cross-jurisdictional liabilities. The idea is that the international impact of a bank's distress or failure would vary in line with its share of cross-jurisdictional assets and liabilities. The greater a bank's global reach, the more difficult it is to coordinate its resolution and the more widespread the spill-over effects from its failure."*

However, it is important to note that BCBS itself in the above mentioned July 2013 paper recognized that structural changes in some areas including in Europe should be re-assessed when reviewing the criteria[5].

Since indicators in the G-SII scoring methodology are based on the relative - and not absolute - contribution of each institution, including cross European Banking Union exposures in the computation artificially leads to overestimating the weight of cross border activities which are really at risk in the event of resolution.

Moreover, from a macro-economic perspective, not taking into account the reality of Banking Union regarding supervision and resolution induces for some institutions a capital surcharge which is not economically justified and will weigh on the credit supply within the Eurozone. These non-justified intra-Eurozone exposures would weight for roughly 29% of the total cross-jurisdictional activities of Eurozone G-SII.

[4] BCBS 255 – "Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement" - July 2013 - http://www.bis.org/publ/bcbs255.pdf

[5] Point 39 of 255 BCBS : "The methodology, including the indicator-based measurement approach itself and the cut-off/threshold scores, will be reviewed every three years in order to capture developments in the banking sector and any progress in methods and approaches for measuring systemic importance. In Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement. In future reviews, particular attention will be paid to branches. As regards the structural changes in regional arrangements – in particular, the European Union – they will be reviewed as actual changes are made. In addition, the size of the sample of banks will be reviewed every three years."

To conclude we would thus urge that the benefits of the Single Supervisory Mechanism and the Single Resolution Mechanism are reflected in the way Europe's G-SII methodology defines cross-border jurisdictions. As a result, we strongly encourage a modification of Article 131.2(e) of CRD 4 in the upcoming review of the CRR/ CRD 4 to reflect the benefit of the Banking Union[6] for the criteria dealing with cross-border activity[7].

Q14: Do you assess the caps of the G-SII and the O-SII buffers as appropriate? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all), and explain your scoring.]

Rank: 1

We agree that the O-SII buffer must be capped and we consider the current caps as appropriate.

Q15: Do you think that the 2 percent cap for the O-SII buffer should be revised? If so, please explain your answer.

The O-SII buffer should be by nature lower than the G-SII buffers given the scope of the risks, hence any increase in the cap for O-SIIs should be ruled out. In fact, in most countries the O-SII buffer has been set below the 2% cap.

Q16: Do you consider that the current cumulation rules applicable to institution-specific buffers need to be revised? If yes, what revisions would you consider necessary?

As a minimum, the exact role of the Systemic Risk buffer and its practical implementation should be clarified and made more transparent (namely as regards to the accumulation effect referred to). The elimination of systemic risk buffer seems to be the best solution (or alternatively the highest O-SII buffer should be lower than the lowest G-SII buffer applied in EU and SRB should be lower than the lowest O-SII buffer or SRB should be eliminated at all). As said before, capital is not the only instrument that can be used to address non-cyclical systemic risks.

The capital conservation buffer should also be reconsidered. It has been introduced amid a global financial crisis; other buffers have been added up since then and RW have been revised. Hence its existence is very questionable. More harmonization of rules for all buffers and Pillar 2-add on across all EU countries is welcomed to ensure the same level playing field for all institutions in EU.

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[6] Please note that when referring to Banking Union we do refer to euro countries as well as Member States whose currency is not the euro but have decided to participate in the SSM according to EU Regulation n° 1024/2013 establishing the SSM.

[7] A possible wording could be the following: Article 131 (e) "cross-border activity of the group, excluding cross-border activity between participating Member States in accordance with Council Regulation (EU) No 1024/2013".

Adequacy of EU macro-prudential instruments for banks

Q17: Do you see a need for developing additional harmonized macro-prudential instruments? If yes, what type of new instrument would you deem necessary and why?

Additional non-capital tools (notably borrower-based tools, such as LTV, LTI, …) could be envisaged as a substitute for capital buffers. Indeed capital tools are not the only tools that can be used and, as noted by the FSB, IMF and BIS[8], capital-based tools appear to have limited effects: they support banks resilience but evidence of their effects on credit growth varies. Furthermore, non-capital tools could be also applied to non-banks such as loan funds, in addition to other macro prudential instruments that should be developed for the non-banking sector specifically.

