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BANKING AND FINANCE

Review of the EU Macro-prudential Policy Framework

Fields marked with * are mandatory.

Introduction

The European Commission is launching a public consultation to gather feedback and evidence on whether the existing EU macro-prudential framework is functioning optimally.

The goal of macro-prudential policy is to ensure the stability of the financial system as a whole, which is distinct from the safety and soundness of individual institutions. To this end, whilst the prudential requirements of credit institutions are set at the EU level, a macro-prudential framework is necessary to allow additional flexibility in the setting of these prudential requirements in each Member State. This allows national authorities to address the specific financial stability risks they face, which can be caused by various factors including local imbalances, national laws, and divergent economic cycles.

The EU macro-prudential framework has been developed incrementally over recent years. From establishing the European Systemic Risk Board "ESRB", to designing a toolset of instruments (capital buffers, which are enshrined in CRDIV/CRR), and agreeing a system for coordinated action. This framework has been established by different regulations and directives over time. As such, it lacks the coherence that we would expect, were it established by a single legislative text. Increasingly, a number of issues can be raised in the way the various components of this framework interact. These include, among others:

- The way the different macro-prudential tools overlap (it is not always clear which risks are being addressed when a macro-prudential buffer is used).
- The activation mechanisms required to use these tools (Member States tend to use the tool that requires the least amount of coordination with other Member States).
- The complex co-ordination needed to manage the cross border impacts of some of these measures (a largely voluntary framework, agreed within the ESRB framework).
- The role of the ESRB in the framework (it is perceived by some to be too close to the ECB, and too reliant on its resources to provide fully independent analysis).
- The role of the SSM in using the macro-prudential buffers on the banks under its supervision.

Based on our shared experiences of the application of macro-prudential policy, and in line with the relevant review obligations provided in CRD IV/CRR, the ESRB Regulation, and the Single Supervisory Mechanism Regulation (SSMR), we now have the opportunity for a comprehensive review of the component parts of this framework. This review will deliver a more effective, efficient and flexible framework for the EU.

The ECB has recently (under the SSM) acquired macro-prudential responsibilities, in the form of powers to 'top up' the capital buffers that national authorities impose on their banks, if the ECB sees additional risks. These powers have not yet been tested, but their review would most logically be dealt with alongside all the other macro-prudential elements of the EU framework.

Because the component parts of this framework are so closely interlinked (the bodies providing oversight, the instruments used, and the rules governing their activation/co-ordination), it makes most sense to address all of these elements in one comprehensive review, since amending one element has knock on effects on the others.

Through this consultation, Commission services are actively seeking the opinions of interested and affected groups on the functioning of the macro-prudential framework. This consultation will be of most relevance to public authorities who use these policies (finance ministries, central banks, regulatory authorities, ECB, the EBA, etc). However we also expect significant interest from industry, banks, trade bodies, interested academics, as well as consumer organisations.

The consultation asks a broad range of question, to assess views on the different options available for reforming the existing framework. These include questions on narrowing the scope of macro-prudential instruments (reducing the number of different buffers available under EU legislation), refining the scope of existing instruments (clearer definition of the intended use of each buffer), amending the rules for activating certain instruments (to make these more consistent with one another), as well as the role and organisational structure of the ESRB and its relationship with the ECB.

Once received, these responses will be used to assess the depth of feeling towards different options for reform, consider any challenges the proposals might raise, and to consider alternative options for reform, where relevant.

The public consultation runs **from 01 August 2016 until 24 October 2016**.

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-macroprudential-framework@ec.europa.eu (mailto:fisma-macroprudential-framework@ec.europa.eu).

