

Macro-prudential oversight within the European Union: The European Systemic Risk Board

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Overview

- **Establishment of the European Systemic Risk Board**
- **Tasks, organisation and accountability**
- **Recommendations and warnings**

European Systemic Risk Board (ESRB)

Establishment

Main steps in the establishment of the ESRB

November 2008: the European Commission tasks a high-level group chaired by Jacques de Larosière to make recommendations on how to strengthen European supervisory arrangements.

February 2009: the de Larosière Report recommends, among other things, the establishment of an EU body to oversee risk in the EU financial system as a whole.

May 2009: the Commission suggests a series of reforms to the current arrangements for safeguarding financial stability within the EU, including the creation of a European Systemic Risk Board that would be responsible for macro-prudential oversight.

June 2009: the ECOFIN Council of 9 June and the European Council of 18-19 June agree with the Commission's suggestions and welcome its intention to put forward legislative proposals so that the new framework can be implemented in the course of 2010.

September 2009: the Commission adopts legislative proposals regarding the ESRB and the three European Supervisory Authorities (ESAs).

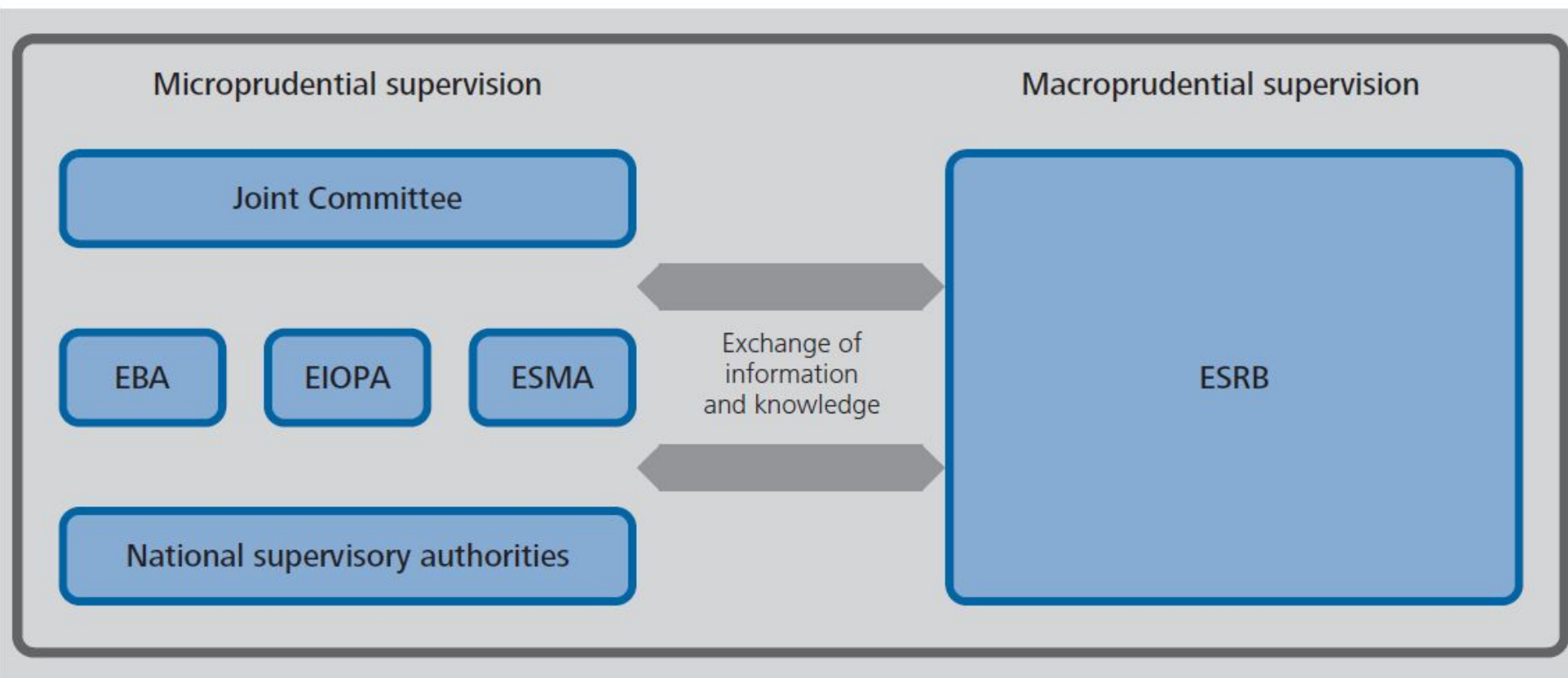
September to November 2010: the legislation is adopted by the European Parliament on 22 September and by the EU Council on 17 November.

December 2010: the legislation is published in the Official Journal of the European Union and enters into force on 16 December 2010.

Source: ESRB (2013)

