The Implementation of Systemic Risk Management and the Reinforcing of Macro-Prudential Supervision – Vital Elements in Avoiding the Future Occurrence of a Financial Crisis Similar to The Present One

▪

Arion Negrilă
The Bucharest Academy of Economic Studies
arion.negrila@bcr.ro

Abstract. *Some of the main reasons that led to the emergence of the ongoing financial crisis stem from insufficient risk management, the de-regulation of financial institutions, the lack of macro-prudential supervision and the implementation of the free/perfect markets model. This article analyzes and discusses both the importance of systemic risk management and macro-prudential supervision and their effect upon the ongoing financial crisis, as well as the recent measures undertaken in this respect at the level of the European Union, USA and G20.*

Keywords: systemic risk; macro-prudential supervision; financial crisis; supervision bodies; financial system.

▪

JEL Codes: G01, G15.
REL Codes: 11B.

Introduction

If one were to analyze the ongoing regulations, rules and supervision systems in the context of today's financial crisis, it would reach the following conclusion: self-regulation is insufficient at the level of financial markets and institutions with systemic importance (which may influence the stability of the financial system) (Tumpel-Gugerell, 2009). At the same time, given the current integration level of financial markets, the orientation of prudential supervision almost exclusively towards the individual level of financial institutions is inefficient, whereas complex assessments of aggregated risks at systemic level are insufficient and lack an institutionalized framework with clear-cut responsibilities (EU Commission, 2009).

Furthermore, in the context of the ongoing crisis, where large financial-banking groups could only overcome their difficulties due to the support of the state, correlated with the strong impact the effects of the crisis have had upon all other economic entities (both corporate and individual entities), it's quite obvious that the maintenance of financial stability should be high on the public interest agenda.

Consequently, public authorities must by all means undertake the proper measures for the regulating, supervising and monitoring of financial markets and institutions which may influence the stability of the financial system at global level.

We also feel that the risks which may affect the stability of the financial system also stem from the high concentration degree on a small number of financial institutions, as well as from the interdependencies created among them and other components of the financial system.

Relevant examples in this respect point back to the impact that the Lehman Brothers' bankruptcy and the near-bankruptcy of AIG and Bear Stearns have had upon the international financial market (Tumpel-Gugerell, 2009).

Thus, the "too big to fall" idea in the financial area has proven incorrect or in dire need of revision. On the contrary, we feel that arguments may be drawn up so that banking asset concentrations are avoided. There are countries where banking assets are very high as compared to the national GDP (such as Switzerland, with 820% assets/GDP, Belgium, with 630%, Holland, with 530%, Great Britain, with 430% etc.; at the same time, USA only has 90%), countries which also have a large concentration degree upon a small number of banks. In this context, we should mention that Switzerland has decided to undertake prudential measures with respect to very large banks, the potential bankruptcy of which might be disastrous for the country's economy; the preventive measures Switzerland wants to undertake are own fund increases, the maintenance of a proper liquidity ratio, the potential separation of important activities at bank level from all other activities and the liquidation of the latter, in case of necessity, so that the economy continues to function, etc.

1. The financial de-regulation process, correlated with the application of the free market model/ perfect markets theory

The ongoing crisis is also rooted in the financial de-regulation process that started in the'80s, which was correlated with the implementation of the free-market model that dominated the economic/financial system of capitalist countries (Soros, 2009).

Therefore, we feel that the real estate bubble (especially the USA one) was equally caused by lax crediting standards, permissive assessments of collaterals, as well as the wide availability of loans (due to high liquidities). We should also mention that the onset of this bubble was the beginning of the 80's (when the financial de-regulation process began as well), whereas the sub-prime crisis acted solely as a detonator nearly 30 years later.

Thus, president Ronald Reagan supported in the beginning of the 80's the idea that the government was not the solution but the problem, opposing the development of the nation, his solution being the granting of extended liberties to the capitalist system – this was one of the first elements which supported the de-regulation process in the USA, subsequently expanding to other capitalist countries (Aversa, 2009).

A brief re-regulation process was unfolded at the end of the 80s and the beginning of the 90s, due to the bankruptcy of many American banks.