More information:

- on this consultation (http://ec.europa.eu/finance/consultations/2016/macroprudential-framework/index_en.htm)
- consultation document (http://ec.europa.eu/finance/consultations/2016/macroprudential-framework/docs/consultation-document_en.pdf)
- on the protection of personal data regime for this consultation (http://ec.europa.eu/finance/consultations/2016/macroprudential-framework/docs/privacy-statement_en.pdf)

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1. Information about you

*Are you replying as:

- ( ) a private individual
- (•) an organisation or a company
- ( ) a public authority or an international organisation

*Name of your organisation:

ICI Global

Contact email address:

The information you provide here is for administrative purposes only and will not be published

patrice@iciglobal.org

*Is your organisation included in the Transparency Register?

(If your organisation is not registered, we invite you to register here (http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en), although it is not compulsory to be registered to reply to this consultation. Why a transparency register? (http://ec.europa.eu/transparencyregister/public/staticPage/displayStaticPage.do?locale=en&reference=WHY_TRANSPARENCY_REGISTER))

- (•) Yes
- ( ) No

*If so, please indicate your Register ID number:

296711210890-30

*Type of organisation:

- ( ) Academic institution
- ( ) Company, SME, micro-enterprise, sole trader
- ( ) Consultancy, law firm
- ( ) Consumer organisation
- (•) Industry association
- ( ) Media
- ( ) Non-governmental organisation
- ( ) Think tank
- ( ) Trade union
- ( ) Other

*Where are you based and/or where do you carry out your activity?

United Kingdom

*Field of activity or sector (*if applicable*):

at least 1 choice(s)

- [ ] Accounting
- [ ] Auditing
- [ ] Banking
- [ ] Insurance
- [ ] Pension provision
- [x] Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- [ ] Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- [ ] National administration
- [ ] Supervisory authority
- [ ] Other
- [ ] Not applicable

Important notice on the publication of responses

*Contributions received are intended for publication on the Commission's website. Do you agree to your contribution being published?
(see specific privacy statement (http://ec.europa.eu/finance/consultations/2016/financial-conglomerates-directive/docs/privacy-statement_en.pdf))

- (•) Yes, I agree to my response being published under the name I indicate (*name of your organisation/company/public authority or your name if your reply as an individual*)
- ( ) No, I do not want my response to be published

2. Your opinion

II.1 General approach and scope of the review

Please refer to section II.1 of the Consultation document (http://ec.europa.eu/finance/consultations/2016/macroprudential-framework/docs/consultation-document_en.pdf#scope) to read context information before answering the questions.

Question 1:

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).

- ( ) 1 (fully appropriate)
- ( ) 2

- 3
- 4 (selected)
- 5 (not appropriate at all)
- Don’t know / no opinion / not relevant

Please explain your scoring:

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At present, the central bank-dominated ESRB does not coordinate to a meaningful d
egree with regulatory bodies outside of banking, despite the fact that the Europe
an Securities Markets Authority (ESMA) and the European Insurance and Occupationa
l Pensions Authority (EIOPA) have been assigned financial stability roles and pow
ers.[1]   Ensuring better coordination with ESMA and EIOPA, as well as with natio
nal securities and insurance regulators, is a prerequisite to improving the ESR
B’s ability to monitor across the financial system and identify potential areas o
f systemic risk.  In our view, reconstituting the ESRB as we recommend in respons
e to questions 30-32 below would facilitate such coordination.

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[1] See European Commission, Report from the Commission to the European Parliamen
t and the Council on the operation of the European Supervisory Agencies (ESAs) an
d the European System of Financial Supervision (ESFS), 8 Aug. 2014 at 3, availabl
e at http://ec.europa.eu/finance/general-policy/docs/committees/140808-esfs-revie
w_en.pdf.
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Question 2:

(a) Would you consider appropriate to expand the macro-prudential framework beyond banking?

Please rank your answer from 1 (fully appropriate) to 5 (not appropriate at all).

- 1 (fully appropriate)
- 2
- 3
- 4
- 5 (not appropriate at all) (selected)
- Don’t know / no opinion / not relevant

Please explain your scoring:

ICI Global members, as both issuers of securities and investors in the capital markets, understand the importance of efforts to ensure a strong and resilient financial system for the EU. We support regulatory efforts to monitor across the financial system and identify potential risks that, if not appropriately addressed, could cause significant harm to financial market participants, savers and investors, and the real economy.

