

MEMO# 30376

November 1, 2016

ICI Global Response to European Commission's Consultation on the EU Macro-Prudential Framework

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TO: ICI Global Members SUBJECTS: International/Global

Systemic Risk RE: ICI Global Response to European Commission's Consultation on the EU Macro-prudential Framework

On 1st August, 2016, the European Commission (EC) launched a public consultation to gather feedback and evidence on whether the existing EU macro-prudential framework is functioning optimally. This memorandum puts the consultation into context and briefly summarizes ICI Global's response. A copy of our submission (consisting of a high-level cover letter and responses to selected questions posed in the consultation) is attached.

Background

While macro-prudential policy was practically non-existent in EU Member States before the financial crisis of 2008, it has become gradually more established over recent years. At the EU level, this development has been supported by the creation of the European Systemic Risk Board (ESRB), tasked with EU-wide macro-prudential oversight and the facilitation of cross-border policy coordination, and the inclusion of a broad set of macroprudential instruments in prudential regulation (in particular, the Capital Requirements Regulation and the Capital Requirements Directive). Furthermore, the creation of the single supervisory framework for banks in the Banking Union has been complemented by shared responsibilities for macro-prudential oversight between national authorities and the European Central Bank (ECB) within the Single Supervisory Mechanism.

This framework has been established by different regulations and directives over time. As such, it lacks the coherence that it would have if it were established by a single legislative text. Increasingly, several issues have been raised to the EC regarding how the various components of this framework interact. These include, among others:

- the way the different banking macro-prudential tools work and overlap;
- the complex co-ordination needed to manage the cross-border impacts of some of these measures; and
- the role of the ESRB (which, as the EC acknowledges, is perceived by some to be too close

to the ECB, and too reliant on its resources to provide fully independent analysis).

Consultation

With this consultation, the Commission conducts a first stock-taking of the lessons learned so far, in order to identify potential weaknesses and explore options to address those weaknesses, such as:

- the strong nexus between risk analysis and policy formulation;
- concerns about the active use of the EU policy instruments by Member States in relation to the macroprudential supervision of banks; and
- directly relevant to ICI Global members, the role of the ESRB.

Regarding the latter, the Commission seeks comments on the merit in reviewing the appropriateness and sufficiency of the ESRB's own analytical resources. The Commission describes developments that are particularly important in this regard and cites: the " [...] market-based financing outside the banking sector [which] is growing in importance and the Commission's [Capital Markets Union] project [which] aims to foster that alternative source of financing to the economy." The Commission views this development as justifying the need to complement the framework by a robust monitoring of potential systemic risks at the EU level."

ICI Global Submission

In its submission, ICI Global expresses strong support for the Commission's goal of ensuring a strong and resilient financial system for the EU. It likewise acknowledges the importance of public institutions being able to monitor across the financial system and identify areas of potential systemic risk.

ICI Global's responses to specific questions posed in the consultation focus on the issue of "whether the current structure and mandate of the ESRB are adequate to ensure effective coordination of national policies and to conduct adequate system-wide risk monitoring."

The responses may be summarized as follows:

- ICI Global supports the ESRB having responsibility for systemic risk monitoring across the EU financial system, as well as "broadening and deepening" the ESRB's analytical resources to facilitate such monitoring in non-bank sectors. This is altogether different from expanding the macro-prudential framework beyond banking—an approach that ICI Global strongly opposes. The response reminds that the existing framework is rooted in bank-centric notions of "safety and soundness" and embraces the "smoothing" of financial cycles as essential to preventing and mitigating systemic risk. Outside of banking, that is not the right way to address any potential risks to financial stability. And it would hinder, rather than advance, the EU's goal of developing a "well-functioning and integrated Capital Markets Union"—one that exists alongside the banking sector.
- ICI Global urges the Commission to reshape the ESRB, including its composition, mandate and resources. ICI Global insists that it is particularly important that the Commission give a greater role within the ESRB to the European Securities Markets Authority, the European Insurance and Occupational Pensions Authority and national regulators in securities and insurance. Their expertise is essential if the ESRB is to be effective in monitoring for risk across the EU financial system.

Furthermore, ICI Global objects to the ESRB's suggestions that its own mandate should be extended. Indeed, in a July 2016 strategy paper—not issued for consultation—the ESRB asserts that “macroprudential instruments to address financial stability risks beyond the banking sector should be part of a wider macroprudential policy strategy.” The paper purports to identify sources of systemic risk from the non-bank financial system and outlines “key tasks” for the ESRB and its members to extend macroprudential policy beyond banking.

ICI Global voices strong concern about this paper, which is deeply flawed and represents a troubling example of bank-dominated regulatory bodies seeking to “export” bank-oriented policies to the asset management sector. We suggest this paper underscores why changes to the ESRB's composition, mandate and resources are necessary to ensure appropriate policy outcomes going forward.

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[Attachment](#)

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