

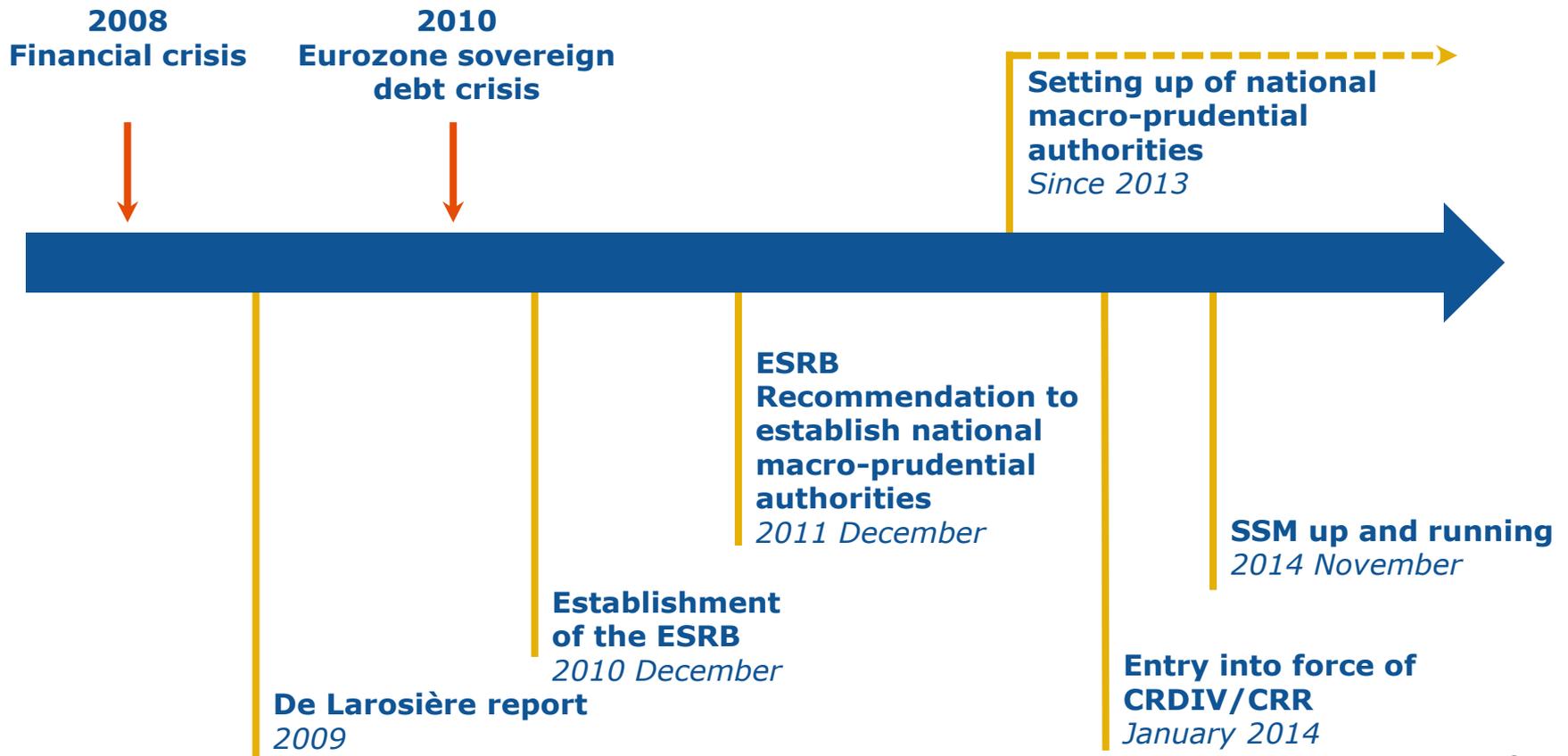


The EU macro-prudential policy framework : time to review ?*

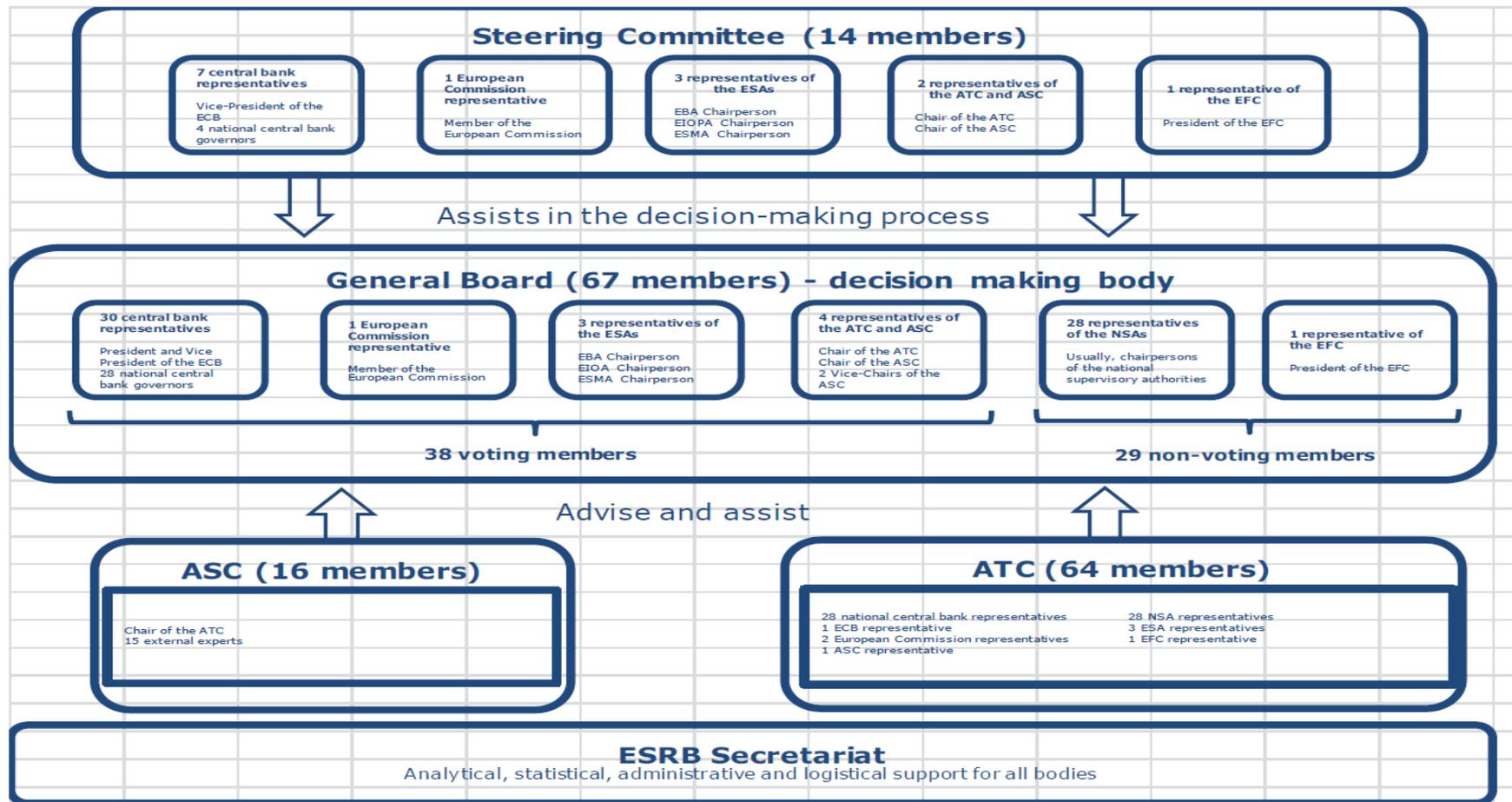
**Aliénor Margerit, European Commission (DG FISMA)
CEPS, Brussels, 3 December 2015**

**The views expressed in this presentation are personal and do not necessarily reflect the Commission's official position.*

The EU macro-prudential framework: the result of a piecemeal approach



The first building-block: the ESRB



The ESRB: governance challenges

Is the ESRB governance fit for purpose ?