The de-regulation process was continued during the Clinton administration – barriers between banks, insurance and investment companies (implemented in the '30s) were eliminated, but the latter did not observe the same rules applicable to banks; the effect of this measure was the drawing up of giant "one-stop shopping" financial supermarkets. At the same time, in the context of the new monitored climate and looser money policies, a large variety of complex financial instruments emerged and developed exponentially, subsequently being turned into asset packages and sold to investors (several of them based on average or low-quality mortgage loans). Meanwhile, the main regulatory changes that emerged were the strengthening of rules against corporate frauds and accounting practice rules, caused by the famous bankruptcies of Enron and Worldcom.

In this respect, we feel that regulatory bodies have their responsibility in the emergence of the financial crisis, for accepting the diminishment of requirements for the supervision of the financial system.

The main reason behind de-regulation was the idea that markets are able to self-regulate; it is believed that the self-regulatory ability exists as long as there is trust and as soon as this trust is breeched by systematic interventions, markets become hyper-sensitive and instable, while the potential emergence of a crisis is accentuated.

In this context, we feel we must remind the fact that Alan Greenspan, FED president between 1987 and 2006, has declared: "I made a mistake assuming that companies from the financial sector are able to self-regulate. I was wrong thinking that it was the interest of organizations, especially banks, to protect its own shareholders".

At the same time, given the effects of the ongoing crisis, famous businessman George Soros declared: "The ongoing system was based on the false assumption that markets can independently regain their balance and that the system adjusts itself". "We need international regulations to control international markets". Considering what happened as the crisis emerged, we feel that the market wasn't given the slightest chance to self-adjust – large banks and financial institutions immediately resorted to state aid, even though not so long ago they vehemently criticized the state's intervention.

In this context, we feel it's obvious that the guardian state or state interventionism theory supported by the great economist John Maynard Keynes applies. This theory pleads in favor of interventionist governmental policies – governments must use fiscal and money policies to control economy. The idea emerged in the '30s, rather turbulent times from an economic point of view, when capitalism was severely trialed by the Great Recession.

Consequently, the state has regularly become a guardian at difficult times (the emergence of a crisis), its role becoming unwanted as soon as the crisis ended.

In this context we should also point out that several years ago, the general belief was that the main feature of a successful society was the market economy of capitalist markets. In the past 20 years, capitalism has gradually expanded around the globe, including former communist countries, resulting in the prosperity of these states (Hassett, 2009).

Moreover, the countries that implemented most capitalist and free market rules, such as the USA, have exceeded in terms of development and economic strength those countries which maintained control upon their economy to a smaller extent. In this respect, people have come to the conclusion that there is a direct relation between economic freedom and economic growth.

At this moment, we have reached a turning point where most of the population, economic agents and authorities are reconsidering their vision on capitalism.

It's very important to mention that this is not the only time in history when this has happened. The idea that the capitalist system based on a free market is the best organizational principle for any society is an old one, going back to 1776, when well-known economist Adam Smith wrote a paper entitled *Wealth of Nations*. The fact that capitalism has its flaws/ shortcomings is also an old idea – critics and alternatives being put forth since then by several economists (like Keynes and Marx).

Notwithstanding its deficiencies, capitalism has survived and thrived because its results have far exceeded the results of alternative systems (see communism, basically the opposite of capitalism – full state control upon economy).

Our opinion is that a combination between the sustained application of capitalist principles, correlated with a better macro-prudential supervision of those financial system areas which may entail the occurrence of systemic risks (with not only local or national impact, but also global impact) or the onset of a crisis, is one of the main solutions.

Thus, given the ongoing crisis, it is believed that the strengthening of financial regulations may prevent/ control its causes (Aversa, 2009).

Such measures have the purpose of preventing the greediness and undertaking of high risks by some financial institutions, which led to the emergence of the ongoing crisis, and at the same time seek to establish a balance in terms of avoiding excessive regulations, as state control does not always have positive results.

In this context, we feel that the unjustified strengthening of regulations after the emergence of a crisis in order to control risks already obvious for all the players on the respective market may have limited efficiency. Relevant in this respect are the declarations of Mr. John Steele Gordon, a historian of economic sciences and author of the book "*The Great Game: The Emergence of Wall Street as a World Power*", namely: "In theory, a market and its regulations should evolve together. In fact, almost always, regulations emerge after the occurrence of financial disasters"; "Disasters teach us how to prevent the latest one emerged", he also said.