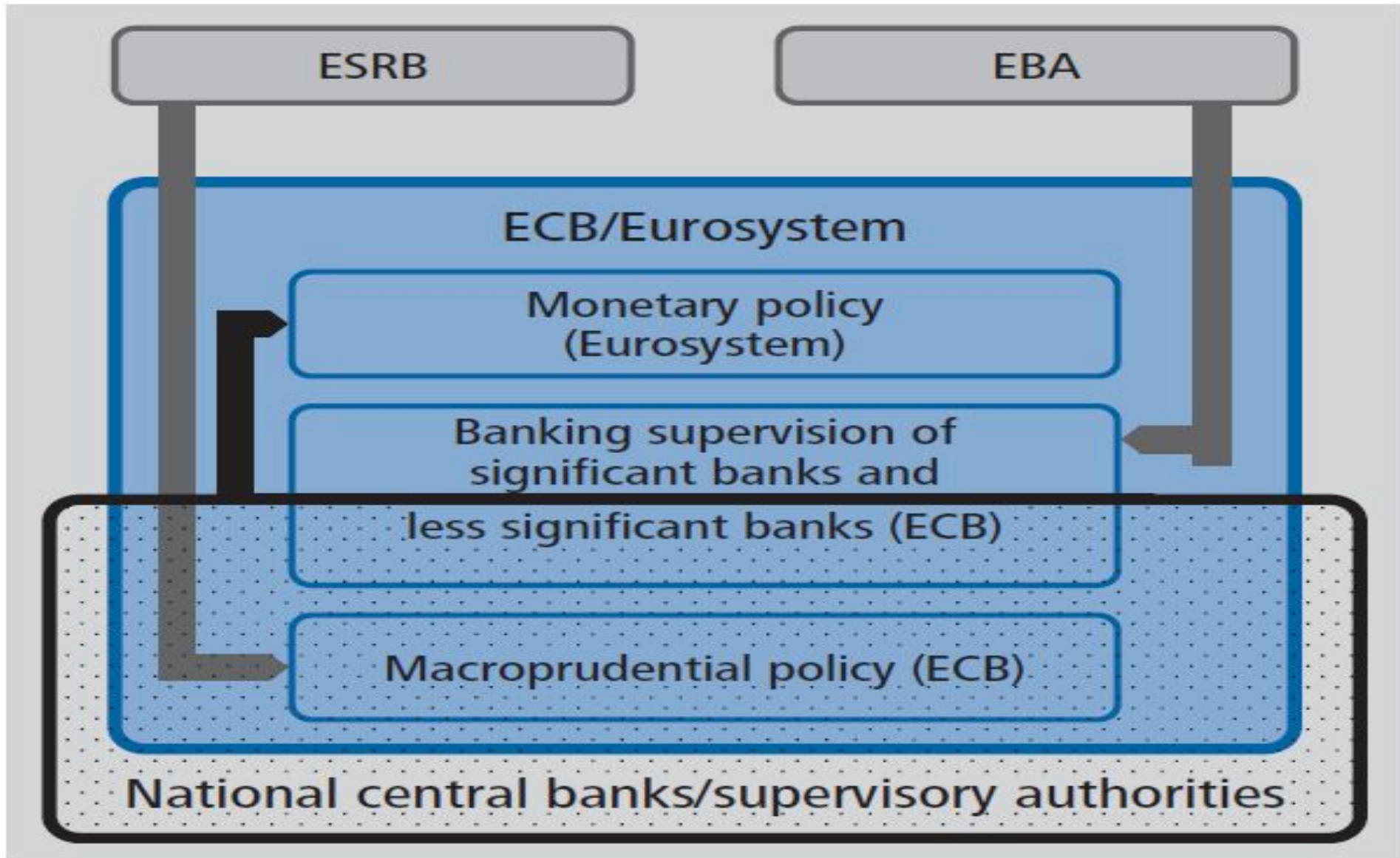
European Systemic Risk Board Establishment

The new European supervisory structure: the ESFS



Deutsche Bundesbank

European Systemic Risk Board Establishment



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European Systemic Risk Board

Tasks

- Responsible for macro-prudential oversight of the financial system within the EU in order to contribute to the prevention or mitigation of systemic risks to financial stability in the EU that arise from developments within the financial system and taking into account macro-economic developments
- Establishes link between micro-prudential supervision and macro economy
- Brings the systemic component into financial supervision

European Systemic Risk Board

Tasks

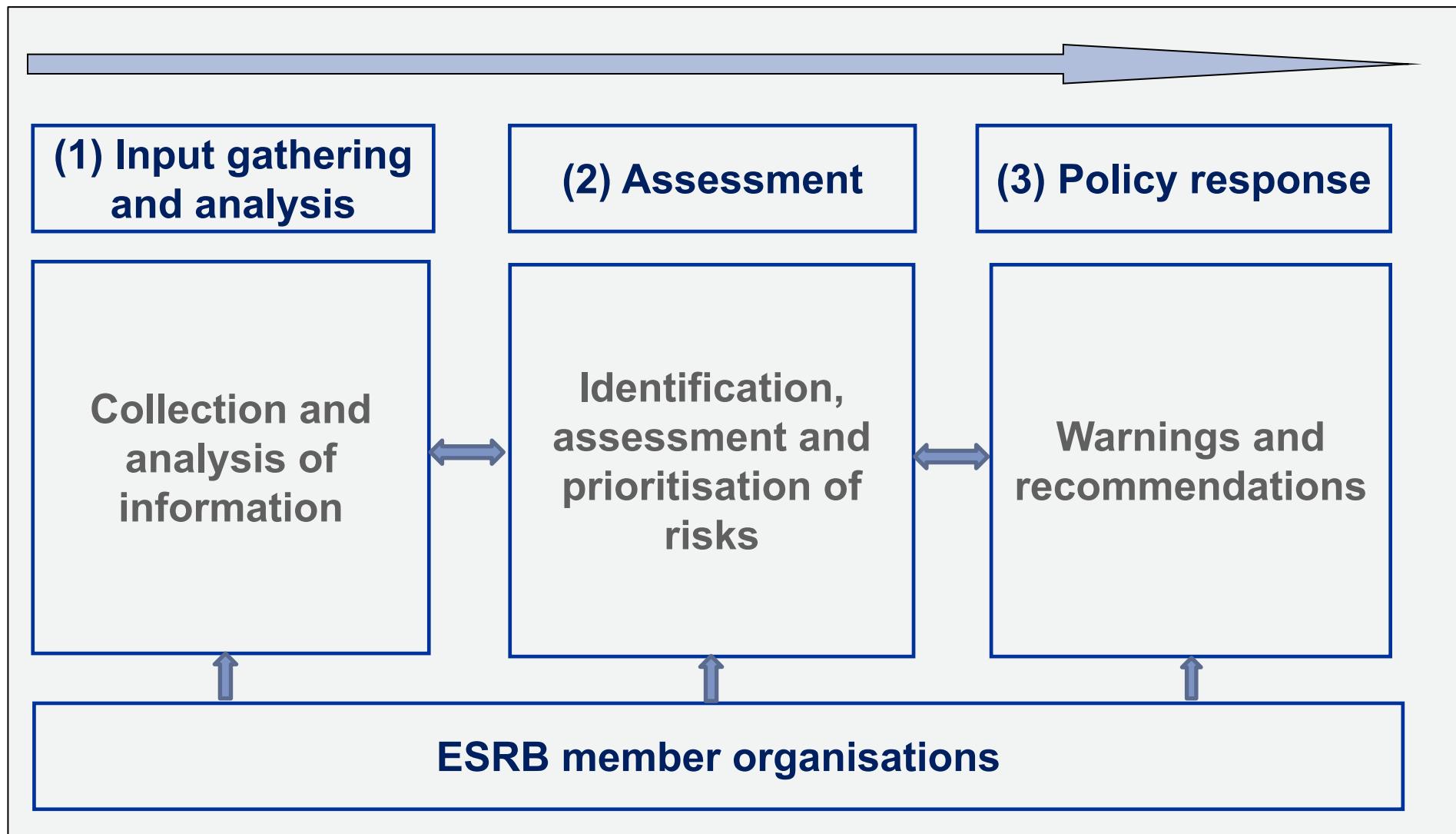
- i. Collecting and analysing all relevant and necessary information

