Basel III Capital and Macroprudential Governance

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Motivation

- Following the GFC of 2007-2009, many countries have created multi-agencies Financial Stability Committees (FSCs).
- The objective is helping the implementation of macroprudential regulations such as the CCyB, the CCoB or the systemic risk capital surcharge for SIBs (Central Bankers like acronyms!).

- The paper assesses whether these FSCs have had a real influence on the implementation of these decisions.

The methodology

- The authors extend their previous work on the governance (powers, accountability) of financial stability institutions in 58 countries (Edge and Liang 2019).
- This paper looks at the **actual implementation of macroprudential capital regulations**.
- They focus on the activation of the CCyB, which is easy to observe.
- They also look at the date of adoption of the CCoB (Capital Conservation Buffer) and the level of the Systemic Risk Surcharge for Systemically Important Banks.

The research questions

There are two types of FSCs:

- Macro-prudential authorities endowed with real powers.
- Simple coordination and discussions forums between the different agencies involved (PR, CB,MoF,…)

The paper tests whether FSCs were created by politicians to:

- delegate complex decisions to experts (the **functional delegation hypothesis** as in Alesina and Tabellini 2007) or
- satisfy voters's anger after the GFC without truly delegating new powers to unelected bureaucrats (the **symbolic political delegation hypothesis** as in Lombardi and Moschella 2017).

The results

- Countries with stronger governance mechanisms are more likely to activate the CCyB, compared with countries where the microprudential authority or the Central Bank controls the CCyB.
- The simple existence of a FSC has no effect on the activation of the CCyB.
- The early adoption of the CCoB seem to have been less likely for countries with strongest FSCs.
- The impact of FSCs on the minimum level of the systemic risk surcharge is positive but not really significant.

My comments

- This paper finds interesting correlations between the governance of FSCs and the implementation of macropru policies.
- For example: countries where the CCyB is controlled by the PR are less likely to activate it. This illustrates well the basic conflict between micro and macro pru.
- But it is also true that countries where the CCyB is controlled by the CB are less likely to activate it than countries where the FSC is strong.
- This seems to suggest that focus generates effectiveness: multi-task agencies may be less effective.

My comments (2)

- However the correlations between governance and effectiveness may reflect factors that are idiosyncratic to each country (quality of institutions and of the politicians, power of the banking lobby,…).
- No much can be done about these idiosyncratic factors.
- In any case, it is the impact of macro-pru policies that matters, no their frequency of use.
- Were the FSCs right when they decided to activate (or not) the CCyB?

Looking for a clear macro-pru doctrine

- Macro pru is bound to fail if it is not supported by a clear doctrine: what exactly are we trying to do and why?
- The regulatory objectives of the CCyB particularly obscure and almost impossible to assess.
- The «requirement for banks to build buffers of resources in good times that can be drawn down when conditions deteriorate» (G20) is a non sense!
- Accounting 101: «buffers of resources are on the asset side, equity is on the liability side»
- When the CCyB is activated, banks do not issue more equity: they reduce lending!

Looking for a clear macro-pru doctrine (2)

Now the question is: why are we trying to reduce bank lending during booms? Several responses are possible:

- Because bankers relax lending strandards during booms?
- Because authorities fear sectoral bubbles (real estate…)? In that case sectoral measures (decrease LTV for mortgages,…) seem more appropriate (more focused, also apply to non-banks): but PR controls them.
- Because we want to **dampen credit cycles (stabilization policy)?** This is the most convincing rationale.
- It can be explained to politicians and is easier to assess ex post.

Conclusion

- Interesting and useful paper.
- Very important to accumulate knowledge about macropru institutional arrangements across countries.
- However these arrangements are strongly influenced by countries' idiosyncracies. Moreover what matters is the success of macropru policies, not their activation. How do you measure its success?
- So we need to define objectives that are clear and easy to assess, especially for the CCyB: I do not understand what regulators are trying to do and why!
- Without a clear macro-pru doctrine it will be easy for bank lobbies to resist policies and politicians to mute them.