- ✓ Large governing bodies and burdensome decision-making/ but very efficient voting rules
- ✓ Central-bank focused
- ✓ Heterogeneous macro-prudential landscape at national level
- ✓ Which level of representation in the General Board/the Steering Committee ?
- ✓ Institutional identity ?

The ESRB : a growing coordination role

The role of the ESRB has evolved over time

- ✓ ESRB founding regulation : two non-binding instruments granted to the ESRB (i.e. warnings and recommendations)
- ✓ CRD IV/CRR: additional tasks in the activation of specific macro-prudential tools by Member States (i.e. provides opinions on the use of certain tools)
- ✓ In practice: towards a stronger coordination role of national macro-prudential policies:
 - A 'macro-prudential hub' : a wide range of measures are notified to the ESRB
 - The role of the ESRB Assessment Team
 - Assessment of cross-border spillovers and reciprocity

The second building-block : national macro-prudential authorities

A heterogeneous landscape



Board

13 MS

AT, DK, HR, IT, NL, RO,
PL, SI, ES,
FR, DE, LU, BG



**Central
bank**

13 MS

BE, CY, CZ, EE,
GR, HU, IE, LV,
LT, MT, PT, SK, UK



FSA

2 MS

FI, SE

The third building-block: concrete macro-prudential instruments (partially) enshrined in EU law