- i. Identifying and prioritising systemic risks

- i. Issuing warnings and recommendations for remedial action where systemic risks are deemed to be significant

European Systemic Risk Board

Tasks

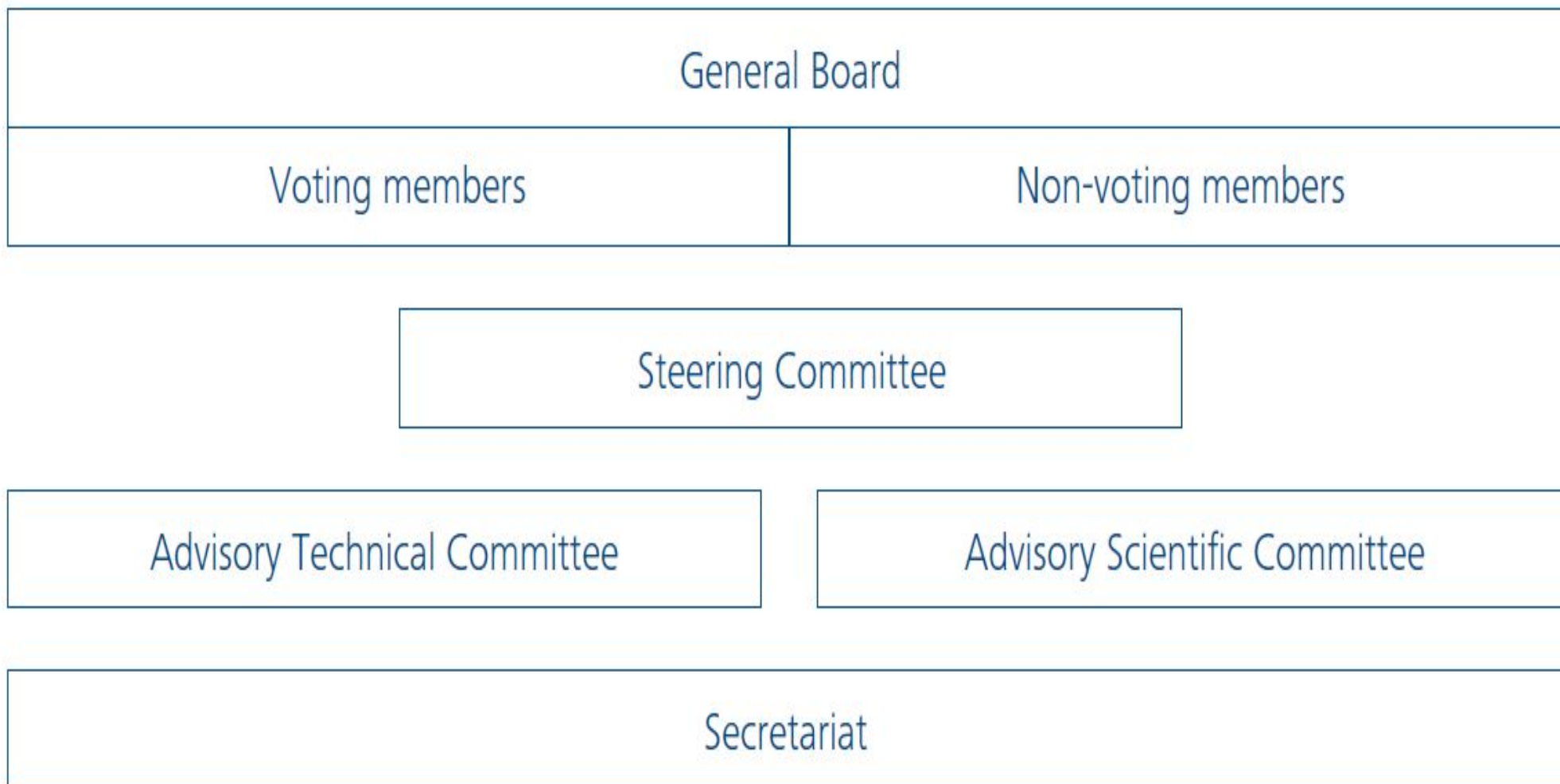


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European Systemic Risk Board