Another relevant opinion in the context discussed above belongs to American businessman George Soros, who believes that once regulations are too loose – a factor which has contributed a great deal to the emergence of the ongoing crisis, one must resist the temptation of going too far in the opposite direction (*Ziarul Financiar*, 2009). Although markets are imperfect, authorities are even further from perfection than the former, as they are governed by bureaucracy and political influences.

2. The importance of systemic risk management and macro-prudential supervision

Unlike micro-prudential supervision (namely the individual supervision of financial institutions), macro-prudential supervision derives from systemic risk, defined as the risk afferent to an important part of the financial system (Smaghi, 2009).

The purpose of macro-prudential supervision is two-folded: the first fold is the analysis and the supervision of risks, whereas the second fold is the controlling of the risks identified, which requires specific instruments. Thus, there are minimum three elements which should draw up the fundament of the supervision and analysis dimension of systemic risk:

- This analysis must consider all components of the financial system, as well as the way in which they interact (including all financial intermediaries and all markets). In this respect, we should mention that some of these components, such as hedge funds, private equity companies and over-the-counter (OTC) financial markets are not currently monitored individually. At the same time, the ongoing crisis in which these entities played an important part revealed it is absolutely necessary that they are part of the micro and macro-prudential supervision process.
- The assessment of systemic risks should consider the interdependencies established between the financial system and the economy. Thus, one should mention that in the past, economic crises would generally cause systemic banking crises, while the ongoing crisis reveals the major impact that it has had upon the economy. In this respect, for the future, it is quite obvious that macro-prudential supervision must consider the interaction between the financial and the economic sector.
- The third element which must be considered is the fact that financial markets are not static, constantly evolving due to financial innovation and the international integration process, therefore macro-

prudential supervision must integrate specific measures covering these areas.

The main result of macro-prudential supervision and analysis activities is the assessment of aggregated risk (systemic risk) at financial system level and its potential implications upon the economy. This includes the elaboration of scenarios with extreme shocks, the result of which leads to the ultimate assessment of the strength of the financial system and of the economy. Another absolutely necessary element is the one referring to assessments of how imminent a crisis is at one moment and what the risks which may lead to the emergence of this crisis are.

The necessary elements for the performing of these analyses are detailed information on: the evolution of financial markets, macroeconomic indicators, financial intermediaries (including those which are not part of the supervision perimeter of the authorities), payments and discounting systems, corporate and individual clients, as well as the relations between the main economic and financial sectors.

One should pay special attention to the collecting of detailed information from financial institutions on the exposure derived from on-balance and off-balance products, separated on assets and liabilities, geographical areas, sectors of activity, currencies and counterparties, as well as information on the models and methods used for the management of the risks entailed by the activities unfolded.

The information obtained must be used for the assessment of exposure to risks at financial system level and for the drawing up of the necessary measures for the avoiding of crises. This may be performed with the help of financial stability indicator models, early warning systems, stress test models, etc.

After the identification of exposures to systemic risks, the next step is their management. One option would be communicating them to financial institutions, so that the latter are warned and have the chance to properly adjust their internal policies.

Another option would be the intensification of the supervision of financial institutions in order to avoid the undertaking of high risks. A third option would be the changing/elaboration of new prudential regulations with the same purpose, namely the avoidance of the undertaking of high risks.

The necessary measures elaborated for the decreasing of the pro-cyclicality of the financial system must be part of the macro-prudential policy. Some of these measures are the adjusting of capital requirements to the economic cycle (they should be less strict during unfavorable times and more strict during economically thriving times), the implementation of dynamic provisioning rules (reserves must be accumulated during favorable times and released during unfavorable times) etc.

The set of macro-prudential measures must include actions so as to decrease contamination and the number of channels via which financial institutions send their problems (including payment systems, the discounting of operations performed with derivatives, etc.).

