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10 YEARS AFTER THE FINANCIAL CRISIS. WHAT HAVE WE LEARNED AND TO WHAT END

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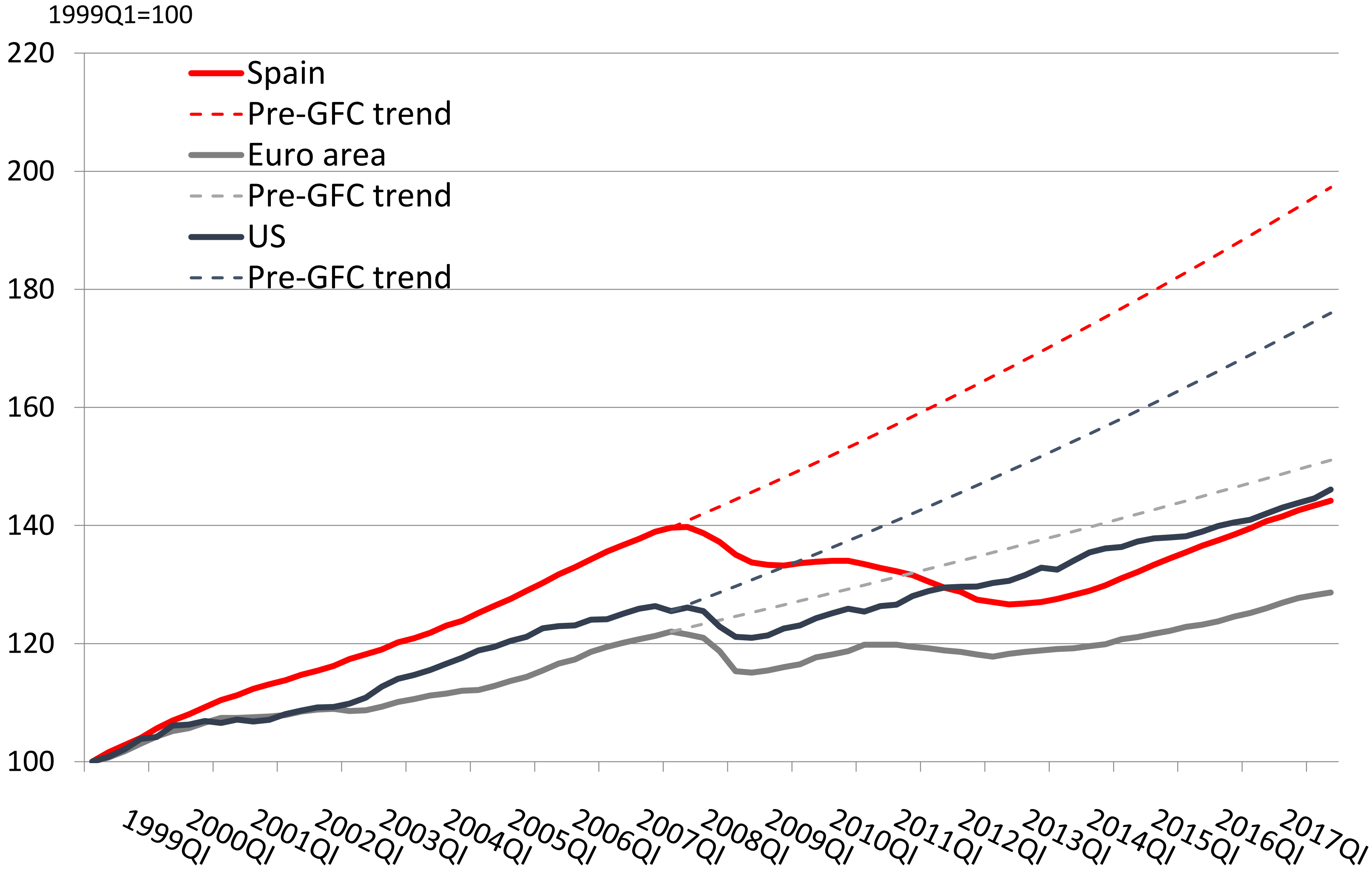
OUTPUT LOSSES and THE FINANCIAL CRISIS

