THE INTERNATIONAL FRAMEWORK OF MACRO-PRUDENTIAL SUPERVISION OF FINANCIAL-BANKING MARKETS

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Abstract

Macro-prudential policies are aiming: preventing excessive accumulation of risks from external factors and market failures for smoothing the financial cycle (temporal dimension); increasing resilience financial sector and limit contagion effects (cross-cutting); encouraging prospects in the system as a whole in financial regulation to create a corresponding set of incentives for market participants (structural dimension).

Key words: *macro-prudential supervision, system, reglementation, financial-banking markets, encourage.*

1. General considerations

The crisis which started in 2007 – 2008 was an international one, it was caused by financial services and emphasized problems such as the reglementation system, inefficient monitoring structures, non-transparent markets or too complex financial products. As a result, many commities or working groups were initiated in order to reform the global system of financial reglementation in the context of the current financial crises. The purpose of this initiative was to prevent the future fall of the financial-banking system causing serious damage to world economy. Considering all these aspects, we may conclude major global changes of reglementations in the financial-banking system. Further on, I shall describe the perspective of United States, European Union and Romania.

As a consequence of the new reglementations, authorities with responsibilities in the financial-banking supervision obtained new prerogatives and rights. We may also witness the birth of a new institution with responsibilities in the field of supervision and control of the financial-banking system.

The new system of financial-banking reglementation is a very complex one, and the development process is at its beginning. The new reglementations and laws such as Basel III (at the global level), Dodd – Frank Act (at the level of the United States of America), in addition to the fact that they manage to diminish the risk of the investors, that had unexpected consequences. By avoiding the high-risk activities and by implementing the new needs for capital, the banks have great amounts of liquidities which help protect against other possible financial crises. One result of these measures consisted of a decrease in the market of private credit, banks preferring to make deposits in central banks or invest in sovereign obligations.

As a measure to encourage the financing of private sector, in Europe, for instance, the European Central Bank promoted refference interest close to zero.

There is another tendency to analyse the financial system- as a whole, integrating different supervision and reglementation institutions of the banking market, insurance market, private pensions and capital market.

To this purpose, it is worth mentioning the new institution of financial-banking reglementation, Financial Stability Board, which was laid basis by the G20 (The Group of the 20 countries) whose purpose is to coordinate the world programme of financial stability. G20 represents the main forum of international cooperation in the field of most important aspects of world economy and international financial agenda.

In USA, Dodd-Frank Act created two new institutions in the financial sector: the Financial Stability Oversight Council (an entity whose mission is to survey the risks associated to financial-banking system and coordination of collaboration with other supervision institutions) and the Office of Financial Research, both functioning under the umbrella of American Treasurer.

EU is world leader in implementing the obligations undertaken in front of G20. To this aim, EU asked Mr. Jaques de Larosiere to coordinate a working group at high level to recommend measures of strengthening the financial-banking system and propose a new architecture of supervision institutions in the European financial system. As a consequence, we may notice at the level of EU, the apparition of European Systemic Risk Board and of European System of Financial Supervision. Likewise, we may notice the creation of the project of Law regarding the macro prudential supervision of national financial system at national level.

The content of macro prudential supervision at international level

The Financial Stability Board – FSB was created to coordinate, at international level, the efforts of national and international financial authorities to develop and promote the implementation of financial policies in the field of supervision and reglementation of financial markets. FSB brings at the same table national authorities responsible for supervision of financial stability in important international financial centres, international financial institututions, institutions of sectorial financial supervision and commities of experts of central banks.

Financial Stability Board mainly takes action in:

- Assessing the vulnerabilities which affect the financial system; identification and implementation of actions to remedy them;
- Promote the exchange of information and coordinate the cooperation between the institutions responsible for financial stability;
- Monitor and assist the development of markets and implications of reglementation policies ;
- Assist and guarantee the use of best practices in order to reach standards in the field of reglementation;
- Guarantee that the works of revising and reaching the standards in the field are accomplished in due time and have effect on identified problems;
- Implement the main directions and support for the new supervision entities;
- Management of projects of surpassing the trans-national crises, in particular of actions important from the systemic point of view ;
- Collaborate with the International Monetary Fund to organize the "exercises of simulation of early alerts"

Committee of Banking Supervision from Basel offers a forum of cooperation in the field of banking supervision. Its objective is to improve the understanding of key aspects of monitoring and enhancing the quality of banking supervision at global level. It focuses on exchange of information in problems of national supervision, practices and techniques, in order to elaborate a common set of practices. Many times, the Committee uses these practices in order to develop main directions and supervision standards in the field of capital adjustment ; the fundamental principles of efficient banking supervision and understanding the trans-national banking supervision .

The Commitee encourages contacts and cooperation between its members and other authorities of banking supervision. It supervises documents and main directions of banking supervision at global level. The International Confference of Banking Surveilers takes place every two years.

Basel III is a set of reforms and comprehensive measures with aplicability in enhancing the reglementations, supervision and risk management of the banking system. These measures aim at: improving the capacity of the banking system to absorbe the shocks of economic and financial tensions, regardless of their origin; iproving the corprative governance in the management of banking risk; promoting banking transparency; microprudential reglementations at the level of banking entities, which will help to improve the resistance in the stressful periods; macro-prudential reglementations of sistemic risks which may appear at the level of the whole banking system as well as the procyclical amplification of these type of risks in time.