After determining the objectives afferent to macro-prudential supervision, one must also analyze the institutional framework which should support this process. This framework must consider the central bank, as well as supervision and regulation bodies of institutions and financial markets. In countries where the latter are separated, one must ensure cooperation/the sending of information between these institutions. In Romania's case, for example, activities related to banks and non-banking financial institutions are unfolded by the Central Bank, which in our opinion makes this process more efficient.

Countries where the two entities are separated have the following options: first option – the central bank identifies systemic risks and puts forth recommendations to the supervision authority which undertakes the necessary measures; second option – the central bank identifies systemic risks and determines the proper measures to be undertaken and implemented by financial institutions; third option – the decisions/ measures are undertaken by a committee made up of representatives of the two institutions.

3. The main measures undertaken for the management of systemic risk and macro-prudential supervision following the emergence of the ongoing financial crisis

The experience of the ongoing financial crisis reflects both the low efficiency of the supervision activity of some financial institutions (in terms of micro-prudential supervision) and of the supervision activity performed at the level of the entire financial system (macro-prudential supervision) (European Committee, 2009b).

Thus, for example, at the level of the European Union, in compliance with the ongoing model, the supervision of financial institutions is performed at national level, but this covers to a low extent the European financial system and the interdependencies between the financial markets of EU countries, on the one hand, and the other international markets, on the other hand.

The status is somewhat similar in what concerns the supervision of the financial system of the USA and of other financial markets, as well as at global financial system level.

The current crisis has also revealed a series of issues concerning the cooperation between national supervision bodies responsible for various activities/segments of the financial system.

In addition to the above-mentioned information, we want to analyze the main measures undertaken at global level for the improving of systemic risk management and the strengthening of macro-prudential supervision, as well as the underlying reasons.

Thus, during the summit held in Brussels in June 2009, EU state and government officials have stipulated the necessity of strengthened means for the supervision of the banking system, as well as the drawing up of pan-European supervision bodies able to prevent the future occurrence of an economic crisis.

Three pan-European supervision bodies will be drawn up in 2010 with the purpose of ensuring the implementation of new prudential regulations, as well as a Systemic Risk European Council, with the purpose of supervising the risks which might affect financial stability at community level.

Nevertheless, it is estimated that the regulations drawn up at European level for the prevention of a crisis similar to the ongoing one are relatively modest as compared to the measures undertaken by the Washington government, which grants the state wide intervention powers in the supervision of the financial system.

3.1. The measures undertaken for the management of systemic risk and macro-prudential supervision at European Union level

The EU financial markets have become more and more integrated in the past years, being dominated by Pan-European financial groups, the risk management functions of which are widely based on standards drawn up by mother-banks (European Committee, 2009a).

The ongoing crisis has revealed that the orienting of the supervision activity almost exclusively at the individual level of financial institutions is not beneficial and that complex assessments of aggregated risks at systemic level are insufficient.

Furthermore, from the point of view of aggregated supervision, there is a strong discrepancy between the ongoing integration level of European financial markets and supervision bodies, the responsibilities of which are exclusively applicable at national level.

This issue is also amplified by other major problems triggered by the crisis, namely:

- The major contamination degree between financial markets from various countries (cross-border contamination), both European or otherwise;
- The drastic decrease in trust from individuals and economic agents, which played a major part in the emergence of the economic recession;
- The decrease in competitiveness of the European financial industry at global level, as compared to the less drastic scenario which might have happened had there been more efficient supervision means and policies;
- National policies drawn up in compliance with local requirements/terms, which may negatively impact the efficiency of the unique European market.

The crisis has also revealed the fact that financial instability affects a wide range of entities, such as:

- Financial institutions, including shareholders and employees;
- The users of financial services and products;
- Public authorities, including supervision bodies, central banks, other state authorities.

The European Committee has analyzed its options with respect to micro-prudential supervision from two points of view, namely from the point of view of the supervision system and from the point of view of institutional structures (European Committee, 2009a).

From the point of view of the supervision system, the options analyzed were the following:

1. the maintenance of the ongoing supervision system;

2. national supervision bodies should be fully responsible for both the supervision of financial institutions with local capital and for institutions controlled by offshore institutions;

3. the expanding of the supervision abilities of state authorities of the country where the mother bank of all institutions in one group is located, regardless of the latter's locations;

4. the drawing up of a European System of Financial Supervisors – ESFS;

5. the drawing up of a sole supervision body at European level, which will supervise the activity of all financial groups unfolding their activities in several EU states, while national supervision bodies will only have responsibilities related to financial institutions with local capital.