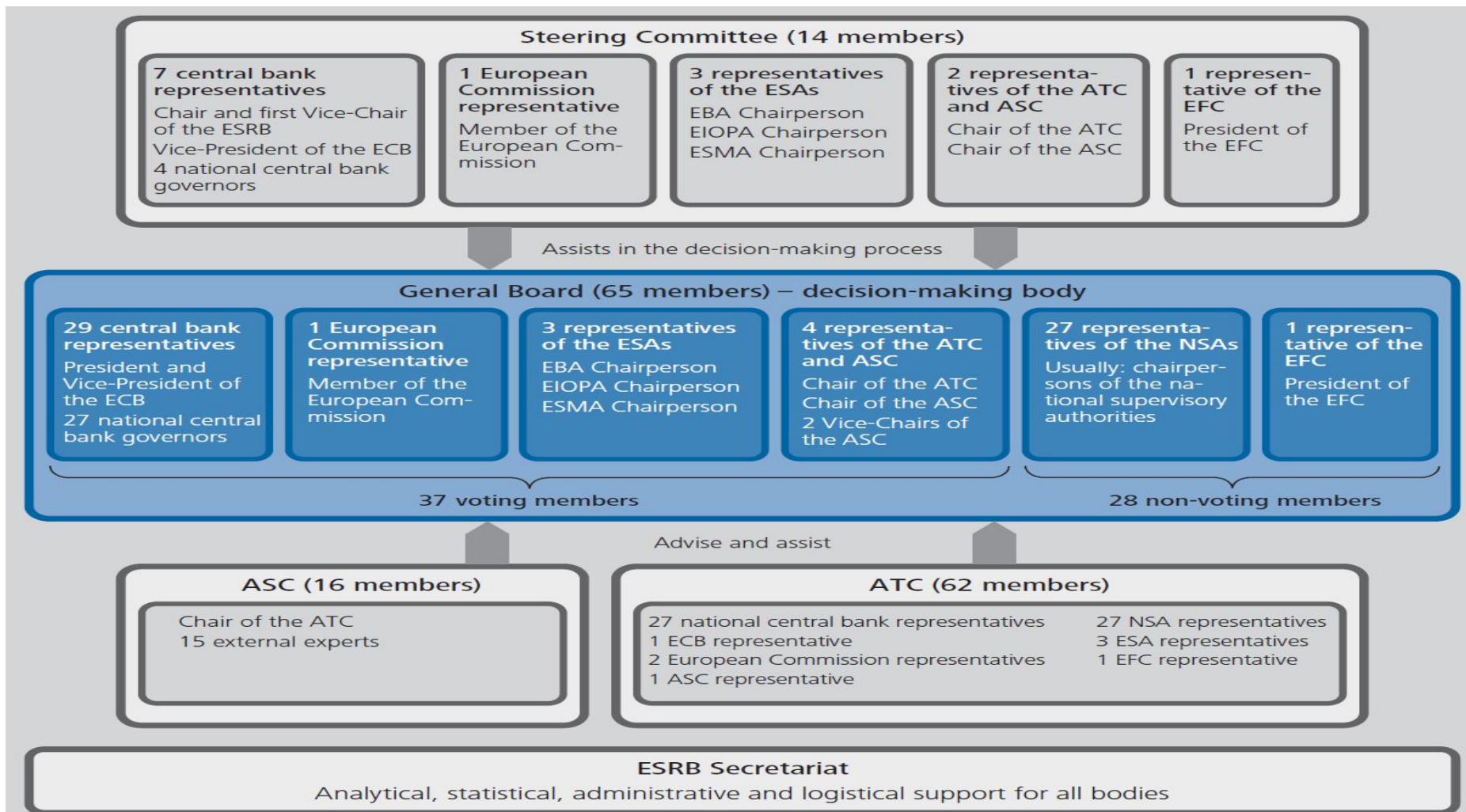
Institutional set-up (I)



Source: ESRB (2012)

European Systemic Risk Board

Institutional set-up (II)



* The representatives of the institutions listed here are independent of instructions. **ESRB** European Systemic Risk Board. **ESA** European Supervisory Authority. **EBA** European Banking Authority. **EIOPA** European Insurance and Occupational Pensions Authority. **ESMA** European Securities and Markets Authority. **EFC** Economic and Financial Committee. **ATC** Advisory Technical Committee. **ASC** Advisory Scientific Committee. **NSA** National Supervisory Authority.

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Institutional set-up (IV)