Moreover, one of IMF's latest report[9] on the benefits and costs of bank capital clearly stated that the level of bank capitalization had a threshold in its ability to absorb losses. It reveals that more regulation is not always better and that capital requirements regulations had decreasing returns to scale after a certain point.

Q18: How do you assess the possibility for the ESRB to develop technical guidance on the use of non-harmonised instruments, for example via issuing recommendations? Would you see a specific type of instrument for which such an approach could be warranted and suitable?

No opinion.

Activation mechanisms of EU macro-prudential instruments

Q19: Do you consider the current hierarchy of instruments ('pecking order') as appropriate? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all), and explain your scoring.]

Rank: 4

We would recommend to go one step further and clarify that the duty of the competent authority is to assess the overall own funds requirements of the supervised entity, taking into account holistically all risks and all prevailing capital requirements and buffers.

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[8] See IMF-FSB-BIS, August 2016, "Elements of Effective Macroprudential Policies – Lessons from International Experience" Annex 2 "Effectiveness of macroprudential tools"

[9] Dagher, Jihad. 2016. Benefits and Costs of Bank Capital. International Monetary Fund.

Indeed, the original design of the Supervisory Review and Evaluation Process (SREP) is not to merely define a Pillar 2 add-on by itself, but rather to determine an overall own funds requirement, from which the Pillar 2 add-on must be inferred: "on the basis of the review and evaluation referred to in paragraph 1, the competent authorities shall determine whether the arrangements, strategies, processes and mechanisms implemented by institutions and the own funds […] held by them ensure a sound management and coverage of their risks."

It is therefore of the Competent Authorities' responsibility to establish an overall own funds requirement which aims at ensuring that the institution guarantees the sound management and coverage of all its risks.

The European Union legislation should further emphasize that the Pillar 2 is determined as the difference between such overall own funds requirements and the sum of the Pillar 1 and combined buffers requirements (subtractive approach). The exact quantification of Pillar 2 add-on should be presented and explained to each institutions and rules for the same implementation across EU countries should be introduced. The same level playing field should be ensured across EU.

The revision of CRR-CRD should be the opportunity to clarify the notion of capital buffers. It should be noted that the initial BCBS framework (D189) introduces capital buffers, not capital buffer requirements. BCBS states explicitly that capital buffers are "usable": "The Committee is introducing a framework to promote the conservation of capital and the build-up of adequate buffers above the minimum that can be drawn down in periods of stress."

Therefore, we recommend avoiding the misleading qualification of "buffer requirements". There should be only capital requirements (Pillar 1 and Pillar 2R) and capital buffers (combined buffers and Pillar 2G).

Q20: Can overlaps in the tools' scope facilitate the circumvention of control elements embedded in the activation mechanism? If you answer yes, please explain how the complexity of the question shows that the framework needs simplification

No opinion.

Q21: What adjustments, if any, would you suggest for the notification and activation requirements for the SRB?

No opinion.

Q22: What adjustments, if any, would you suggest for the notification and activation requirements for the measures under Article 458 CRR?

No opinion

Q23: What adjustments, if any, would you suggest for the notification and activation requirements for the CCB?

No opinion.

Q24: Do you see the risk that especially the O-SII buffer and the SRB could be used for ring-fencing purposes? If yes, what do you suggest to address this risk?

It is a real risk.

The coordination of macro-prudential policy within the Banking Union

Q25: How do you assess the shared responsibilities of the ECB/SSM and national authorities for macro-prudential policy within the Banking Union? In particular, do you think that the current asymmetry of powers conferred upon the ECB/SSM is appropriate? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all), and explain your scoring.]

Rank: 4

Please refer to our answer on question 1.

Q26: How do you assess the coordination need between the different authorities involved? [Please rank your answer from 1 (strong need for more coordination) to 5 (no need for further coordination), and explain your scoring.] Do you see areas in which this coordination could be improved?

