



Trends in European Supervisory Design

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Global Debate

- Literature on supervisory architecture
 - Extensive but generally inconclusive
- Every jurisdiction is different
 - History, institutions, financial sector structures
- Swings of pendulum
 - Late 1990s / early 2000s: Nordic-FSA model
 - EU: establishment of CEBS outside of ESCB (2004)
 - Post-crisis: more power to the central bank
 - e.g. FSI Insight #8 (Calvo & al., April 2018)
- “Twin Peaks” argument (M. Taylor 1995) has stood test of time

EU / Euro-Area Context

- Euro area: ECB umbrella authority
 - Monetary policy (all)
 - Banking supervision (most)
 - Macroprudential policy (some)
 - AML, conduct, insurance, resolution (none)
- EU: “European Supervisory Authorities”
 - ESMA: direct supervision, will grow
 - EIOPA: coordination, likely to grow
 - EBA: unclear future
 - EAMLA (Kirschenbaum & Véron 2018): soon to come?

EU Twin Peaks Attractor?

- (Very) long term
- EU = euro area
- ECB has all prudential (micro + macro)
 - SRB has backup supervision à la FDIC
- ESMA has much (all?) conduct
 - AML maybe still separate
- Subsidiarity on operations
 - Possibly more than now, e.g. SSM vs US Fed System

UK Experience

- “Brownite” architecture did not perform
 - BoE uninterested in financial stability (human factor)
 - FSA too sprawling, neglect of prudential
- “Osborne” architecture still un-stress-tested
- Much will depend on Brexit
 - If UK in single market: increasingly division of labor with EU authorities, especially ESMA
 - If UK out: impact on financial sector size & structure
- Firm conclusions unlikely any time soon

Scandinavian Experience

- Long-established FSAs
 - Norway 1986, Denmark 1988, Sweden 1991, Iceland 1999, also Estonia 2002
- Nordic crises early 1990s
- Recent reputational damage on AML

Financial Crisis 2007-2017

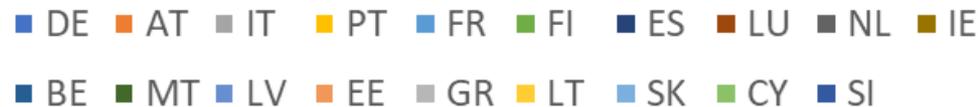
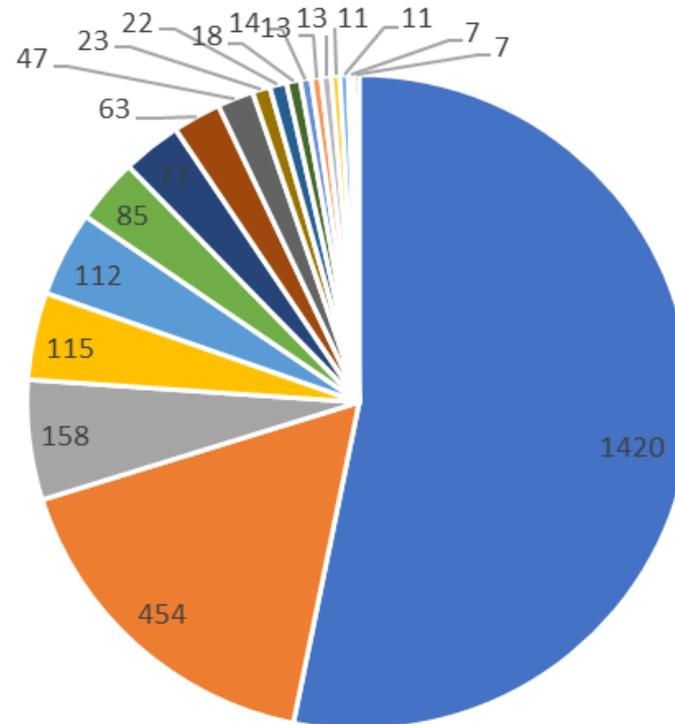
- Supervisory failures (almost) everywhere
 - No clear correlation with architecture / design
 - Supervisory incentives: banking nationalism
- Macroprudential mandate
 - Too early to evaluate (changing) design
- Resolution mandate
 - Extremely few data points
 - Does not work as planned in the euro area

Retail Misselling

- Revealed in Italy, Portugal, Slovenia, Spain
 - Probably (even) more widespread
- Contributes to failure of resolution model
 - e.g. Italy, Slovenia
- Conduct meets prudential
- Perverse incentives of prudential supervisors
 - Supports case for twin-peaks model

Small Banks (aka LSIs)

>70% of total in Germany + Austria





Thank You For Your Attention

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