Real GDP



Source: Eurostat and BEL

CHANGES IN REGULATION AFTER THE CRISIS

The Basel Committee on Banking Supervision (BCBS), **spurred by the G20/FSB**, developed a new regulatory framework known as **Basel 3**

It introduced substantial changes to the preceding framework (Basel 2), improving its transparency and consistency. The main reforms include:

- Better **definition and quality of ordinary capital**.
- **Increased minimum capital requirements** and **capital conservation buffer**.
- Minimum **leverage ratio** requirement.
- Minimum **liquidity requirements**:
  - **Liquidity Coverage Ratio** (LCR)
  - **Net Stable Funding Ratio** (NSFR)
- **Improvements in risk coverage**: securitisations, trading book and counterparty credit risk.

MICROPRUDENCIAL REGULATION

The “second wave” of the post-crisis reforms to Basel 3 focused on the denominator of the capital ratio: the Risk-Weighted Assets (RWAs). The overall aim was **to reduce unwarranted RWAs variability**. Main revisions included:

- **Credit risk:** revisions to the standardised approach (SA) and the internal rating-based approach (IRB).
- **Operational risk:** new standardised approach replacing all current approaches.
- **Leverage ratio:** new additional leverage ratio for G-SIBs (set at 50% of a GSIB capital surcharge).
- **Output floor:** new output floor whereby RWAs are bound to a minimum of **72.5% of total RWAs** calculated using the available standardised approaches in the Basel framework.

MACROPRUDENCIAL REGULATION

A key lesson from the financial crisis was that a regulatory framework based exclusively on microprudential aspects was insufficient.
The G-20/FSB promoted a reshaping of the regulatory framework to enable the identification and assessment of macroprudential risks.

- **Systemic Banks:** Reinforce the capital requirements for GSIBs
- **Cyclical systemic risks:** The BCBS developed as part of Basel 3 a countercyclical capital buffer, with the objective of preventing and mitigating cyclical systemic risks stemming from the excessive credit growth
- In Europe, there is also a **surcharge for domestic systemic banks (OSIIs),** a **Systemic Risk Buffer** as well as **article 458 of CRR**

Combined buffer	**CCyB 0-2.5%**
	G-SIB surcharge 1-3.5%
	Conservation Buffer 2.5%
Minimum Pillar 1 requirements	**T2 2%**
	AT1 1.5%
	CET1 4.5%

On top of that, **microsupervisors** have a Pillar 2 Requirement (**P2R**) as well as a Pillar 2 Guidance (**P2G**) in the SSM.

During the crisis, authorities were forced to rescue banks whose failure could have meant the collapse of the financial system (TBTF problem).

Part of the international measures to reduce the TBTF problem focused on developing effective resolution mechanisms, in **a shift of paradigm from bail-outs to bail-ins**.

- **"Key Attributes of Effective Resolution Regimes for Financial Institutions":** these standards, developed by the FSB in 2011, set out some key principles to guarantee orderly resolution, including the development of a bail-in tool to avoid the usage of public funds in resolution.
- **TLAC (Total Loss-Absorbing Capacity):** FSB developed this international standard in 2015. Its objective is to guarantee banks' loss absorption and recapitalization capacity to be able to implement an orderly resolution process that minimizes the impact on financial stability, ensures the continuity of critical functions and avoids the usage of public funds.
- In Europe, the **resolution directive (BRRD)** sets a Minimum Requirement of own funds and Eligible Liabilities (MREL) to allow for an orderly resolution process that avoids bail-out.

ADDITIONAL REFORMS

The G-20 has also promoted a number of additional regulatory reforms at the international level. This is a broad set of measures, among which stand out:

- Strengthening and harmonization of international accounting standards.
- Improvement of corporate governance and remuneration practices.
- Strengthening the regulation and monitoring of non-banking sectors.
- Other regulatory measures such as strengthening of OTC derivatives operations, improving disclosure, etc.

- **All these regulatory measures should contribute to be better prepared for the future**

WHAT IS STILL MISSING?