We concur with the Commission's observation that the growth of market-based financing, as envisioned in its plan to develop a single EU capital market, "needs to be complemented by a robust monitoring framework of potential systemic risks at the EU level."[2] We likewise agree with the Commission's suggestion that a "broadening and deepening" of the ESRB's analytical resources thus would be helpful in areas "where there is . . . less pre-existing knowledge and/or expertise (e.g., systemic risks outside the banking sector)."[3] This is one of the reasons that ICI Global is urging the Commission to reform the ESRB by providing a greater role for non-bank regulatory bodies such as ESMA and national securities regulators.

Developing a "robust monitoring framework" that would cover non-bank sectors, including asset management, is an altogether different proposition from expanding the EU's existing macroprudential framework beyond banking. To be clear, ICI Global supports the former and strongly opposes the latter. This is because, in our experience, macroprudential policy is firmly rooted in banking and bank regulation. It takes the notion of regulators protecting the "safety and soundness" of individual banks and extends it to the banking system as a whole. We express no views on whether that approach is appropriate for banking. But we affirm it is wholly inappropriate for the capital markets and asset management, where a fundamental underlying premise is that a diverse range of participants—including fund managers, individual investors, and institutions—make their own calculations about the level of investment risk they are willing to bear.

And if this monitoring should reveal potential risks to EU financial stability outside the banking sector? The ESRB—ideally, one that has been reconstituted to give a greater role to securities and insurance regulatory bodies—may make recommendations on how to address those risks. It then should be up to the relevant ESA in coordination with national regulators or up to regulators in each Member State, using their existing toolkits, or developing new regulatory tools, to "operationalise" the recommendations.

Indeed, ESMA has been granted a number of powers and responsibilities with regard to systemic risk.[4] And, securities regulators in EU Member States, following International Organization of Securities Commissions (IOSCO) common principles, seek through their regulation to achieve three objectives: protecting investors; ensuring fair, efficient and transparent markets; and reducing systemic risk.[5] Regulations adopted by each Member State in implementation of EU directives including, but not only, the Undertakings for Collective Investments in Transferable Securities (UCITS) Directive, Alternative Investment Fund Managers Directive (AIFMD), and Markets in Financial Instruments Directive (MiFID) together establish a robust regulatory framework having the effect of preventing or mitigating system-wide risk.

Having securities regulators act to evaluate identified areas of potential risk and consider what action or additional regulation may be warranted is precisely th e approach being taken by the Financial Stability Board in its current review of potential vulnerabilities in asset management activities.[6] And it is consistent with the Commission's view that "[i]f this monitoring indicates emerging risks in the non-banking sectors, measures to address these risks should be consistent with international developments."[7]

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[2] Consultation at 31.

[3] Id.

[4] See, e.g., Article 22 to 24 of Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC.

[5] IOSCO, Objectives and Principles of Securities Regulation, June 2010, available at https://www.iosco.org/library/pubdocs/pdf/IOSCOPD323.pdf. Principle 6, for example, states: "The Regulator should have or contribute to a process to monitor, mitigate and manage systemic risk, appropriate to its mandate."

[6] FSB, Consultative Document, Proposed Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities (22 June 2016), available at http://www.fsb.org/wp-content/uploads/FSB-Asset-Management-Consultative-Document.pdf.

[7] Consultation at 12.

(b) If deemed appropriate, what kind of systemic risks should be targeted and how?

Question 3:

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).

- 1 (strong need)
- 2
- 3
- 4
- 5 (no need)
- Don't know / no opinion / not relevant

Please explain your scoring:

If you see a need, how should their coordination be strengthened?

Question 4:

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).

- 1 (fully agree)
- 2
- 3
- 4
- 5 (fully disagree)
- Don’t know / no opinion / not relevant

Please explain your scoring:

Question 5:

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).