CRD IV/CRR framework



Countercyclical capital buffer (CCyB)
Additional capital requirement



Pillar II measures
Additional capital requirements due to SREP



Systemic risk buffer (SRB)
Additional capital requirement



Article 124/164 CRR
Risk-weight calibration for real estate exposure



G-SII/O-SII buffer
Additional capital requirement



Article 458 CRR 'Flexibility package'
Wide range of measures

Additional national measures



Real estate measures
Loan-to-value, Debt-to-income, amortisation



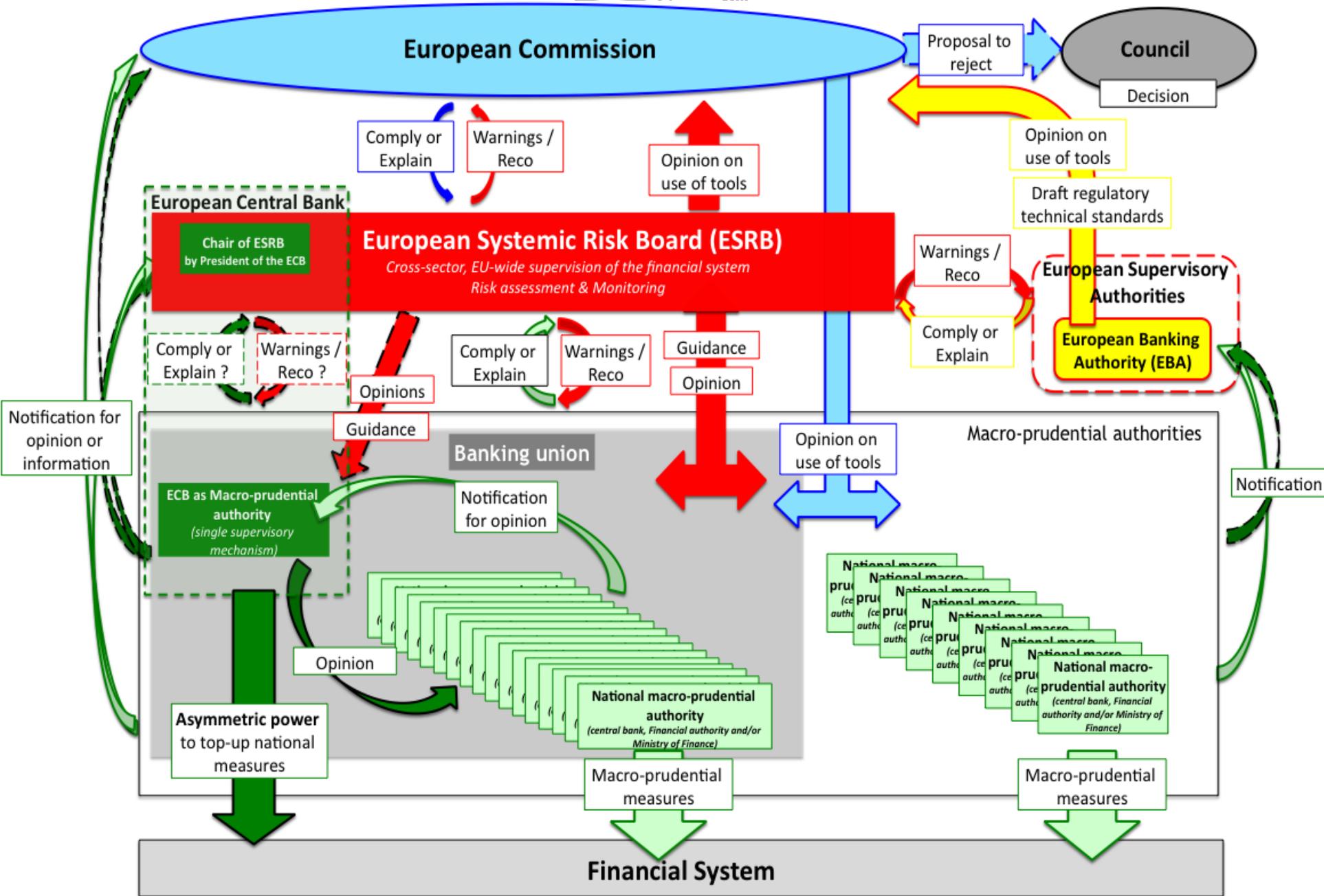
Stress/sensitivity tests
Interest rate increase impact on specific portfolios

The fourth building-block: the Banking Union dimension

Macro-prudential competences of the ECB/SSM

- ✓ Article 5 of SSM Regulation
- ✓ ECB powers limited to Banking Union (Euro Area and Banking sector)
- ✓ Power to 'top-up' national measures

The resulting framework : too complex ?



Yet we need macro-prudential policy to work !



'... let me underline that we are closely monitoring risks to financial stability, but we do not see them materialising for the moment. Should this be the case, macro-prudential policy – not monetary policy – would be the tool of choice to address these risks.'

