

## European Commission Should Reconsider Macroprudential Policy Framework

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## ICI Global Calls for Restructuring European Systemic Risk Board and Mandate

**London, 31 October 2016**—ICI Global is backing a European Commission (EC) review of the European Union (EU) macroprudential policy framework, noting the EC is right to review the role of the European Systemic Risk Board (ESRB), and consider reforms designed to deliver a more effective, efficient, and flexible approach.

The EU macroprudential policy framework is designed to monitor the financial system as a whole and has been established incrementally by different regulations and directives. In August, the EC began consulting on the framework. ICI Global's filing in response to the consultation praises the EC for initiating this review and provides constructive recommendations for improving the framework.

'It's time for a change in focus, and in the composition of ESRB,' said ICI Global Managing Director Dan Waters. 'As the consultation itself explains, the current framework has been constructed in piecemeal fashion and largely has a bank-oriented approach, which would be inappropriate for examinations of nonbank financial activities.'

### EC Should Clearly Define the ESRB's Role

The ICI Global filing supports the ESRB's role in monitoring systemic risk across the EU financial system, and a broadening and deepening of the Board's analytical resources to facilitate monitoring in nonbank sectors. However, ICI Global strongly opposes expanding the existing macroprudential framework, which involves the use of tools that are deeply rooted in bank regulatory concepts, to nonbank financial activity.

ICI Global also expresses concern about a recent indication that the ESRB is seeking to expand its mandate beyond monitoring of the nonbank financial sector. The Board appears to rationalise this potential expansion through a July 2016 strategy paper it published, but never issued for public comment. Written by banking regulatory experts, the paper purports to identify sources of systemic risk, including from investment funds. ICI Global's filing states that the paper is 'deeply flawed' and 'troubling,' because of its attempt to impose a bank-oriented view on nonbank financial activities.

ICI Global further cautions that an approach that does not reflect an appropriate understanding of investment funds would seriously hinder the European Union's goal of developing a strong Capital Markets Union.

### EC Should Reconstitute the ESRB to Be More Efficient and Effective

ICI Global contends the structure of the ESRB needs to evolve to be effective in monitoring for risk across the financial system. Specifically, ICI Global calls for a reconstituted Board that incorporates more expertise from outside the banking sector. ICI Global recommends reshaping the ESRB to give a greater role to the European Securities Markets Authority (ESMA), European Insurance and Occupational Pensions Authority (EIOPA), and national securities and insurance regulators.

'Europe needs a strong, resilient financial system, supported by effective regulatory monitoring that can identify potential systemic risks,' said Waters. 'This is a prerequisite for sustained economic growth and job creation. We are concerned that the current structure and mandate of the ESRB may not be adequate for undertaking such monitoring, and coordinating national policies. The time is ripe to consider meaningful reforms.'

ICI Global's filing is [summarised here](#). A copy of the entire survey and ICI Global's response is [available here](#).

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