- 1 (necessary complement)
- 2
- 3
- 4
- 5 (useless complement)
- Don’t know / no opinion / not relevant

Please explain your scoring:

If yes, how would you see the interaction of this sectoral CCB with the CCB already in place?

Question 6:

Do you see a need for adjusting measures targeting risks associated with banks’ real estate exposures?

- Yes
- No

Question 7:

Do you see a need for disentangling different responsibilities between competent and designated authorities?

- Yes
- No

Question 8:

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).

- 1 (a better distinction is necessary)
- 2
- 3
- 4
- 5 (a better distinction is not necessary)
- Don’t know / no opinion / not relevant

Question 9:

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)?

- Yes
- No

Question 10:

Should the SRB be explicitly defined as either an activity based or an institution specific tool?

- Yes
- No

Please explain your answer:

Question 11:

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

Question 12:

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

Question 13:

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).

- 1 (fully agree)
- 2
- 3
- 4
- 5 (fully disagree)
- Don’t know / no opinion / not relevant

Please, explain your scoring:

Question 14:

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).

- 1 (fully appropriate)
- 2
- 3
- 4
- 5 (not appropriate at all)
- Don’t know / no opinion / not relevant

Please, explain your scoring:

Question 15:

Do you think that the 2 percent cap for the O-SII buffer should be revised?

- Yes
- No

Question 16:

Do you consider that the current cumulation rules applicable to institution-specific buffers need to be revised?

- Yes
- No

Question 17:

Do you see a need for developing additional harmonized macro-prudential instruments?

- Yes
- No

Question 18:

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?

Question 19:

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).

- 1 (fully appropriate)
- 2
- 3
- 4
- 5 (not appropriate at all)
- Don’t know / no opinion / not relevant

Please, explain your scoring:

Question 20:

Can overlaps in the tools’ scope facilitate the circumvention of control elements embedded in the activation mechanism?

- Yes
- No

Question 21:

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

Question 22:

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

Question 23:

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

Question 24:

Do you see the risk that especially the O-SII buffer and the SRB could be used for ring-fencing purposes?

- Yes
- No

Question 25:

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).

- 1 (fully appropriate)
- 2
- 3
- 4
- 5 (not appropriate at all)
- Don’t know / no opinion / not relevant

Please, explain your scoring:

Question 26:

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).

- 1 (strong need for more coordination)
- 2
- 3
- 4
- 5 (no need for further coordination)
- Don't know / no opinion / not relevant

Please, explain your scoring:

Do you see areas in which this coordination could be improved?

Question 27:

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).

- 1 (strong need for amending)
- 2
- 3
- 4
- 5 (no need for amending)
- Don't know / no opinion / not relevant

What time limitations would you suggest?

Question 28:

Do you see need to broaden the scope for mandatory reciprocity in the CRR/CRDIV?

- Yes
- No

II.3 Institutional setting

Please refer to section II.3. of the Consultation document (http://ec.europa.eu/finance/consultations/2016/macroprudential-framework/docs/consultation-document_en.pdf#setting) to read context information before answering the questions.

Question 29:

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).

- ○ 1 (fully appropriate)
- ○ 2
- ○ 3
- ◉ 4
- ○ 5 (not appropriate at all)
- ○ Don’t know / no opinion / not relevant

If not deemed fully appropriate, what changes would you suggest to ensure such efficient coordination?

As the consultation acknowledges, the ESRB was established in 2010, right after the banking sector “highlighted the most severe macro-prudential vulnerabilities during the global financial crisis.”[8] It is not surprising, therefore, that the ESRB’s mandate was set forth largely in banking terms and that its existing policy instruments are “primarily geared towards the banking sector.”[9]

Presently, the EU is focusing on diversifying and deepening its capital markets. The consultation makes reference to the growing importance of market-based financing outside the banking sector, noting that the Commission’s Capital Markets Union project “aims to foster that alternative source of financing to the economy.” We fully support this project. In the United States, for example, banks and capital markets have existed alongside one another for centuries, with parallel bodies of regulation and oversight. The US financial system and the US economy at large have thrived on the benefits that both banks and capital markets provide.