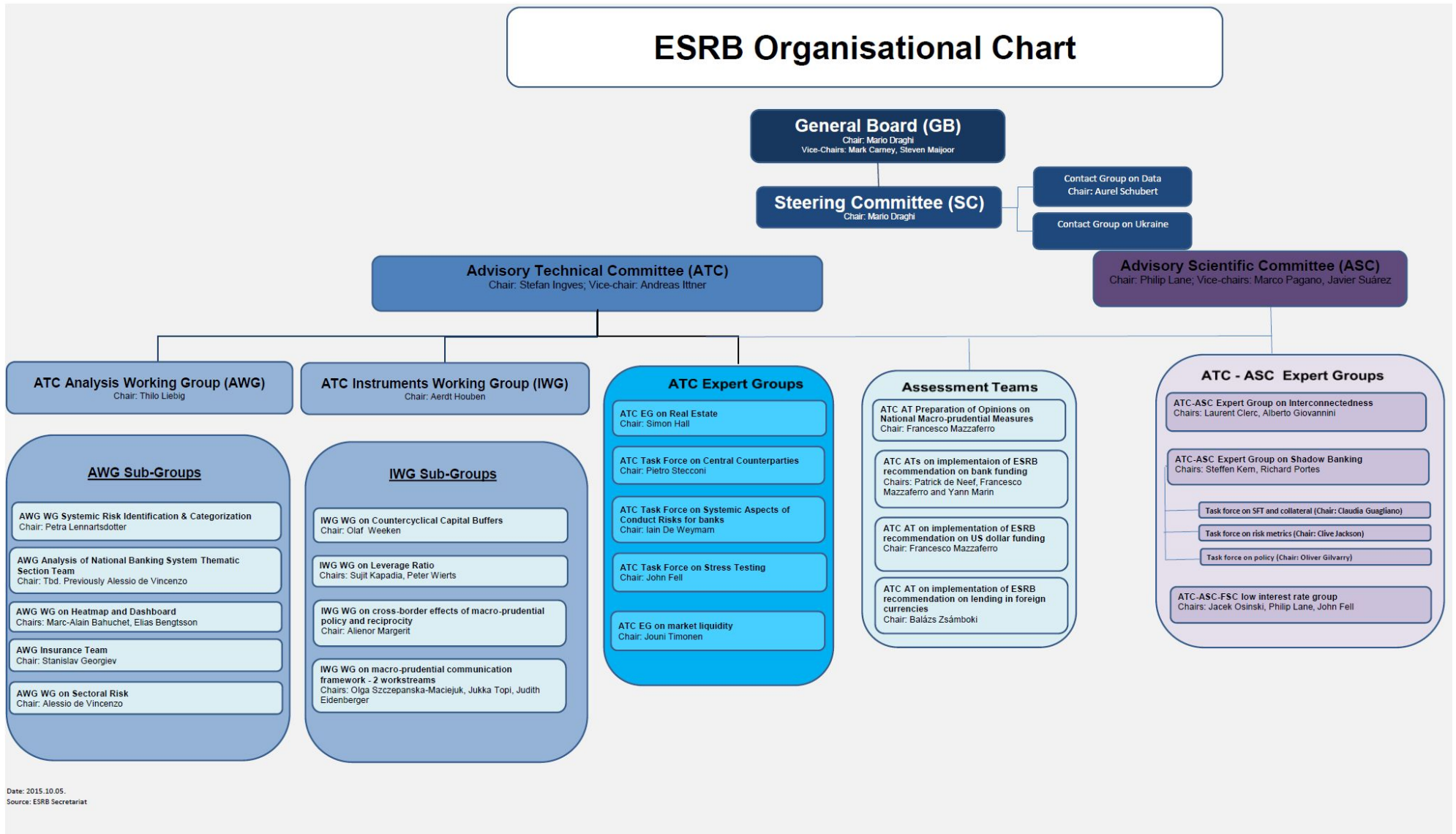
Members of the General Board at the inaugural meeting on 20 January 2011



Meeting room of the General Board

European Systemic Risk Board

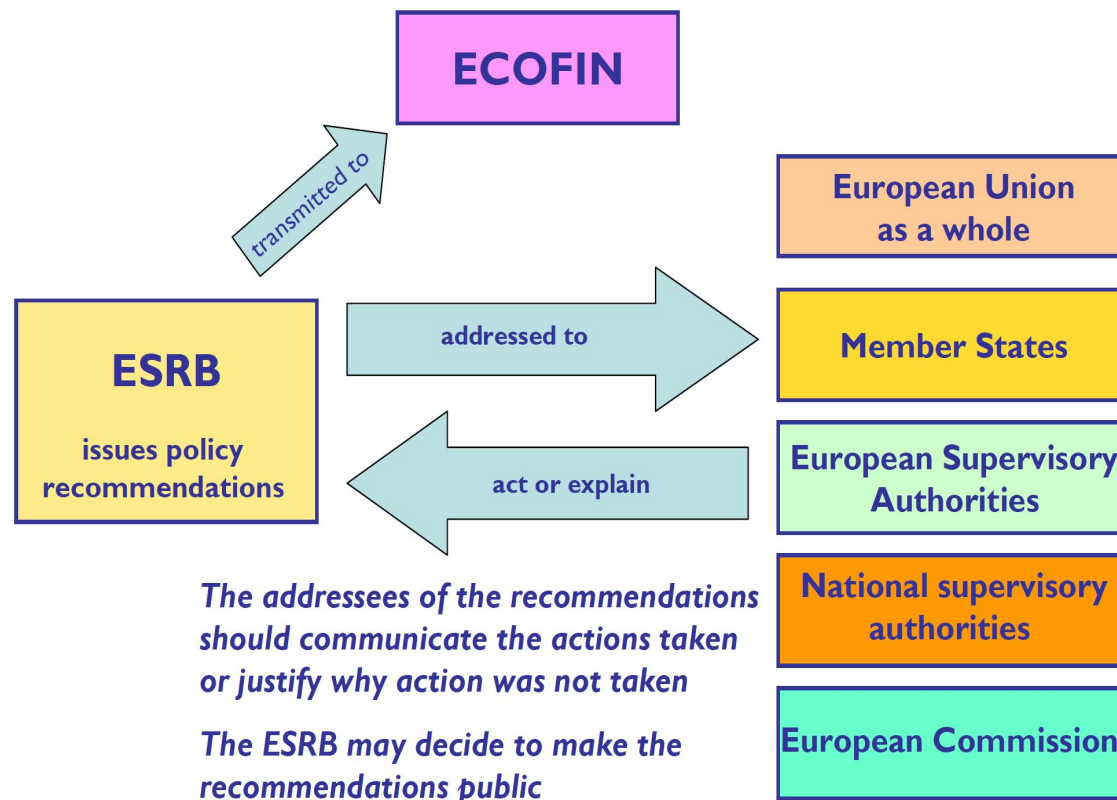
Organisational chart



European Systemic Risk Board

Warnings and recommendations

- Non-binding: „Comply or explain“
- Moral suasion
- Addressees
- Public versus confidential
- General versus specific



