Global Banking Regulatory Radar

Is there a way to rationalize regulatory reforms undertaken so far?

Consider the following

\[ PC \times EAC \times LGC = ELC, \]  

where:

- **PC** is the probability of a financial crisis;
- **EAC** is the exposure of the financial system to a crisis;
- **LGC** is the loss given crisis; and
- **ELC** is the expected loss of a financial crisis.
The objective of the regulatory reforms is to influence PC, EAC and LGC, with a view to minimise ELC.

Then:

- New capital, liquidity, leverage rules tend to decrease PC
- New G/D-SIB buffers, leverage, structural (activity restrictions), market infrastructures measures tend to limit EAC
- New resolution mechanisms, TBTF, TLAC tend to reduce LGC

Regulatory and institutional reforms: the Banking Union
Many reforms have been agreed, but only partly implemented (some measures still need “calibration”); others are in the pipeline (for instance, IRRBB)

Some fundamental contributions from economic and financial research are (still) needed:

- Steady state vs Transition to new equilibrium (starting points matter!)
- Macroprudential tools, early-warning models and (still diverse) economic/financial cycles
- Institutions vs Markets (i.e., shadow banking and securitization): US vs Europe
“The overhaul of the regulatory frameworks across the globe was not only the result of lessons learned from the recent crises but was also accompanied by extensive academic work. We have become better at measuring risk and designing regulatory tools to reduce build-up of systemic risk and manage it more effectively”

- Partly agree…

“[…] this leaves us with the unknown unknowns, including financial innovation leading to new business models and new structures in the financial system and thus new and future sources of financial fragility. As the financial system develops, research and analysis has to adapt to the dynamic nature of the financial system”

- Fully agree!!!
Financial Institutions, Markets and Regulation: A Survey

by T. Beck, E. Carletti and I. Goldstein

Discussion by A. De Vincenzo, Banca d’Italia

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