Looking ahead to this broader EU financial system, we urge the Commission to restate the mandate of the ESRB. Rather than having responsibility for “macro-prudential oversight”—terminology that implies a bank-oriented approach—the ESRB should be tasked with bringing a “macro-financial perspective” to the EU regulatory scheme. Indeed, the consultation itself uses the term “macro-financial” to describe how the broad perspective of the ESRB could best complement the sector-specific perspective of the three ESAs “in order to foster a holistic understanding of the financial system.”[10] Although the ESRB already appears to have a remit that is broader than macroprudential oversight,[11] we recommend that the Commission take this opportunity to emphasize that the ESRB should advance the dual objectives of identifying potential risks to the EU financial system, while also contributing to the promotion of vibrant capital markets and economic growth.

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[8] Consultation at 3, 5, 11.

[9] Consultation at 11.

[10] Consultation at 31.

[11] For example, the regulation outlining the ESRB’s mission and objectives requires in part that the ESRB “contribute to the smooth functioning of the internal market and thereby ensure a sustainable contribution of the financial sector to economic growth.” Article 3, paragraph 1 of Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board.

Question 30:

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).

- 1 (fully adequate)
- 2
- 3

- [x] 4
- [ ] 5 (not adequate)
- [ ] Don’t know / no opinion / not relevant

Please, explain your scoring:

We support the concept of establishing public bodies or mechanisms that allow financial regulators to monitor and analyze risks across the financial system. We are concerned, however, that the ESRB—through its current structure and leadership—has such strong ties to central bankers and central banking that it lacks the capacity and appropriate expertise to conduct system-wide risk analysis in a thorough and balanced manner. We likewise are concerned about central bankers’ tendency to presuppose the appropriateness of bank-oriented regulatory solutions outside the banking context.

For these reasons, we are wary of the suggestions in the consultation that “there would be merit in keeping the strong link between the ESRB and the central bank community” and that “[c]entral banks are . . . well placed to offer considerable analytical capability about the non-bank financial system.”

To enhance the ESRB’s capacity to conduct system-wide risk analysis—and to avoid approaching the analysis of non-bank financial entities and activities with a banking bias—we recommend that the EU undertake reforms to the ESRB’s composition, mandate and resources. Such reforms should include providing equal roles for all major sectors of the financial system: capital markets, banking and insurance.

Question 31:

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).

- [ ] 1 (fully adequate)
- [ ] 2
- [ ] 3
- [x] 4
- [ ] 5 (not adequate)
- [ ] Don’t know / no opinion / not relevant

Please, explain your scoring:

The consultation indicates that the ESRB “has neither legal personality nor its own budget.” Rather, it “receives analytical, logistical, statistical and administrative support from the ECB, which bears the associated budgetary cost. The ECB notably ensures the support of human and financial resources necessary for the fulfilment of the ESRB Secretariat’s tasks.”[12] Given this close relationship with the ECB, it is not surprising that the ESRB has a strong banking orientation.

But with a mandate that extends to the entire financial system, the ESRB should have its own, separate legal identity. With its own personality, the ESRB would not been seen anymore as central bankers seeking to export their views on financial stability but as an EU authoritative mechanism for detection of systemic risks across the financial system and for recommending appropriate actions by the relevant regulators. The ESRB likewise should have the resources necessary to support a broader orientation and its independence. We strongly agree with the consultation’s acknowledgement that “the ESRB could benefit from additional own analytical resources to complement its analysis especially in those areas, where there is a) less pre-existing knowledge and/or expertise (e.g. systemic risks outside the banking sector). . . .” This would allow the ESRB, for example, to hire experts in securities and insurance.

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[12] Consultation at 5.

Question 32:

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?