Source: ECB (2010)

European Systemic Risk Board

Accountability

- ESRB is an independent EU body
- Accountability to the European Parliament (regular hearings)

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European Systemic Risk Board

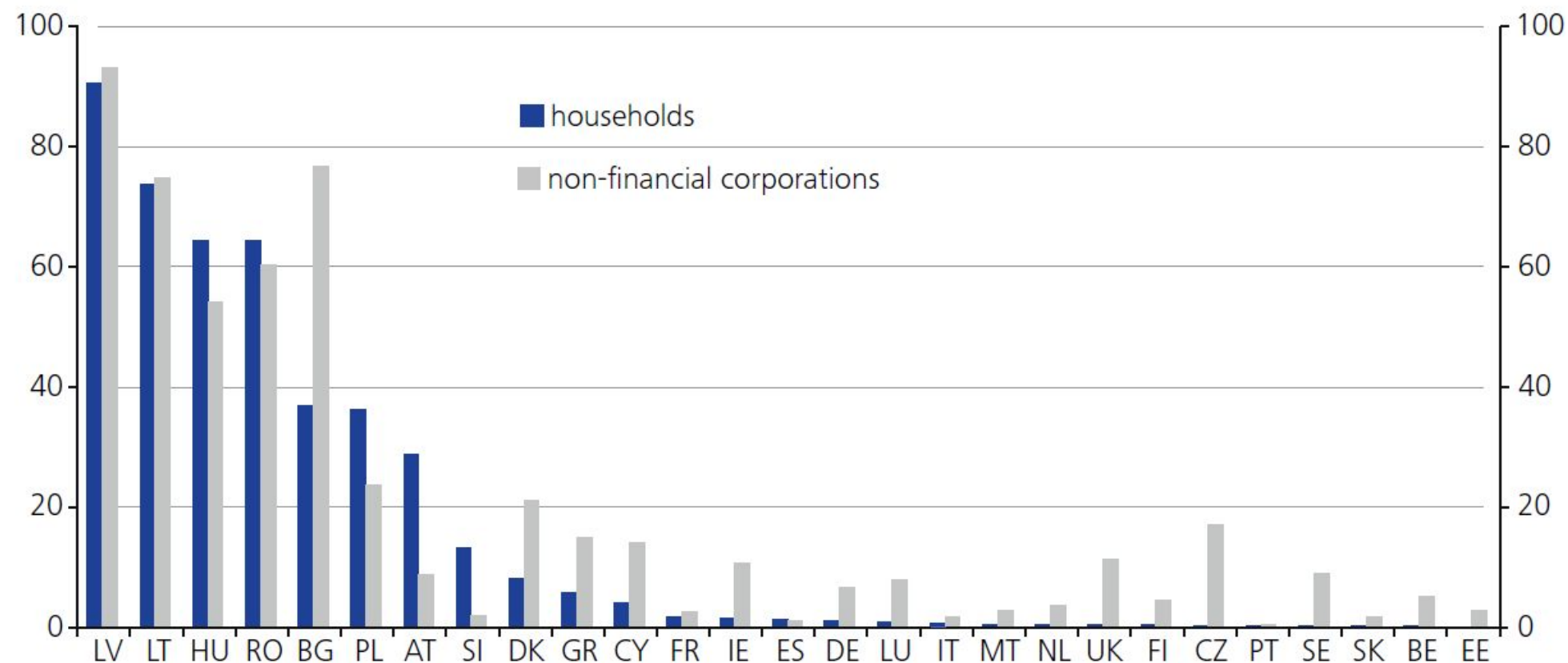
Public recommendations

Subject	Date of publication	Timeline for follow-up
Lending in foreign currencies	11 October 2011	31 December 2012 (with other more specific deadlines)
US dollar-denominated funding of credit institutions	16 January 2012	30 June 2012
Macro-prudential mandate of national authorities	16 January 2012	30 June 2012 (interim report) and 30 June 2013 (final report)
Money market funds	18 February 2013	30 June 2013 (interim report) and 30 June 2014 (final report)
Funding of credit institutions	18 February 2013	From 31 December 2013 on
Intermediate objectives and instruments of macro-prudential policy	4 April 2013	31 December 2014/2015
Guidance for setting countercyclical buffer rates	18 June 2014	30 June 2016
Recommendation on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures	29 January 2016	30 June 2017
Recommendation on setting countercyclical buffer rates for exposures to third countries	29 January 2016	31 December 2020

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Recommendation on lending in foreign currencies

Foreign currency lending to households and non-financial corporations in the EU



Sources: ECB and ECB calculations.

Notes: This chart depicts foreign currency lending as a percentage of total outstanding loans. The latest observation is for April 2011

Source: ESRB (2012)

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Recommendation on lending in foreign currencies