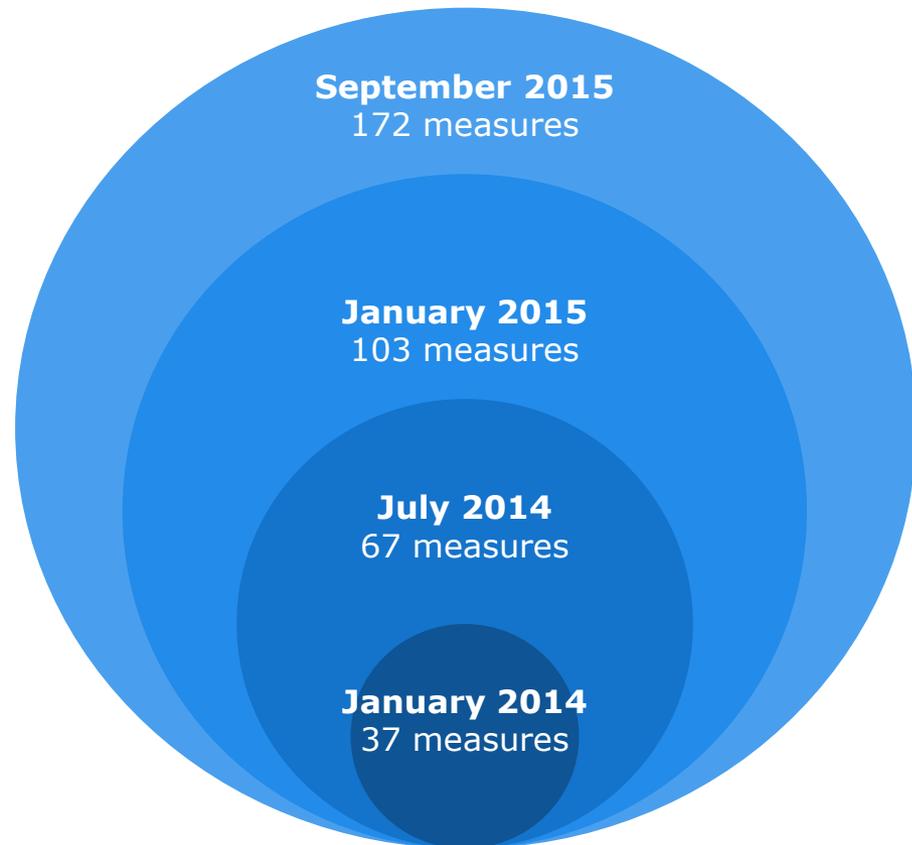
Mario Draghi, ECON hearing, September 2015

Why can macro-prudential policy make a difference ?

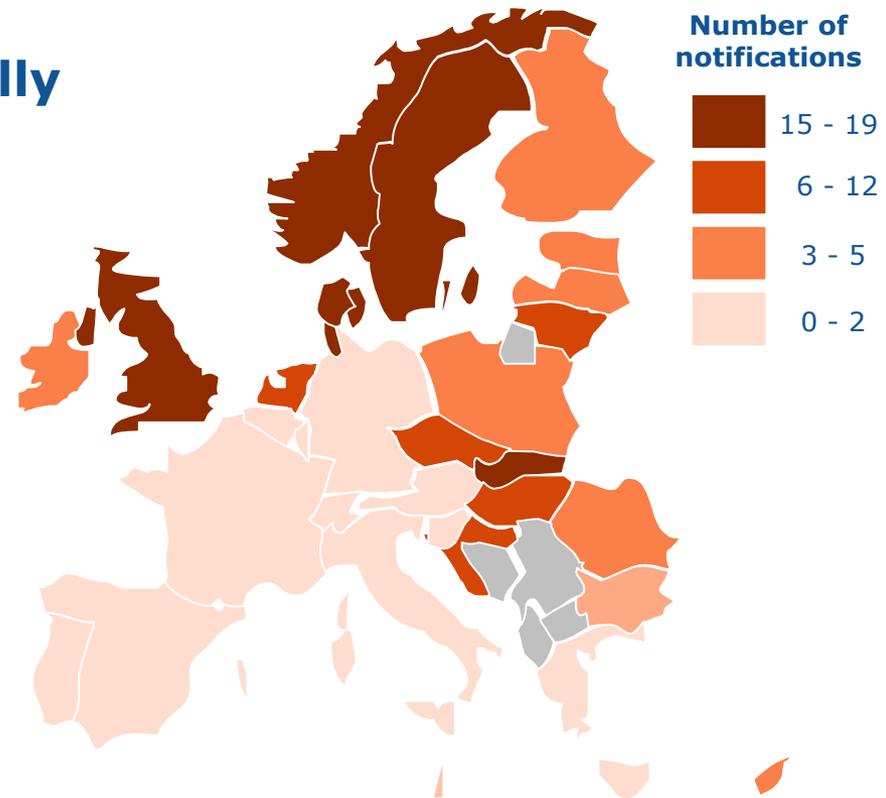
- ✓ It allows Member States to address local/domestic imbalances, preventing cross-border contagion
- ✓ Such national flexibility is important in particular in the Euro Area where there is a single monetary policy
- ✓ Macro-prudential policy is particularly useful at the current juncture, given the accommodative monetary policy stance

