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A PROPOSAL OF A NEW APPROACH TO FINANCIAL SUPERVISION AFTER THE 2007-2008 FINANCIAL CRISIS

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ABSTRACT

The 2007-2008 financial crisis has provided empirical evidence that systemic risk has assumed a financial markets nature and is not confined to commercial banking and depository functions anymore. In fact, all three “traditional” financial sectors - depository banks, investment banks, insurance companies - have received some type of support from governments and authorities. A reform of financial supervision and regulation coherent with the evolved nature of systemic risk appears desirable and should focus on Systemically Relevant Financial Institutions (SRFIs). SRFIs should be identified with a functional and cross-sector approach, based on systemic relevance of functions performed and regardless of the type of financial business. A new supervisory model is proposed, in which the central bank is responsible for the oversight of SRFIs on a cross-sector basis. The crucial benefit of this choice would be the concentration within the same authority of macro-financial stability responsibilities and micro-supervision of financial institutions with a systemic relevance. Criticalities could derive from the combination of monetary policy and micro-supervisory functions, but the drawback related to the implicit extension of the safety net to non-bank financial institutions has been *de facto* already removed by authorities’ behaviour during the subprime crisis. However, the explicitly systemic status of SRFIs could pose moral hazard risks, which might be tackled through stricter regulation of SRFIs, for example on capital, leverage and off-balance-sheet vehicles. Besides, the shift to a systemic approach to financial supervision and regulation should not be limited to the national level: a European and a global supervisor of SRFIs might help to deal with the current misalignment between the national dimension of supervision and the international nature of financial business.