We wish to reiterate our concern that the “macro-prudential perspective”—i.e., the perspective of central bankers—dominates the ESRB’s work to the exclusion of other, potentially more relevant perspectives. Recasting the ESRB’s mandate to refer instead to a “macro-financial” perspective and reconstituting the ESRB to provide equal participation for banking, capital markets and insurance should help to ensure that EU policymaking is informed by a full and accurate understanding of the EU financial system and possible areas of systemic risk. Please also see our responses to Q29-Q31.

Question 33:

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?

As noted in our responses to Q2 and Q30, we firmly believe that the appropriate role for the ESRB is one of monitoring across the financial system and identifying potential risks to EU financial stability. To this end, it may make sense to modify the ESRB toolkit in favor of less formal mechanisms for referring identified areas to competent regulators at the EU or national level. These mechanisms could, as the consultation notes, "enhance the impact of the ESRB action, allow engaging in a constructive dialogue with potential addressees at an early stage and enhance the flexibility of the early warning function."[13]

Allowing the ESRB greater flexibility in flagging areas of potential concern, however, underscores the importance of developing the ESRB into an organization with capabilities to have "a thorough understanding of the underlying risks," so that its pronouncements about possible areas of risk are informed ones. Providing a greater role for ESMA and EIOPA, as discussed in our response to Question 35, should help in this regard, because both regulatory bodies already have monitoring and coordinating roles in respect of financial stability.

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[13] Consultation at 32.

Question 34:

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).

- 1 (fully adequate)
- 2
- 3
- 4
- 5 (not adequate)
- Don't know / no opinion / not relevant

If not deemed fully satisfactory, what improvement would be necessary?

Question 35:

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).

- 1 (fully agree)
- 2
- 3
- 4
- 5 (fully disagree)
- Don't know / no opinion / not relevant

Please, explain your scoring:

In discussing the need to enhance the ESRB's organizational identity, the consult
ation suggests the creation of two possible positions: a full-time Managing Dire
ctor in charge of day-to-day activities, and a Research Director/Chief Economist
 to "strengthen the analytical side." We believe that both suggestions are worth
y of further consideration. It would be important, however, to ensure that indiv
iduals appointed to these positions would take a broad approach (as opposed to a
 bank-centric one) to the ESRB's mandate. Selection by a reconstituted General B
oard (as discussed in our response to Q36) could help in this regard.

As discussed in our responses to Q29-30, ICI Global believes that the ESRB should
 bring a "macro-financial" perspective to the EU regulatory scheme and that, to d
o so effectively, the ESRB should be reconstituted to provide equal roles for all
 major sectors of the financial system—banking, capital markets and insurance. O
ne possible approach would be to appoint the ECB President as the permanent ESRB
 Chair, with each of the three ESA Chairs serving as ESRB Vice Chairs. This stru
cture, in our view, would facilitate the transition from an ESRB with "institutio
nal link with the ECB" to a more independent and authoritative entity whose "tone
 at the top" is set jointly by the ECB and the three ESAs. It also is in keeping
 with the ESAs' existing role in regard to financial stability, which the Commiss
ion viewed favorably in its 2014 report on operation of the ESAs.[14]

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[14] See European Commission, Report from the Commission to the European Parliame
nt and the Council on the operation of the European Supervisory Agencies (ESAs) a
nd the European System of Financial Supervision (ESFS), 8 Aug. 2014, available at
 http://ec.europa.eu/finance/general-policy/docs/committees/140808-esfs-review_e
n.pdf.

Question 36:

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).

- 1 (fully agree)
- 2
- 3
- 4
- 5 (fully disagree)
- Don't know / no opinion / not relevant

Please, explain your scoring:

Noting the complexity of the ESRB's current structure and governance, the consultation suggests that "there is scope for improving the efficiency of the ESRB's decision-making." One option that the consultation raises is reducing the size of the General Board.

More fundamental, we believe, is the need to improve the ESRB's ability to make informed judgments about potential risks to EU financial stability—or the lack of such risks—outside the banking sector. As we have noted, this will require expanding the ESRB's resources to include expertise in non-bank sectors and reconstituting the ESRB to provide equal roles for all three major financial sectors (banking, capital markets and insurance).