After analyzing the impact of options for micro-prudential supervision, options 1, 2 and 3 were eliminated due to their low efficiency. In the next step, options 4 and 5 were comparatively assessed.

Thus, from the point of view of efficiency, it's less likely that at the moment a sole supervision entity at EU level could have profound knowledge on individual banking groups, so as to ensure the protection of deponents and investors from various countries, as well as the stability of the financial system. In this respect, the drawing up of a European System of Financial Supervisors is more efficient, as national supervisors, who have quick access to the local information available, can also undertake current supervision activities. Another element in favor of the de-centralized system is the fact that at the moment there is no financing framework at European level able to help a financial institution with difficulties.

The ESFS will be made up of national supervision bodies and its objective will be micro-prudential supervision at the level of individual financial institutions. The system will combine the local supervision performed by national supervision bodies with the centralization of some responsibilities at European level (European Committee, 2009b). In parallel, several prudential regulations should be correlated at EU level, so that a single set of rules/ standards is used in important domains.

The ESFS will be made up of three new European supervision bodies, which will collaborate with national supervision bodies in order to develop common supervision standards.

The European Committee has also analyzed the ongoing debates from several countries referring to the most efficient organization of the supervision of financial institutions, coming up with the following options:

1. a single supervision authority for all components of the financial sector (banking activities, insurances and capital markets);

2. two supervision bodies with distinct tasks: one authority to perform prudential supervision and another one to monitor the current activities of financial institutions; one committee with decision-making power might cover the activity of the two entities, as well as common decisions;

3. sector approach – three supervision bodies: one for banks, one for insurances and pension funds and one for real estate assets;

4. an institutional approach, which in addition to the three bodies mentioned above presupposes the drawing up of a forth authority, in charge with the supervision of financial conglomerates.

The European Committee prefers the last option, as there aren't enough arguments to support the higher efficiency of the other two potential systems. At the same time, cooperation between these sector supervision bodies is absolutely imperative.

Form the point of view of macro-prudential supervision, the following options were analyzed:

1. The maintenance of the ongoing framework, which presupposes the drawing up of this activity via distinct institutions, but which does not ensure a proper mechanism for the supervision and implementation of all recommendations and warnings on systemic risk.

2. Attributing this responsibility to the Economic and Financial Committee-EFC or to the European System of Central Banks - ESCB/ European Central Bank -ECB.

3. Drawing up a distinct entity, namely the European Systemic Risk Council –ESRC; this entity will function independently from the European Central Bank, but its board will be run by the BCE president.

The solution of attributing this responsibility to the Economic and Financial Committee was deemed to be inefficient, due to the political nature of this committee, while the ESCB/ ECB option has its deficiencies from the point of view of the potential conflict of interests between currency stability and financial stability, the excessive concentration of power in the management of financial systems at European level, the reputation risk entailed by macro-prudential supervision etc.

To sum up, from the point of view of macro-prudential supervision, the best option would be the drawing up of the European Systemic Risk Council –ESRC.

The efficiency of this option stems from the centralization of the responsibilities related to systemic risk warnings, the accentuation of the ongoing synergies and from the balanced representation of all states, institutions and authorities.

Thus, the new European Systemic Risk Council will undertake macro-prudential supervision and the management of systemic risk, its objective being the supervision and assessment of all potential threats against financial stability entailed by macro-economic evolution, on the one hand, and by the evolution of the financial system, on the other hand. The council will perform assessments/state warnings on increased exposures to risk at economic/financial system level, as well as issue recommendations on the proper measures to be undertaken to counteract the effects of these risks.

The European Systemic Risk Council will be a new, independent entity, with the following responsibilities:

- Collecting and analyzing all information necessary for the assessment and supervision of all potential threats against financial stability at EU level;
- Identifying and assessing the importance and impact of the respective risks;
- Issuing warnings/notifications on significant risks;
- Issuing recommendations and the necessary measures to be undertaken for the diminishment of exposure to such risks;
- Collaborating with IMF, the Financial Stability Board (FSB) and other relevant counterparties.