Rank: 1

Q27: Do you see need for amending the time periods of the notification process between national authorities and the ECB/SSM? [Please rank your answer from 1 (strong need for amending) to 5 (no need for amending).] What time limitations would you suggest?

The complexity of the question shows that the framework needs simplification.

Reciprocity of EU macro-prudential instruments

Q28: Do you see need to broaden the scope for mandatory reciprocity in the CRR/CRDIV? If yes, for which instrument(s) do you see such a need?

We are not in favour of a mandatory reciprocity.

The ESRB's cross-border coordination role

Q29: Do you think that the ESRB's mandate and tasks are appropriately formulated to ensure efficient coordination of macro-prudential policies in the EU? [Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all).] If not deemed fully appropriate, what changes would you suggest to ensure such efficient coordination?

Rank: 5

The ESRB does not seem to fit in a macro-prudential formalized supervision process at European level.

The objective of macro-prudential supervision is to maintain stability of the financial system as a whole, strengthening its resilience on one hand and reducing the emergence of new systemic risks on the other.

The question that arises in the European context is the coordinated implementation of macro-prudential policies, to a large extent, that have to be declined nationally ("cyclic" component of the systemic risk).

In this context, the main concern for financial institutions is the level playing field and its possible questioning by the uncoordinated implementation at European level of national macro-prudential policies that might even increase the fragmentation of the single market.

A formalized coordination system of macro-prudential policies would help to ensure this level playing field in Europe and reduce fragmentation of the single market. Such a device could lead to the creation of a responsible entity in the euro area (extended to countries outside the euro zone but that have opted for participate to the SSM) or it could lead to grant the ESRB an operational coordinating role at the 27.

The ESRB system-wide risk monitoring role

Q30: How do you assess the current capacities of the ESRB to deliver on its mandate for conducting system-wide risk analysis, including its access to relevant data? [Please rank your answer from 1 (fully adequate) to 5 (not adequate), and explain your scoring.]

Rank: 4

It seems that the governance of the ESRB, the powers which were granted to it (or not) and the means available (or not - see in particular access to the data) may explain this apparent lack of efficiency.

Q31: In particular, do you consider that the resources of the ESRB Secretariat are adequate in this context? [Please rank your answer from 1 (fully adequate) to 5 (not adequate), and explain your scoring.]

Please refer to our answer on question 30.

Q32: What do you consider to be the best ways to ensure that the macro-prudential perspective is sufficiently reflected in EU policy making where systemic risk considerations are involved?

A full coordination between the ECB, the ESRB and NSAs is essential. The risk assessment data should be exchanged and complemented among those entities.

ESRB powers

Q33: How do you assess the instruments and powers of the ESRB? In particular, do you see the need for the ESRB's powers to explicitly include 'soft power' tools with a view to fulfil its mandate?

No opinion.

Q34: Do you consider the transparency related to the act or explain mechanism (e.g. in following up recommendations, etc.) as satisfactory? [Please rank your answer from 1 (fully adequate) to 5 (not adequate at all).] If not deemed fully satisfactory, what improvement would be necessary?

No opinion.

Organisational structure of the ESRB

Q35: Would you consider the two-tier managerial structure along the lines proposed above an appropriate way to improve the governance structure of the ESRB? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]

Please refer to our answer on question 37.

Q36: How does the current size of the General Board affect the exchange of confidential and sensitive information and smooth decision making? Do you see merit in reducing its size and/or shifting some of its tasks to the Steering Committee? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]

Please refer to our answer on question 37.

Q37: (a) How do you suggest accommodating the establishment of macro-prudential authorities at the national level, and the SSM and SRB, in the General Board's membership? (b) Do you consider it warranted to require Member States to designate a single national representative, with representation possibly varying in accordance with the concrete issues for discussion and decision? [Please rank your answer from 1 (fully agree) to 5 (fully disagree), and explain your scoring.]

One suggestion that could be easily implemented would be to create a Stakeholder Group to broaden the consultation process with other actors (less institutional than the ECB, the European Supervisory and National Competent Authorities that currently seems to be limited the ESRB).

Q38: How do you assess the work of the two ESRB advisory committees (ATC and ASC)? In particular, would you suggest any changes in their role and/or composition?

Please refer to our answer on question 37.

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