In our view, reconstituting the General Board will entail changes in three significant respects. First, the current participation of central bank governors from each Member State reinforces a bank-centric viewpoint. Second, the concentration of voting power in the ECB and national central bank governors ensures bank-centric outcomes. And third, Member States in practice often send their banking supervisors to General Board meetings, regardless of the matters to be discussed. The consultation acknowledges as much, noting that "a more open approach as regards the national authorities represented" may be warranted to "accommodat[e] the ESRB's system-wide remit." It suggests in a footnote that "if a discussion on risks or mitigating measures stemming from the non-bank financial sector is tabled, it could be opportune for Member States to be represented by the relevant national supervisory authority responsible for that sector or the country's macro-prudential authority." This already is possible in theory[15] under the current Regulation but does not work in practice. That is why we recommend that the Commission go further and designate a proportionate number of voting seats on the General Board for national regulators in securities and insurance.

Banking interests likewise dominate the ESRB Steering Committee, which "assists in the [General Board's] decision-making process." Just like the General Board, the Steering Committee should be reconstituted to provide equal roles for regulatory bodies expert in capital markets, insurance and banking. Ensuring a more balanced representation on the Steering Committee is particularly important should the Commission confer responsibility for certain decision-making to that Committee.

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[15] See paragraph 3 of Article 6 of Regulation (EU) No 1092/2010.

Question 37:

(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?

Please rank your answer from 1 (fully agree) to 5 (fully disagree).

- 1 (fully agree)
- 2
- 3
- 4
- 5 (fully disagree)
- Don't know / no opinion / not relevant

Please, explain your scoring:

Please see our response to Q36.

(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).

- 1 (fully agree)
- 2
- 3
- 4
- 5 (fully disagree)
- Don’t know / no opinion / not relevant

Please, explain your scoring:

Question 38:

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?

We recommend that the Commission fully review the composition and role of the ESRB advisory committees. The consultation notes that the 64-member Advisory Technical Committee (ATC) “mirrors the General Board” and is responsible for advising and assisting the work of the General Board. This means, therefore, that the orientation of the ATC is decidedly bank-focused. For its part, the Advisory Scientific Committee has 15 expert members “chosen on the basis of their general competence and their diverse experience in particular in academic fields or other sectors.”[16] The ASC “provides advice and assistance on issues relevant to the work of the ESRB at the request of the Chair of the General Board”—presently, the ECB President—and its work is subject to strict confidentiality rules.[17]

As with the General Board and Steering Committee, the composition and role of these ESRB advisory committees going forward should be revised to reflect a “macro-financial” perspective and an equal role for banking, capital markets and insurance experts. Determining the precise scope of these revisions, however, should be deferred until after the Commission settles upon more fundamental changes for the ESRB, including reconstitution of the General Board and greater, more diverse resources for the ESRB Secretariat.

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[16] See https://www.esrb.europa.eu/about/orga/asc/html/index.en.html.

[17] See Mandate of the Advisory Scientific Committee of the ESRB (20 Jan. 2011), available at https://www.esrb.europa.eu/pub/pdf/ASC-mandate.pdf.

3. Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) here:

2016-10-28_ICI_Global_letter_on_EU_macroprudential_framework__cover_ltr_only_.pdf

2016-10-28_ICI_Global_letter_on_EU_macroprudential_framework__questions_.pdf

Useful links

Consultation details (http://ec.europa.eu/finance/consultations/2016/macroprudential-framework/index_en.htm) (http://ec.europa.eu/finance/consultations/2016/macroprudential-framework/index_en.htm)

Specific privacy statement (http://ec.europa.eu/finance/consultations/2016/macroprudential-framework/docs/privacy-statement_en.pdf) (http://ec.europa.eu/finance/consultations/2016/macroprudential-framework/docs/privacy-statement_en.pdf)

More on the Transparency register (http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en) (http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

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