Panel discussion contribution

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Introductory remarks[1]

Welcome to this session focusing on the implications for risk management of developments in regulatory frameworks. We have four issues to discuss:

- The emerging European Banking Union (SSM, SRM, etc)
- Implications for central banks operational frameworks of regulatory developments (securitisation, liquidity, etc)
- The role of rating agencies
- Changes in international accounting standards

These may seem like very disparate issues but let me give you my take of this and how they relate.

First, we live in a world with cross-border banks and free movements of capital in most parts of the world. At the same time, both the regulations and the institutional set-up are still largely national. This creates some tensions. Within the EU significant steps have been taken to codify a common rule book for banks and to set up euro-area and sometimes EU-wide authorities and agencies, like EBA, SSM and SRB. The Banking Union creates a vision of EU as a single jurisdiction or country. However, the banking union is not yet finalised and if you want to get there several changes and additions are needed. Today, if you look at the different components of the Banking union the degree of progress varies. Indeed there is a common EU-regulation for most of the bank rules – but not for all rules. There is a euro-area supervisor (SSM) for the largest banks but there are some signs that national interest still play a role and there is still some way to go to reach a true common supervisory culture. There is an EU-directive on bank resolution that largely aligns national rules on bail-in and resolution, but so far the recent EU evidence on bail-in from Italy and Spain is limited and somewhat mixed. There is a common authority for resolution, SRM, but it still is rather untested. Furthermore, the EU has further work to do in order to get a comprehensive and common deposit insurance as well as a common fiscal backstop for the Single

[1] 2017 Joint BdP-ECB Conference on Risk management for Central Banks, Panel 4 – Developments in regulatory frameworks: implications for risk management

Resolution Fund. Bail-in is very useful, but nobody knows if it will be sufficient in a crisis. Ultimately, financial stability still rests with the tax payer and without a fiscal backstop nobody knows if the present provisions for bail-in will be sufficient, especially in a more systemic crisis. As long as the Banking union is not complete, it is premature to view the EU or even the Euro-area as a single country, and it is also means that national governments remain ultimately responsible for financial stability. Consequently, for now, maximum harmonisation could be seen as problematic as it implies a limit to how prudent a member state can be while the ultimate responsibility for financial stability still is national.

The **second** issue also relates to cross-border banks, as such banks will be susceptible to liquidity needs in different currencies. This will pose challenges for some central banks.

The **third** issue is at least partly a consequence of cross-border banking. Such banks raises the need for comparable number and how do you assess the risks of different exposures in different countries in a consistent manner. You need some kind of reliable standardisation. This is where the rating agencies come in but it also creates a problem when regulations become captured by these rating agencies.

The **fourth** issue also relates to the need for some level of standardisation across borders. The present proposal for changes in accounting rules will have significant effects on banks' provisions and thereby on their capital levels. While some accounting differences will still exist for the foreseeable future, taking future expected losses better into account will most likely improve the resiliency of banks.

To discuss these issues in more detail, we have three distinguished panellists:

- Sharon Donnery (Deputy Governor, Central Bank of Ireland)
- Colin Ellis (Chief Credit Officer EMEA, Moody's)
- Cosimo Pacciani (Chief Risk Officer, European Stability Mechanism)

Sharon, would you mind starting?