

## **ECB, CENTRAL BANKS AND BANKING REGULATION**

### **Mathias Dewatripont and Yassine Boudghene**

Mathias Dewatripont is Executive Director at the National Bank of Belgium, responsible for prudential policy and financial stability. He is a member of the Board of Supervisors of the European Banking Authority, the Basel Committee on Banking Supervision and the Committee of the Global Financial System. He was previously Professor of Economics at Solvay Brussels School of Economics and Management, and was Dean of the faculty (2009-12). He has been part-time Visiting Professor at MIT and Research Director of CEPR. He has written extensively, in particular on incentive theory, industrial organization and banking and finance, including bank bail-outs.

Yassine Boudghene is Head of Joint Supervisory Team at the European Central Bank. He has worked previously at the European Investment Bank (Financial Policy), as well as at Fortis Bank and ABN AMRO. He was also Associate Director at Debt Capital Markets group at Fortis bank. He was a member of the European Commission's Financial Crisis Task Force. He lectures at Solvay Brussels School of Economics and Management.

### **Course Outline**

This 24-hour course reviews the role of central banks and in particular the ECB, both as authority responsible for monetary policy and as bank supervisor, and the main tenets of the new regulatory environment for banks.

Specifically, it provides Participants with a general and broad introduction to the different dimensions of monetary policy and the related tasks of central banks. It also reviews the Eurosystem's operational framework, including a description of the main monetary policy instruments used in practice and the main issues facing central banks when implementing monetary policy.

It provides a brief history of banking regulation and banking crises since the Great Depression, with special emphasis of key Belgian cases (Fortis, Dexia), and an assessment of the post-crisis regulatory reforms, based in part on key academic papers on the specificities of banking. Specific attention is given to current topics of debate, such as the macro prudential dimension or the bail-in debate. The course also discusses the state of the debate on structural reforms and on remaining challenges in the sector relative to risk-taking and profitability. It offers a general assessment of the initial steps of the Banking Union, an overview of the organisational setup of the Single Supervisory Mechanism (SSM) and the main challenges facing the SSM, and a practical overview of the supervisory tasks conducted day-to-day by the ECB together with national competent authorities (SSM) in the euro area banking system

At the end of the course, Participants will be able to:

- have a practical insight into several aspects related to the strategy and implementation of monetary policy in the Eurosystem
- demystify the monetary policy operational framework of the ECB
- understand the interdependences between monetary policy and the financial system, as well as the several challenges facing central banks in practice
- understand key banking regulatory and supervisory debates at both world and Eurozone levels, while having gained a broad overview of the historical evolution of banking regulation and its many crises
- Describe how the SSM functions in practice
- Understand the main tasks supervisors conduct day-to-day and the main challenges the SSM is facing in the coming years.

## Course Structure

- I. The ECB's monetary policy strategy and implementation**
  - a. Background/Role, objective and transmission mechanisms of monetary policy
  - b. Practical aspects
    - i. Performing the right diagnostic
    - ii. Defining the liquidity needs in the banking system
    - iii. Main monetary policy instruments: how they work in practice
    - iv. Designing the right policy response – selected examples from recent ECB decisions
    - v. Overview of selected measures taken since the financial crisis of 2008:
      1. LTROs, Targeted LTROs (next to classic MROs)
      2. Securities Markets Programme (SMP), Covered Bond Purchase Programmes, ABS Purchase Programme, PSPP, Expanded APP
      3. Cross-currency facilities
- II. Selected issues and challenges in monetary policy, for discussion**
  - a. Risk management in central banks
  - b. Collateral management
  - c. Transparency and communication
  - d. Monetary policy, financial stability and asset prices
  - e. Effectiveness of monetary policy
  - f. Emergency Liquidity Assistance (ELA)
- III. The history of banking regulation and banking crises**
  - a. The Great Depression and its consequences
  - b. An assessment of the 'deregulation trend' from the 1970s until 2008
  - c. Crisis management and bailouts in practice
  - d. Belgian banks in the crisis: the Fortis and Dexia cases
- IV. Assessing the new regulations**
  - a. Banking theory
  - b. Liquidity
  - c. The macroprudential dimension
  - d. Bailout or bail-in?
- V. Unfinished business?**
  - a. Structural reforms
  - b. The challenges of complexity, culture, control, and profitability
  - c. "Completing" the Banking Union
- VI. Single Supervisory Mechanism for banks**
  - a. Organisation of the SSM and decision-making at the ECB
  - b. Main highlights of the SSM regulation
  - c. Distribution of tasks between the ECB and national authorities
  - d. Role and functioning of joint supervisory teams (JSTs)/How the ECB is organized
- VII. Banking supervision in practice**
  - a. Main tasks: Off-site supervision / On-site inspections / Internal models / Event-driven tasks
  - b. SREP risk assessment
  - c. Supervisory priorities of the SSM in the euro area
  - d. Selected issues for discussion
    - i. Internal models
    - ii. ICAAP & ILAAP
    - iii. Stress testing
    - iv. Harmonisation of the national options and discretions in the CRR / CRDIV package
    - v. Harmonisation of the supervisory practices.