These two latter approaches are complemantary as enhancing the capacity to resist financial shocks of banks considered individually reduce the risk of multiplicating risks at the level of the whole banking system.

Basel III is a result of continuous effort of Basel Committee to improve banking reglementations based on the specific document named „Internaţional Convergence of Capital Measurement and Capital Standard".

2. Some aspects regarding the reglementation of the financial system in USA

The Financial Stability Oversight Council has a clear mandate which creates for the very first time a collective accountancy to identify risks and answer to imminent threats to financial stability. It is a collaborative entity, run by the Secretary of American Treasury, which brings at the same table the expertise of federal financial legislators, independent experts appointed by the President of America and governmental legislators. Moreover, in order to assist the process of identifying the emergent financial risks which may threaten the financial stability, the Council may provide advice, solicit information and analises to the newly-created entity: Office of Financial Research, which activates within American Treasury. The Council has new attributions which can reduce the excessive risk accumulated at the level of financial sector.

Before the financial crises, the legislative and financial reglementation framework was mainly based on institutions considered individually and on markets, not taking into consideration the losses at macro-prudential level. Thus, system weaknesses and unadequate standards led to an undetectable financial crises according to the existing procedures at the time. None of the survillers was responsible for the fight against global risks in the field of financial stabilty, which is totally inadequate for a global market where different types of financial institutions operates in many markets. So, great parts of the financial system remained unsupervised.

These problems were approached in the Wall Street Reform which led to the creation of FSOC. This institution is meant to: facilitate the coordination of financial reglementaions; facilitate the gathering and dissemination of information; appoint non-banking institutions to check the consolidated supervision; establish payment activities, financial utilities, clearing, etc; liquidate companies with a high risk of financial stability.

3. The content of Dodd-Frank reform in terms of the law of consumer's protection:

The entire name of this law is: a law to promote the financial stability of United States in terms of improvement and transparency of financial system, in order to put an end to the concept of „too big to go bankruptcy", so as to protect the American citizen who pays taxes, to save institutions by domestic practices, to protect consummers against abusive finacial services, and for other purposes. The law brings ammendments to Federal Reserve Act and to other reglementations existent at the time, such as the creation of new institutions (in parallel with the fussion of others), so as to be supervised by those companies suspected of a specific systemic risk.

The law requires the implementation of more rigorous standards and an improved degree of supervision in order to protect economy and Ammerican consumers, investors and businesses, and to stop the finance of tax-payers in order to save financial institutions which are on the brink of bankruptcy.

The law has an advanced alarm system regarding economic stability, creates rules rearding compensations and corporative governance and eliminates errors which caused the crises in 2008. The newly-created agencies received explicit powers in the field of financial supervision, some of them recently created, some transffered. Many of these new agencies have to present a report on the past activity and future objectives to the American Congress on a annual or bi-annual basis.

As far as the existing agencies are concerned, there have been suggested changes meant to improve the system of reglementaion the financial market. The institutions which were influenced by these changes are: Federal Deposit Insurance Corporation; U.S: Securities and Exchange Commission; Office of the Comptroller of the Currency; Federal Reserve; Securities Investor Protection Corporation.

4. The specific aspects of macro- prudential supervision at European level

As an answer to the global financial crises, the European Systemic Risk Board, The European Commision appointed a working group of high officials, presided by Jacques de Larosiere to examine the way in which the European system of financial supervision can be improved in order to better protect its citizens and thus to reinstore the trust in the financial system.

Among its many conclusions, the working group emphasized the fact the process of monitorization should not focus exclusively on the individual supervision of companies but it has to consider the stability of the financial-banking system as a whole. In 2009, the Larosiere report recommended, among other things, the creation of a body at the level of EU with a clear mandate of monitorizing the risks which may appear in the whole financial-banking system. That was the reason the European Systemic Risk Board was born, as part of the European System of Financial Supervizion, with the purpose of supervising the financial system of EU.

The Eurpean Committee for systemic risk (with headquarters in Frankfurt, Main, was created in accordance with Regulation (UE) No. 1092/2010 . CERS is part of the European System of financial supervision (SESF), whose purpose is to ensure the supervision of the financial system of EU. CERS' role was important as it developed new macro-prudential policies with aplicability at the European level. This committee put at the disposal of European and national authorities a series of directions and good practices for using the instruments of macro-prudence stipulated in the EU legislation. At the same time, there was developed a system of identification systemic risks which includes a series of specific analytic instruments. They refer now not only to the banking system but also to the insurance market and other financial institutions.

Beginning with 2011, CERS monitorized the financial European system from the stability point of view, emphasing a trend of modest economic revival, yet not constant at the level of member states. A series of groups of actives had positive evolutions in the period after 2011, with effect on improving the conditions in the financial system. Although the financing conditions for the banking system improved, risky areas were signaled on certain real estate markets of member states.

CERS may recommend or warn national authorities on aspects of systemic risk. According to CERS' recommandation in 2013, the activity of the committee is guided by five intermediate objectives which refer to minimizing sistemic risks which may appear in correlation with increasing the volume of finance and the degree of debt, necorrelation of deadlines and absence of liquidity, concentration of exposures, financial infrastructure, and random incentives to diminish moral hazard.

At present, European System for financial supervision is structured and organized in the following activities : European Systemic Risk Board; The European Banking Authority; The European Insurance and Occupational Pensions Authority; The European Securities and Market Authority; The Joint Committee of European Supervisory Authorities; competent National authorities with attributions in financial supervision.

Conclusions

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