

COMPARISON OF THE US, UK AND EU MACRO-PRUDENTIAL FRAMEWORKS

In the EU, the United Kingdom and the United States, new macro-prudential frameworks have been established, including the creation of new official bodies to improve systemic oversight and coordinate macro-prudential interventions. This box briefly describes the structure and responsibilities of these bodies and outlines the main differences.

In the EU, a European Systemic Risk Board (ESRB) is to be established, comprising a General Board, a Steering Committee, a Secretariat, an Advisory Technical Committee (ATC) and an Advisory Scientific Committee (ASC). In the first five years, the ESRB will be chaired by the President of the ECB. For the subsequent terms, the Chair of the ESRB shall be designated in accordance with the modalities determined on the basis of the review of the legislation to be conducted by the Council and the Parliament, after having received an opinion from the ECB and the European Supervisory Authorities (ESAs). The ECB shall ensure a Secretariat, and thereby provide analytical, statistical, logistical and administrative support to the ESRB.

In the United Kingdom, a Financial Policy Committee (FPC) will be created within the Bank of England, and chaired by the Governor. A new Prudential Regulation Authority (PRA) is to be formed as a subsidiary of the Bank of England.

In the United States, a Financial Stability Oversight Council (FSOC) has been formed as a result of the Dodd-Frank Act, comprising all US financial regulators and chaired by the Secretary of the Treasury.

A preliminary analysis shows some key differences. First, the central banks play prominent roles in all of these frameworks, but in the United Kingdom and the United States the involvement of the central bank in micro-prudential supervision has been strengthened (although in the United Kingdom through a separate body). In the EU framework, the ECB has a key role in particular as provider of analytical and statistical support to the ESRB. However, macro-prudential oversight is not integrated with micro-prudential supervision in the EU-wide framework insofar as supervision will continue to be carried out primarily by national supervisory authorities, with the European Supervisory Authorities having a mainly coordinating role.

Second, in both the United Kingdom and the United States, the focus of the powers of the macro-prudential body is on regulatory and supervisory policies, including the extent of the regulatory perimeter. Although this is not clarified explicitly in the ESRB legislative framework, it is expected that the ESRB will also play a similar role.

Third, the role of central banks in crisis management and resolution differs across the frameworks. The Federal Reserve and the Bank of England, in their capacity as central banks and prudential supervisors, can in principle respond to an emerging crisis using both traditional liquidity support and regulatory tools. The Bank of England will also be lead resolution authority. It can be expected that both the FSOC in the United States and the FPC in the United Kingdom will be involved in decisions to deploy regulatory tools for crisis management purposes. The ESRB does not have explicit tasks and powers on crisis management, apart from the power to advise the Council on the existence of an emergency situation.

Comparison of UK, US and EU macro-prudential oversight frameworks			
	UK	US	EU
Overarching body	<i>Financial Policy Committee (FPC)</i>	<i>Financial Stability Oversight Council (FSOC)</i>	<i>European Systemic Risk Board (ESRB)</i>
Scope	UK financial system	US financial system	EU-wide financial system
Overall objective	<p>Protect financial stability by</p> <ul style="list-style-type: none"> ▶ identifying and addressing aggregate risks and vulnerabilities across the financial system ▶ enhancing macroeconomic stability by addressing imbalances, e.g. dampening the credit cycle 	<ul style="list-style-type: none"> ▶ Identify risks to financial stability ▶ Promote market discipline ▶ Respond to emerging threats to the stability of the financial markets 	<ul style="list-style-type: none"> ▶ Contribute to the prevention or mitigation of risks to financial stability in the EU that arise from developments within the financial system and taking into account macroeconomic developments, so as to avoid periods of widespread financial distress ▶ Contribute to a smooth functioning of the internal market
Role of central banks	<ul style="list-style-type: none"> ▶ The Bank of England has a key role as chairing and having majority on FPC ▶ Can direct prudential interventions and supervision by PRA via FPC ▶ PRA is a subsidiary of the Bank of England ▶ The Bank of England oversees CCPs, settlement systems and payment systems ▶ The Bank of England is lead resolution authority 	<ul style="list-style-type: none"> ▶ The Federal Reserve Board has significant role as macro- and micro-prudential regulator of systemic firms, including authority to require reports and conduct examinations of certain non-bank financial companies and bank holding companies ▶ However, the Federal Reserve Board does not chair the FSOC. The Treasury has the coordinating role 	<p>Role of the ECB</p> <ul style="list-style-type: none"> ▶ The ECB President has a key role as chairing both the General Board and the Steering Committee (at least first five years) ▶ The ECB shall ensure a Secretariat, and thereby provide analytical, statistical, logistical and administrative support to the ESRB <p>Role of NCBs</p> <ul style="list-style-type: none"> ▶ All 27 NCB Governors are voting members on the General Board ▶ Four NCB Governors are on the Steering Committee ▶ NCBs provide staff to support the Secretariat of the ESRB ▶ NCBs bring macro-prudential competence and provide understanding of effects of interventions in all EU countries
Crisis management	<ul style="list-style-type: none"> ▶ The FPC will be involved in decisions to deploy regulatory tools for crisis management purposes ▶ The Bank of England in its role as central bank, prudential regulator and resolution authority will be responsible for designing and executing the response to an emerging financial crisis ▶ HM Treasury will control any decisions involving the use of public funds 	<ul style="list-style-type: none"> ▶ The FSOC will be involved in decisions to deploy regulatory tools for crisis management purposes ▶ The Federal Reserve in its role as central bank, prudential regulator and resolution authority will be responsible for designing and executing the response to an emerging financial crisis ▶ The Treasury will control any decisions involving the use of public funds ▶ The FDIC will act as Orderly Liquidation Authority 	<ul style="list-style-type: none"> ▶ The ESRB does not have explicit tasks and powers on crisis management, apart from the power to advise the Council on the existence of an emergency situation