

Discussion of ‘Agency Problems and Goal Conflicts’

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by

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Important message

- Very nice contribution, reminding us of looming coordination problems in EU banking regulation and supervision
- Yet, solving it very difficult....
- My discussion:
 - Elaborate on decentralized structure
 - Discussion of coordination mechanisms
 - More central role for deposit insurance (agency)?

Decentralized EU/Euroland structure

- Home country control and mutual recognition
- Prudential supervision and LOLR in hands of member states, as is deposit insurance
- ECB very limited powers even for systemic issues (LLOR with national central banks)
- Various EU, ECB and market driven coordination arrangements

Coordination arrangements instead...

- EU
 - Sectoral committees (banking, insurance, conglomerates)
 - Bilateral arrangements, MoU's
 - Lamfalussy type framework (rule making)
 - Lead regulator solutions, including EU directive on financial conglomerates
- ECB
 - Banking Supervisory Committee
 - Some coordination role in LOLR
 - MoU's for crisis management (2003, 2005)

General evaluation

- Complicated coordination problem
 - Decentralized systemic and prudential responsibilities yet externalities
 - who is in charge?
- Efficiency of arrangements
 - Conflicts between national and European interests
 - Level playing field and regulatory arbitrage issues

Crises management offers extra challenges....

- LOLR intricately linked to crisis management
 - Time to act limited, command structure important
 - National authority ‘breeds’ TBTF, local focus...
 - Preserves ‘broader’ LOLR
- Central bankers object ... group feeling and feelings of collective responsibility will do it... Really? MoU’s do the trick?
- Paper rightfully adds that decentralized deposit insurance and differences in bankruptcy laws do not help
- Neither does lack of fiscal powers at EU level

Role deposit insurance agency

- Note US – FDIC has important role in *timely intervention* (capital linked intervention schemes)
 - clear incentive, to protect solvency of the fund
- EU – less prominent, cq. not well defined, role for deposit insurance agencies
 - Do we need one? So far considered much more as instrument to facilitate orderly crisis resolution... and often dominated by belief in implicit blanket guarantee
 - Paper rightfully points out that this creates undesirable uncertainty

Action points

- Yes, need to move to more centralized authority -- but in broad sense!! How to get there far from clear...
- Timely intervention
- Yet still many potentially (!!) ‘solvable’ cross border issues not adequately dealt with
 - Netting, collateralization arrangements
 - Bankruptcy law
 - Differences in deposit insurance coverage

All this should add to predictability!!

Finally

Ultimate goal should be to move to a more pan-European regulatory and supervisory structure, but..... be pragmatic and take into account political realities