”What Can Financial Stability Reports Tell Us About Macroprudential Supervision?”

By Jon Christensson, Kenneth Spong and Jim Wilkinson

Discussion by Snorre Evjen, Norges Bank

Presentation at the Research Conference ”Government intervention and moral hazard in the financial sector”, Norges Bank, 2-3 September, 2010.

Disclaimer: The views expressed are those of the discussant and do not necessarily reflect those of colleagues or the official views of Norges Bank

Some messages in the article

- Examines whether the Financial Stability Reports (FSR) of the UK, Sweden, the Netherlands, Spain and Norway gave the central bankers and others useful information before and during financial crisis.

- The FSRs in these countries were successful in identifying the risks that led to the financial crisis, although they underestimated their effects.

- During the crisis, FSRs may have given the central banks a better understanding of the resiliency of markets and institutions in their own countries and the types of responses needed as the crisis continued.

Some messages in the article (cont'd)

- Although the reports identified many of the risks, some were described as low probability events. The FSRs also identified a number of other risks that did not have a direct role in the crisis or have not yet been realized.

- Steps taken in FSRs provide a good guide to what would be needed in implementing macroprudential supervison.

Purpose of FSRs

- Early detection of risks to the financial system as a whole
- Propose measures and give advice in order to prevent future financial instability
- Transparency
- Goal must be to have a significant impact on behaviour of economic agents and other authorities

"FSRs would have been more useful in the recent crisis if regulatory authorities and financial institutions had responded more vigorously to the identified risks"

If we want FSRs to have more more influence – what can we do?

- ✓ Continue with press conferences
- ✓ High frequency contact with authorities and financial institutions, tripartite meetings
- More direct when formulating warnings
- More concrete when we give advice and propose policy measures
- Write open letters?

Do FSRs include advice?

- Examples from Bank of England (FSR June 2010, Section 5):
  - ”(..) important that policymakers also provide clarity over the implementation timetable for the new requirements”
  - “Transition to new regulatory standards should not be rushed”
  - “Banks should reduce their reliance on external ratings”
  - “need to improve banks’ disclosure practices”
  - Reforms to accounting standards
  - “Policy measures are required to remove implicit government guarantees for large banks”
  - “Improvements to resolution regimes are necessary”

Wrap-up

- FSRs play an important role in macroprudential supervision
- A more proactive role for FSRs
- Issues that also could be discussed in the article:
  - Should FSRs be changed in some way?
  - What can be done in order to increase influence of FSRs?
  - Some central banks have supervisory responsibility, some not. What impact should this have on the content of FSRs?
  - Should FSRs put more emphasis on policy proposals?

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