Macro-prudential measures activated in practice

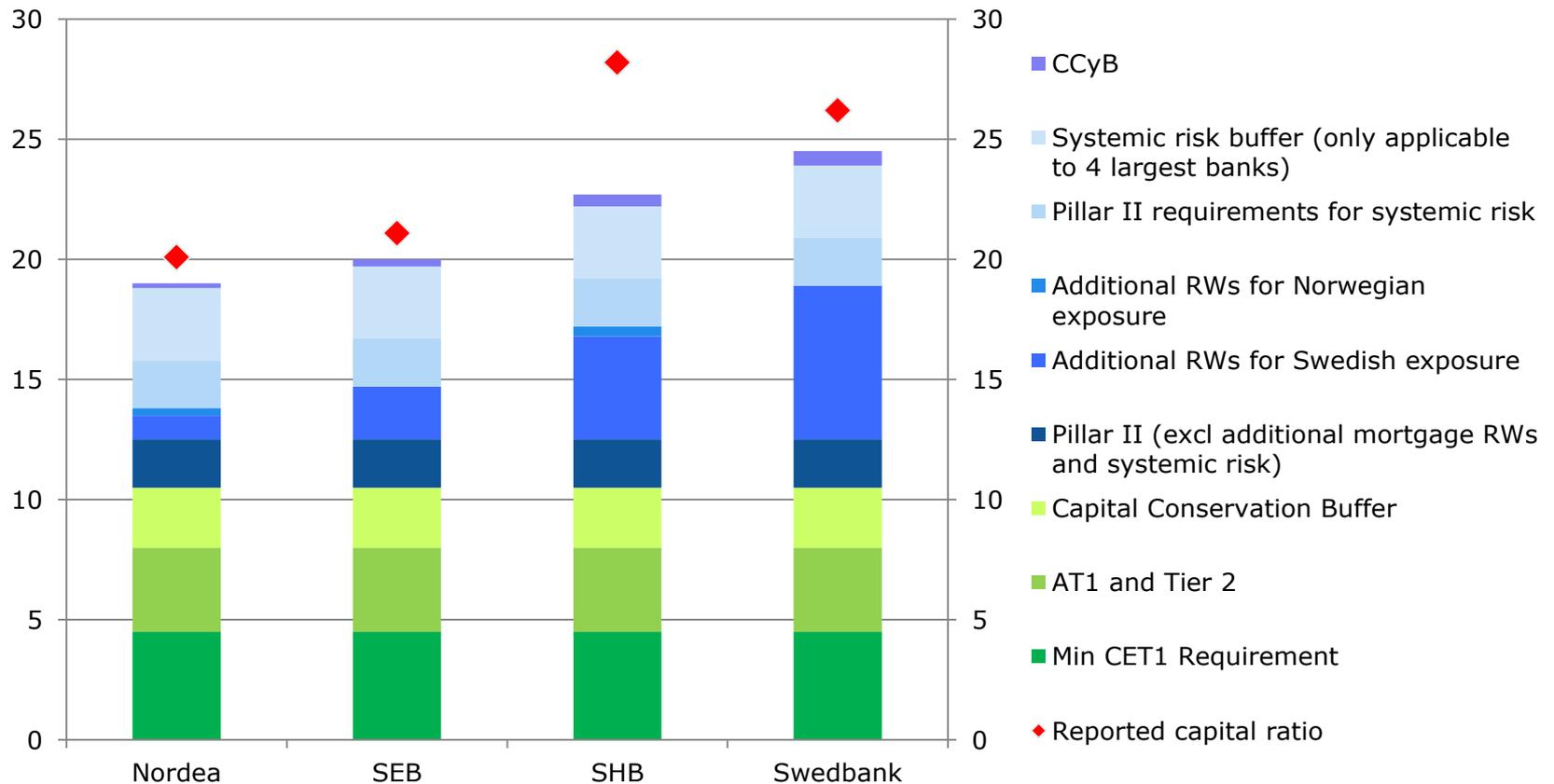
All macro-prudential
measures notified
(national and EU law)
- until September
2015



Not all Member States are equally active...