The Central Banks of member-states will play a primordial part in macro-prudential supervision; currently, the main responsibilities of central banks refer to the maintenance of currency and financial stability.

In this respect, the necessary macro-prudential supervision analyses will partly use the economic and currency analyses performed by central banks.

In order to be efficient, the European Systemic Risk Council will include the governors of the 27 central banks of the 27 member-states, as well as the president of the European Central Bank. The participation of the national authorities responsible with micro-prudential supervision is absolutely necessary as well. The main reason for this is the fact that due to inter-connections between financial institutions and financial markets, the supervision and assessment of systemic risk must be based on a wide range of macroeconomic indicators, as well as several microeconomic indicators (of individual entities).

At the same time, the current supervision activity of financial institutions shall remain at local level. If several banks require financial support, as was the case during the ongoing crisis, member-states will undertake such action.

3.2. The measures undertaken by USA for the management of systemic risk and macro-prudential supervision at European Union level

One June 17th 2009, the Treasury of the United States of America has put forth a proposition regarding the reforming of the regulations and supervision of the financial system (Clifford Chance, 2009). Thus, from an institutional point of view, the Treasury stipulated four important measures:

- Federal Reserve will become the regulation authority in the domain of systemic risk and the supervisor of important (too-big-to-fall) institutions; at the same time, a new Financial Services Oversight Council will be drawn up.

Federal Reserve will decide which financial institutions have systemic importance (called Tier 1 FHCs), based on criteria such as size, leverage, inter-dependency with other entities, etc.; for these, Federal Reserve will draw up higher prudential requirements, such as higher capital requirements, as compared to all other institutions.

- The drawing up of a new federal agency, namely the National Bank Supervisor, specialized in the supervision and prudential regulating of banks; this will be created by the merge between two existing agencies, namely the Office of Thrift Supervision (OTS) and the Office of Currency Control (OCC).
- A new Consumer Financial Protection Agency-CFPA will be drawn up, with the purpose of supervision the crediting practices of financial institutions, in order to avoid crediting practices which lack transparency/aggressive practices. This new federal agency will have increased supervision competencies upon the activity of providers of services and products for individuals, being the sole agency with attributions in the domain of drawing up consumer protection rules.
- The drawing up of an Insurance Supervision Bureau (within the USA Treasury), responsible with the supervision

of the insurance industry and the identification of all issues which might contribute to the emergence of a crisis, as well as with the informing of Fed on insurance companies of systemic importance.

The Financial Services Supervision Council will be responsible with the management of systemic risk. At the same time, Federal Reserve will decide which financial institutions are important from the perspective of systemic risk and its prerogatives will include requesting reports, performing inspections, drawing up additional prudential requirements, as well as activity restrictions and other similar measures.

Because such measures usually fall under the competence of the micro-prudential supervision authorities, we feel this action slightly contradicts the very notion of macro-prudential supervision. Nevertheless, as the measures undertaken by Federal Reserve shall be complementary to those undertaken by micro-prudential supervision authorities, but generally more restrictive and based on a macro-prudential approach, we believe they will contribute to the strengthening of the stability of the financial system.

As a whole, additional capital requirements and more prudent risk standards are being taken at the level of all banks and banking holdings.

Another important change stems from the application of consolidated rules at the level of financial holdings, in order to include non-banking subordinated branches as well in the supervision scope.

Thus, financial institutions with systemic importance will be analyzed together with private investment funds, hedge funds, private equity funds and venture capital funds, as well as with foreign financial institutions unfolding their activities in the USA. We believe this measure is very important, as it avoids the transferring of risks from monitored entities to entities not included in the prudential supervision perimeter, which may lead to the accumulation of systemic risks unknown to the authority in charge.

Initiatives on the re-assessment of the ongoing supervision standards and capital requirements will be implemented as well, including changes to the computation methods of capital requirements in order to decrease pro-cyclicality; simpler leverage assessment methods will be considered, used complementary to the capital assessment method based on the weighing of assets against risks, as well as new risk provision rules.

What's very important considering the reasons for the emergence of the ongoing crisis is the fact that measures will be implemented so that a proper correlation is achieved between financial compensation schemes for financial institution leaders and the long-term value drawn up for shareholders with the maintenance of the security and the solidity of the respective entity.

