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# **Did we find the right link between microprudential and macroprudential supervision?**

Financial supervision in Europe – on the right track?

ESE Conference

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Czech National Bank, Prague

mag. Stanislava Zadavec C.

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# Did we find the right link between micro prudential and macro prudential supervision?

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- The framework for micro and macro supervision within EU is very complex in all its dimensions:
    - Regulatory
    - Institutional
    - Instruments
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# Complex framework for micro and macro supervision within EU

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## Regulatory framework

- **micro prudential regulation** aims at mitigating the risk of the individual financial institution
- **macro prudential regulation** aims at mitigating the risk of the financial system as a whole - systemic risk
  - Cyclical dimension
  - Structural dimension
- **However both dimensions are enacted by micro prudential supervisory powers at national and or EU/EMU levels**

## Institutional framework

- **The micro prudential supervisory authority is in principle given to a single entity**
- **The macro prudential supervisory authority may be given to a single entity, or be a shared responsibility among different institutions** (e.g., monetary and fiscal authorities)
- **However, it encompasses institutions at national level as well as in cross border context (EU; EMU)**

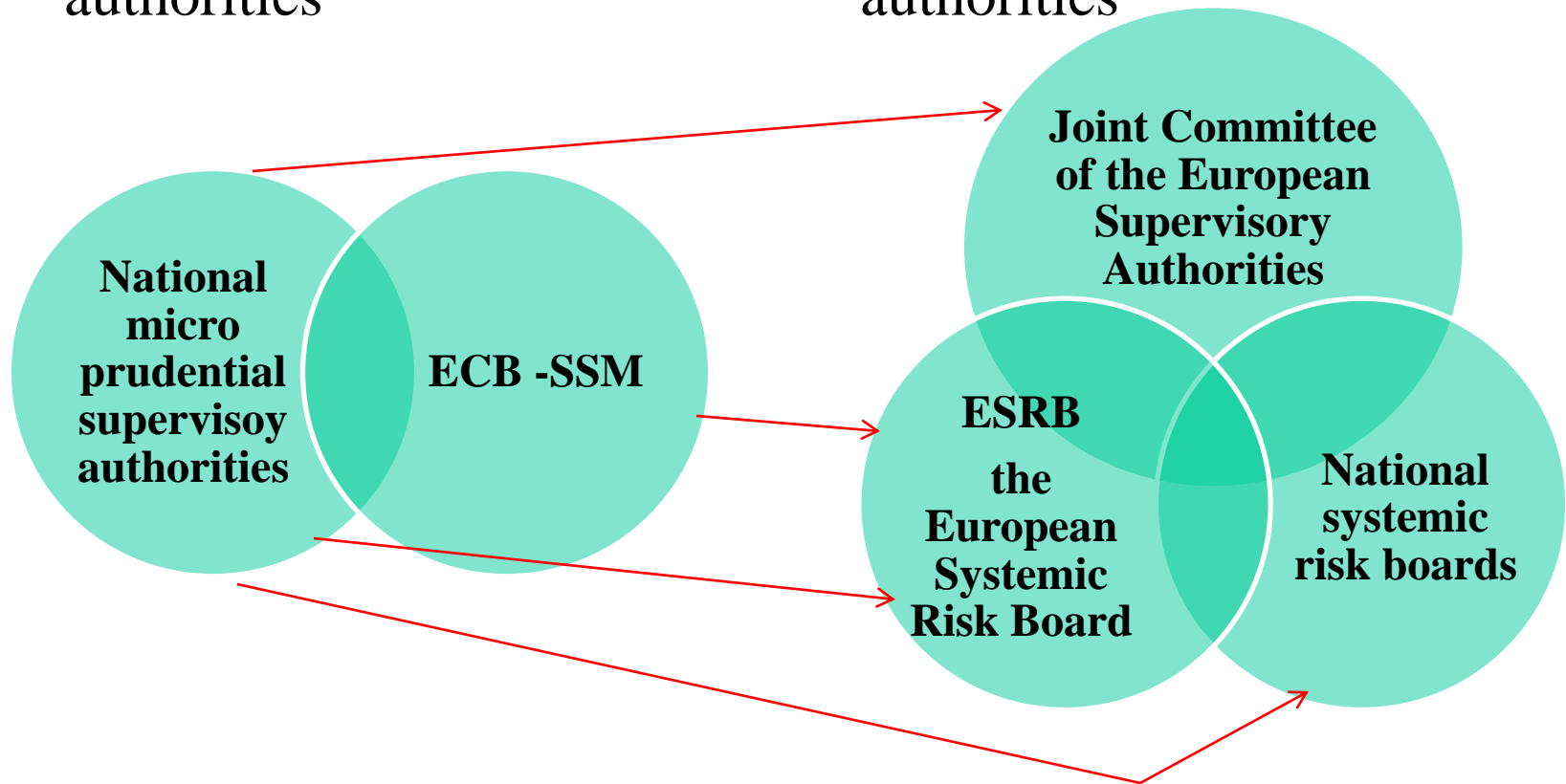
**Use of instruments adds further complexity: under CRR + national flexibility measures + other national measures**

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# Complexity added by segmentation of supervisory powers and decision making processes

- Micro prudential authorities

- Macro prudential authorities



## Challenges

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- Ensure clarity of responsibilities and roles of different national and EU institutions
  - Ensure procedural transparency in decision making processes
  - Avoidance of double counting (micro-supervisory of capital requirements vs. macro-supervisory capital requirements)
  - Ensure effectiveness of macro prudential instruments – including cross-sectoral and cross-border impact evaluation
  - Ensure consistency in the use of instruments
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