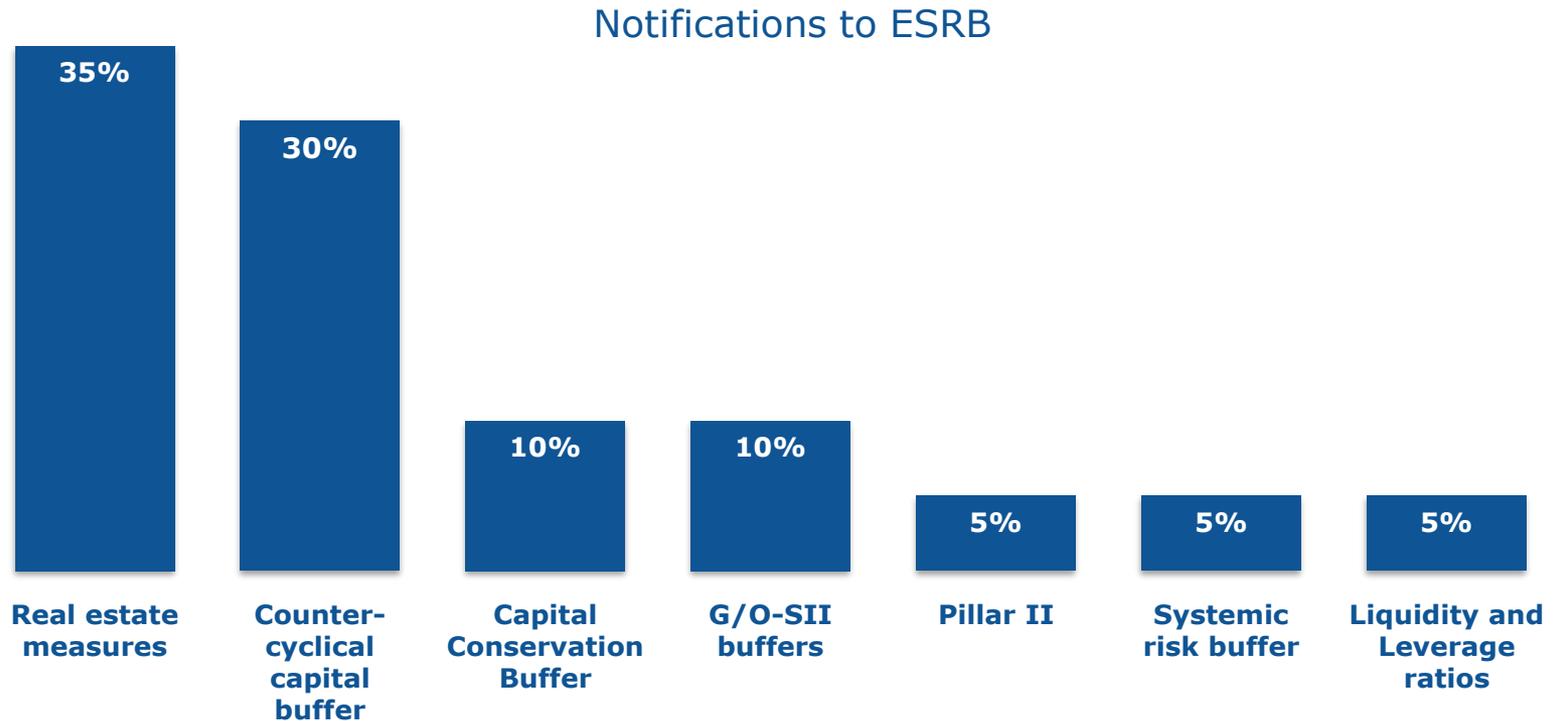


A specific case: Sweden



Source: Finansinspektionen

Real estate measures and Counter-cyclical capital buffer dominate the notifications to the ESRB



Time to review ?