Another proper measure is that all OTC derivatives (over-the-counter derivatives, traded outside stock exchanges) will become the subject of exhaustive regulations, clearing operations performed via centralized institutions and clear-cut accounting standards able to prevent frauds, the manipulation of markets and other similar practices.

Conclusions

We consider these initiatives of adjustment of the ongoing supervision system proper, considering the fact that the poor efficiency of the ongoing macro-prudential supervision has had major negative effects at global level.

Had this system been implemented prior to the emergence of the crisis, the problems caused by the aggressive expansion of loans, the increase in the prices of financial and real estate assets, correlated with the under-assessment of the financial institutions' exposure to risks, would not have happened.

We should also mention that the G20 Group has similarly decided in April 2009 during the London Summit to implement new measures able to ensure financial stability at global level, based on the newly-drawn up Financial Stability Board-FSB, which will closely collaborate with the International Monetary Fund in order to issue signals/ warnings on macro-prudential risks at global level (Financial Stability Board, 2009).

In conclusion, we believe that via their contribution to the maintenance of financial stability and the efficient supervision of financial institutions, the new changes made to the supervision framework contribute to the protection of:

- Financial institutions, shareholders, and employees by: improving the business environment by increasing financial stability and preventing crises more efficiently, ensuring a unitary framework and decreasing the costs associated to regulation/supervision activities for financial institutions with cross-border activities;
- Users of financial services, including deponents, investors and non-financial companies by: increasing the trust of consumers and investors in the stability of the financial system; decreasing the bankruptcy risk for financial institutions;
- Consumer and employees from the real economy. The successful identification and prevention of systemic financial crises which may extend upon the real economy will have a benefic effect in preventing and decreasing the impact of macro-economic recessions and associated effects upon consumption, work places, etc.

Public authorities, including supervision bodies, central banks and finance ministries by: clarifying roles and responsibilities, drawing up an interconnection between micro-prudential and macro-prudential supervision; the diminishment of the risk of public money injections into the financial system.

References

Aversa, J., „*Financial Crisis Shifts Balance Toward Regulation -Country Often Responds To Crises With Rash Of New Rules*", 2009, http://www.clickorlando.com/money/19781528/detail.html, pp. 1, 2

Chance, C., US LLP, „*The U.S. Treasury Releases Its Proposal for Regulatory Reform*", iunie 2009, www.cliffordchance.com, pp. 1-4

Comisia Europeană (2009a), „*European financial supervision, Summary of the impact assessment*'', Brussels, http://www.cdep.ro/docs_comisii/IE/CE/2009/SEC_2009_716_EN_DOCUMENTDETRAVAIL_f.doc, pp. 2-6

Comisia Europeană (2009b), „*European financial supervision''*, Brussels, http://www.ecb.eu, pp. 2-12

Financial Stability Board press release, „*Financial Stability Forum re-established as the Financial Stability Board*", 2009, http://www.financialstabilityboard.org/press/pr_090402b.pdf, p. 1

Hassett, K., „*Unrestrained capitalism was not the cause of the current global recession*", 2009, http://www.aei.org /article/29287, p. 1

Tumpel-Gugerell, G., „*Beyond the turmoil: rules, supervision and infrastructures*", Conferința SPIN 2009 de la Roma, 15 Iunie 2009, http://www.forexhound.com/article/Central_Banks/ECB_Publications/ECB_, pp. 1, 2

Smaghi, L. (2009), „*Going Forward: Regulation and Supervision after the Financial Turmoil- International Conference of Financial Regulation and Supervision - After the Big Bang: Reshaping Central Banking, Regulation and Supervision*", Universitatea Bocconi, Milano, 19 Iunie 2009, http://www.ecb.eu/press/key/date/2009/ html/sp090619.en.html, pp. 1-4

Soros, G. (2009) http://www.bloomberg.com/apps/news?pid=20601087&sid=a60APVwmz01g&refer=home, pagina 1

Ziarul Financiar, „*George Soros: Nu reglementarea excesivă este răspunsul pentru curățarea sistemului financiar*", 18.06.2009, p. 9