

# Do we need a new paradigm for accounting and financial regulation?

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# The former (current) paradigm

- Banking regulation
  - Authorisation for access to the taking up and pursuit of business (basically, to receive deposits from the public)
  - Same rules (basically, on solvency) for internationally active banks
  - Prudential supervision (basically, microprudential and national)

- Accounting regulation

Financial reporting main objective: to provide financial information useful to existing and potential investor, lenders and other creditors in making decision about providing resources to the entity

# Licensing

- Open competition?
  - Authorized entities vs companies without needed authorization
  - Challengers vs incumbents
  - Quasi-deposits (e.g. MMFs)
- The banks' role in provision of “critical functions” (activities, services and operations) that are essential to the real economy

# Rules

- Multiple regulators (International standards setters)
- No only solvency
  - Capital, leverage, liquidity, resolvability, markets, customers, AML, ...
- Not exactly the same rules
  - G-SIB, D-SIB
  - Basel compliance
- The never-ending tale
  - Basel IV

# Supervision I

- Multiple supervisors
  - Single Supervision Mechanism: ECB plus 19 National Competent Authorities
  - Plus NCA non SSM Member States
  - Plus third countries' supervisors
- Plus Resolution authorities
  - Resolvability assessment (living wills)
  - TLAC / MREL

# Supervision II

- Discretionary powers
- Lack of transparency
- Foreseeability (the importance of capital planning)
- Pro-Ciclycality: Buffers - could they be used?
- Macroprudential vs Microprudential supervision

# Accounting & Financial reporting

- Multiple standards
  - IAS-EU & National GAAPs
  - IASB vs FASB
- Accounting vs Solvency
  - IFRS9 higher expected losses, then: lower unexpected losses
  - Both IFRS9 & Basel II are expected loss model. What about the differences? : deficit –CET1, but surplus +T2
- Supervisory reporting
  - IFRS: 5 Public financial statements
  - FINREP, COREP and ECB Regulation: more than 90 templates and breakdown
- And not only for supervision functions
  - Monetary policy, analysis and operations, risk management, financial stability, economic research, statistics (AnaCredit)

# Probably, yes. We need a new paradigm for accounting and financial regulation

- Simpler, understandable, comparable, stable, foreseeable,...
- Principles / rules equilibrium
- More business-based than entities-based
- Focus on systemic risks
- Attention to the added value for society
- Effective Principle of proportionality
- Cost restraint



*“Two fundamental objectives lie at the heart of the Committee's work on regulatory convergence. These are, firstly, that the new framework should serve to strengthen the soundness and stability of the international banking system; and secondly that the framework should be in fair and have a high degree of consistency in its application to banks in different countries with a view to diminishing an existing source of competitive inequality among international banks.”*

Basel Committee on Banking Supervision. International Convergence of Capital Measurement and Capital Standards (Basel I). July 1988

THANK YOU