COMPLETING THE BANKING UNION IN EUROPE

- Banking Union based on three pillars
  - Single supervision: SSM up and running
  - Single resolution: SRB up and running
  - European Deposit Insurance System (EDIS): missing
- Liquidity provision after resolution. How to ensure that after the resolution tool has been applied, the bank will not suffer liquidity stress?
- Finish the regulatory building in good times, to be prepared for the next bad times
- A significant risk reduction has already happened while risk sharing is still missing

NEW MACROPRUDENTIAL AUTHORITY AND TOOLS IN SPAIN

On 1 March 2019 Spain's Council of Ministers approved ***a Royal Decree* on the establishment of a national macroprudential authority.**

Main elements of the Royal Decree:

- **Name**: "**AMCESFI**" (for *Autoridad Macroprudencial Consejo de Estabilidad Financiera*).
- **Objective**: "*Contribute to the stability of the financial system as a whole through the identification, prevention and mitigation of [sources of] systemic risks*".
- **Tasks and powers**: Regular monitoring and assessment of systemic risks with a view to issue *Opinions, Warnings and Recommendations* on the basis of *comply or explain rules*. Discussion of draft macroprudential policy measures proposed and notified by sectoral authorities.

1. ROYAL DECREE 102/2019 ON THE ESTABLISHMENT OF A NATIONAL MACROPRUDENTIAL AUTHORITY

- **Structure**: *Council* (decision-making body) assisted by a *Financial Stability Technical Committee* and, eventually, other ad hoc substructures.

  - **AMCESFI Council**

    Chair: Minister of Economy / Vice-chair: BdE Governor.

    Members: BdE Deputy Governor, CNMV President and Vice-President, Secretary of State of Economy (MoE), DGSFP Director General.

    Secretary: Chief Legal Counsel of the Treasury (MoE) without vote.
    Decisions adopted by simple majority; Chair quality vote in case of draw

  - **AMCESFI Financial Stability Technical Committee**

    Chair: BdE Deputy Governor / Vice-chair: Secretary General of the Treasury (MoE).

    Members: CNMV Vice-President, Deputy head of the Treasury (MoE), DGSFP Director General, BdE Director General for Banking Supervision, CNMV Director General for Policy and International Affairs, CNMV Director General for Markets (or CNMV Director General for Institutions).

    Decisions adopted by simple majority; Chair quality vote in case of draw

    Member and secretary: BdE Director General for Financial Stability, Regulation and Resolution.

- **Accountability**: Annual report and hearing at the Parliament.
- **Review clause**: Every three years (starting in 2022) by the Ministry of Economy.

2. ROYAL DECREE-LAW 22/2018 ON MACROPRUDENTIAL INSTRUMENTS

A **Royal Decree-Law on macroprudential instruments** was approved by Spain's Council of Ministers on 14 December 2018.

Banco de España is granted powers to set measures regarding:

- *Sectoral Countercyclical Capital Buffer* (sectors to be defined);
- *Limits to sectoral concentration* (exposures to a particular economic sector) for all or a subset of banks;
- *Limits and conditions on bank lending* (i.e. borrower-based measures, to be defined);
- *Limits and conditions on other operations*, namely the purchase of fixed-income assets and derivatives by credit institutions.

Besides, new macroprudential tools 'beyond banking' (to minimize leakages):

- **CNMV** (securities market authority) is empowered with:
  - The possibility to *increase*, on a temporary basis, the *minimum level of highly liquid assets* required to closed-end collective investment institutions, entities and managers, as well as venture capital companies.
  - *Limits and conditions to impose on the activities of supervised firms with the aim of preventing excessive indebtedness* (to be spelled out).

- **DGSFP** (insurance and pension funds authority) is entrusted with:
  - *Exposure limits to economic sectors and asset categories*;
  - *Limits and conditions on operations entailing the transfer of risk and insurance portfolios*.

CONCLUDING REMARKS

- Macroprudential momentum is gaining traction in Spain.
- The recent initiatives are a follow-up to **Recommendation ESRB/2011/3** (on the macro-prudential mandate of national authorities) and to some of the **IMF's FSAP recommendations to Spain of 2017**.
- **AMCESFI** expected to start operations shortly (in April).
- **Technical operationalization of the macroprudential toolkit**. Banco the España, CNMV and Ministry of Economy to set out the technical details for the new instruments in secondary regulations (circulars).