- ❑ **The review of the texts : a legal requirement**
 - ESRB founding regulations : Article 20 / Article 8
 - CRD IV/CRR macro-pru rules and tools : Article 513 CRR
 - SSM Reg/ Macro-prudential powers of ECB/SSM: Article 32 (d)

- ❑ **The timelines of the review clauses are not aligned :**
 - ESRB founding Regulations : December 2013
 - CRD IV/CRR macro-prudential rules and tools : December 2014
 - SSM macro-prudential tasks and tools : December 2015

- ❑ **What has been done so far ?**
 - ESRB : Commission report based on stakeholders consultation published in August 2014
 - CRD IV/CRR macro-prudential instruments : ESRB and EBA have provided their opinions (in April and June 2014 resp.)

=> Need for a comprehensive review of the macro-prudential framework

What do we want to address?

Policy tools

- Overlaps and possible 'gaps' in terms of risks to be addressed
- Hybrid character of instruments micro-macro
- 'Pecking order'

Activation procedures

- Complex activation procedures that could potentially provide the wrong incentives
- Inconsistency as regards some activation procedures/deadlines

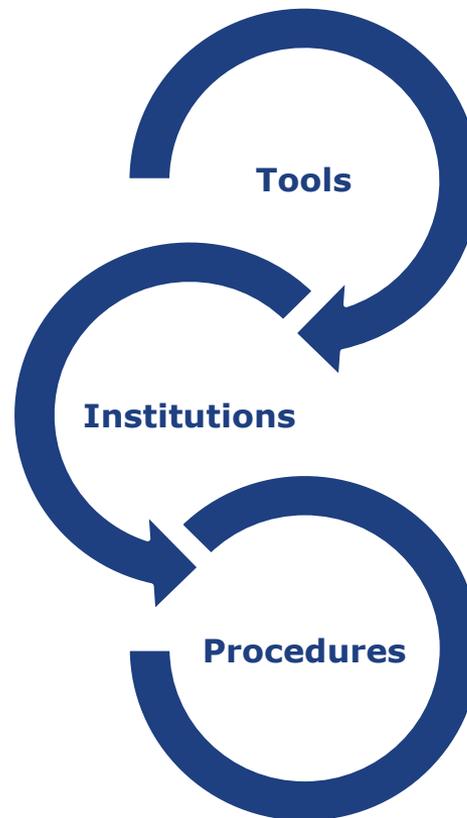
Institutions

- Involvement of ECB/SSM could be clearer
- Organisational fragility of ESRB
- Analytical capacity of ESRB
- Potential conflicts of interest (e.g. between micro- and macro-prudential supervisors)

Main objectives of the review

*Strengthen the **effectiveness** and **efficiency** of the instruments to address systemic risks at the national level...*

*...and establish **transparent and consistent activation** procedures.*



*...while facilitating an appropriate **policy coordination** at national level (e.g. between micro- and macro-prudential authorities) but also across Member States (via the ESRB)...*

The review of the macro-prudential framework and the political priorities of the Commission

CMU Action Plan

- ✓ Review of EU macro-prudential framework will be completed by 2017

The Five President Report

- ✓ Calls for an expansion of the macro-prudential toolkit outside the banking sector, strengthening of the surveillance framework, in particular a strengthening of the ESRB

Completing the Banking Union

- ✓ **Review of the macro-prudential framework part of a package of political priorities for completing BU** in terms of counterbalancing further risk-sharing (EDIS, SRM backstop) with more risk-reduction (macro-prudential policies, reducing options and discretions in CRR/CRD IV)

Tentative timeline for the review

Action	Time
Public consultation	March 2016
High level conference	July/September 2016
Possible legislative proposals	Q1 2017