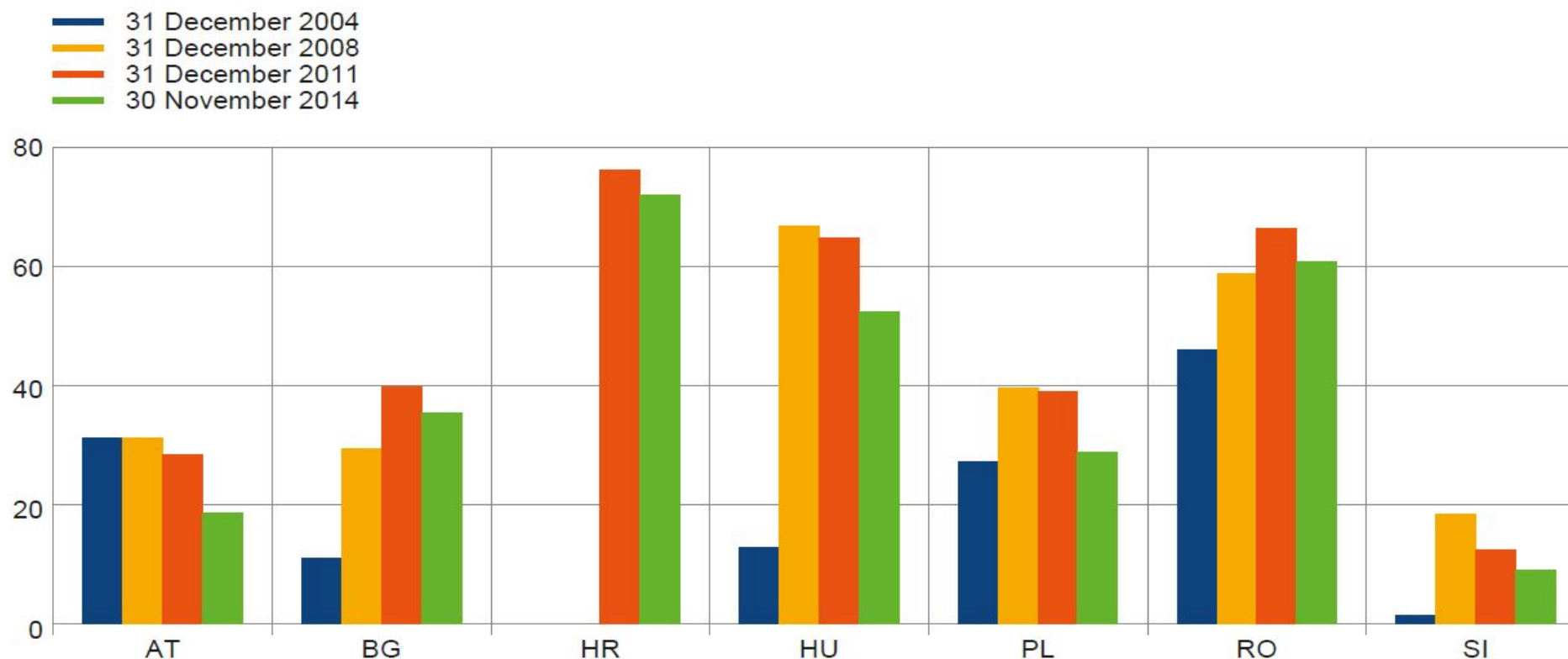
- Enhancing risk awareness of borrowers
- Creditworthiness of borrowers
- Credit growth induced by foreign currency lending
- Improving internal risk management
- Capital requirements, liquidity and funding
- Reciprocity

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Recommendation on lending in foreign currencies – Follow-up

Share of foreign currency lending to total lending to households

(percentages)



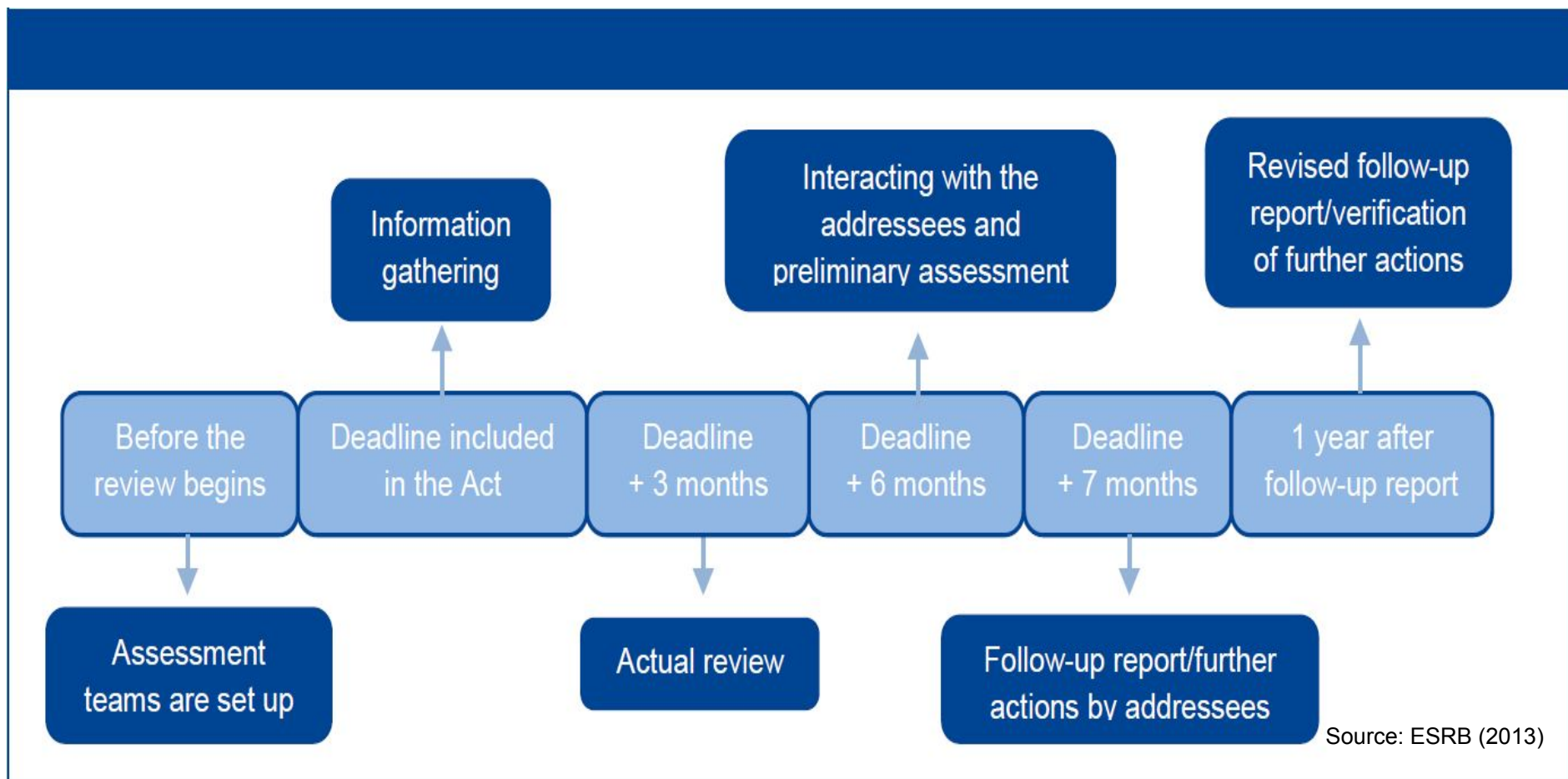
Sources: ECB and ESRB calculations.

