Contents

Preface

Chapter 1: Introduction and overview
Key questions ............................................. 6
Regulatory structure ....................................... 6
Professional skills ......................................... 7
Political environment ..................................... 7
Steps for improving regulatory effectiveness ........... 8
Research objective and methodology .................... 9
Research participants ..................................... 12
  Institutions .................................................. 12
  Individuals .................................................. 12

Chapter 2: Anatomy of the banking crisis
Overview .................................................. 16
Key developments in the financial crisis ................. 17
  Macro-economic dislocation ............................ 17
  The explosion of sub-prime lending in the US ........ 20
  Lack of transparency and management and regulatory controls .............................................. 21
  Market panics and the drying-up of liquidity ........ 21

Chapter 3: The emerging new model of financial regulation
New regulatory structures across the three geographic levels of bank supervision ......................... 24

Effective Bank Regulation and Supervision: Lessons from the Financial Crisis
New initiatives in bank regulation ..........................25
The overall theme of macro-prudential supervision.......26
Early implementation steps .................................28

**Chapter 4: Regulatory structure and policy**
Structural issues in a diverse environment .................30
Role of the central bank ......................................31
Gaps and overlaps in bank regulation ........................34
Communication and collaboration – critical success
   factors ..........................................................37
Principles-based vs. rules-based policy: is there a
   fundamental difference? .................................39
The balance between regulation and supervision ........40
Is there a single best regulatory structure? ...............41

**Chapter 5: The role of professional skills**
The central role of leadership ...............................44
The unique challenges of regulation and supervision....45
   Compensation .................................................45
   Regulatory capture .........................................46
   Political pressure ...........................................46
Attracting and retaining qualified key professionals ....47
Roles of the regulator and supervisor ......................48
Building a career path in a regulatory team ...............50
Challenges for the future .....................................51
   Getting a balanced skill set ..............................51
Chapter 6: Politics and bank regulation
Drivers of political influence ........................................... 54
The United States ............................................................. 55
Spain ............................................................................... 57
Germany ............................................................................ 58
Further observations ........................................................ 59
   Regulator strength ......................................................... 59
   Asia .............................................................................. 60
   Government support ....................................................... 60
Chapter 7: Regulatory authority case studies
Introduction ....................................................................... 64
Australia: Australian Prudential Regulatory Authority (APRA) ......................................................... 65
   Profile ............................................................................ 65
   Other perspectives ........................................................ 67
Canada: Office of the Superintendent of Financial Institutions (OSFI) ............................................. 69
   Profile ............................................................................ 69
   Other perspectives ........................................................ 71
France: the Commission Bancaire of the Banque de France ................................................................. 73
   Profile ............................................................................ 73
Germany: BaFin (Federal Financial Supervisory Authority) ................................................................. 76
   Profile ............................................................................ 76
   Other perspectives ........................................................ 77
Italy: Banca d’Italia ........................................... 78
Profile ......................................................... 78
Norway: Financial Supervisory Authority of Norway
(Finanstilsynet) ........................................... 81
Profile ......................................................... 81
Other perspectives ........................................ 83
Spain: Banca de España ................................. 84
Profile ......................................................... 84
Other perspectives ........................................ 86
UK: Financial Services Authority (FSA) ............. 88
Profile ......................................................... 88
Other perspectives ........................................ 90
US: The Federal Reserve, Office of Comptroller of the
Currency, SEC, and FDIC ............................... 92
Profile ......................................................... 92
Other perspectives ........................................ 94
Lessons from the case studies ......................... 95
Lessons from experience ............................... 95

Chapter 8: Lessons from the past and the
outlook for the future
What is the purpose of bank prudential regulation? .... 102
What works in bank regulation? ......................... 104
What does NOT work in regulation? .................. 108
How effective will the current macro-prudential
approach be in the future? ............................. 108
And finally the big question: can we avoid the next
banking crisis? ............................................ 114
Chapter 9: Conclusions
The likelihood of future banking crises ................. 118
The effect of regulatory action on future crises ........ 120
Redefining ‘regulation’ and ‘supervision’ ............... 121
The need for quality in regulatory and supervisory skills 123
Politics – the core issue .................................. 124
A level playing field for bank regulators? ............... 126
The danger of over-regulation ......................... 126
The role of bank management ......................... 128

Appendix: Extracts from Pillar 2 of the Basel II Accord
   I. Importance of supervisory review ................. 130
   II. Four key principles of supervisory review ....... 131

Bibliography
Tables and Figures

Figure 2.1: Global financial system built to bubble ........18
Figure 2.2: US sub-prime – the ‘San Andreas fault’ of
global banking ..............................................19
Figure 2.3: CDOs become highly concentrated ............19
Figure 2.4: … and highly leveraged .......................20
Figure 4.1: Bank supervision structures .................32
Figure 4.2: A framework for understanding bank
regulation and supervision ............................33
Figure 4.3: Impact of crises on US bank regulation ......35

Table 3.1: The macro-prudential and micro-prudential
perspectives compared.................................27