Notes: Share of foreign currency loans to total loans. Bulgaria has a fixed exchange rate regime vis-à-vis the euro.

Source: ESRB (2015)

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Follow-up to ESRB recommendations



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Follow-up to ESRB recommendations

Positive grades	Mid-grade	Negative grades
Fully compliant (FC) – Actions taken fully implement the recommendation	Partially compliant (PC) – Actions taken only implement part of the recommendation	Materially non-compliant (MNC) – Actions taken only implement a very small part of the recommendation
Largely compliant (LC) – Actions taken implement almost all of the recommendation		Non-compliant (NC) – Actions taken are not in line with the nature of the recommendation
Sufficiently explained (SE) – No actions were taken but the addressee provided sufficient justification		Inaction insufficiently explained (IE) – No actions were taken and the addressee did not provide sufficient justification

Source: ESRB (2013)

European Systemic Risk Board

Recommendation on macroprudential mandate of national authorities

- EU Member States should bestow the macro-prudential authority with the powers to conduct macro-prudential policy on its own initiative or as a follow-up to recommendations of the ESRB □ would also facilitate cooperation with ESRB
- National authorities to have full access to all necessary statistical information and policy instruments
- National authorities to have the necessary independence to fulfill its tasks, to ensure accountability and to reserve the maximum of transparency
- National authorities to be able to issue public and confidential statements on systemic risks
- Governments to take actions for implementation by mid 2013

Recommendation on macroprudential mandate of national authorities

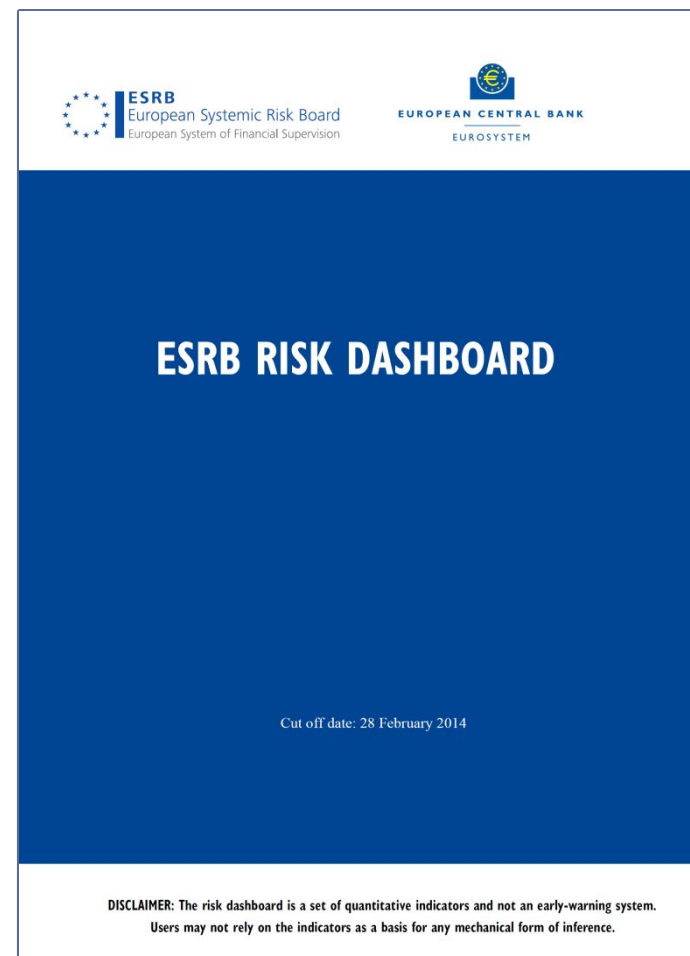
Institutional framework of the national macro-prudential authority

National macro-prudential authority	Board	Central bank	FSA	Government
	AT, BG, HR, DK, FR, DE, IT, LU, NL, PL, RO, SI and ES	BE ^o , CY, CZ, EE ^o , GR, HU, IE, LV, LT, MT, PT, SK and UK	FI and SE	NO

European Systemic Risk Board

ESRB Risk Dashboard

- Set of quantitative and qualitative indicators to identify and measure systemic risk in the EU financial system
- One of the input's for the Board's discussion on risks and vulnerabilities
- Updated and revised on a regular basis
- Not an early warning system! No reliance on indicators as a basis for any mechanical form of evidence!



The six categories of risk in the ESRB risk dashboard

1. Interlinkages and imbalances
2. Macro risks
3. Credit risks
4. Funding and liquidity
5. Market risks
6. Profitability and solvency

Source: ESRB (2013)

References

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Thank you very much for your attention!

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