STRENGTHENING THE MNB'S FINANCIAL SUPERVISORY FUNCTIONS

(Delegating new tools to the MNB and integrating the HFSA into the MNB)

1. EXECUTIVE SUMMARY

In the period prior to the crisis which began in 2008, Hungary became extremely vulnerable, reflecting the accumulation of excessive debt of the public sector and households. Deficiencies in the regulation and supervision of the financial system also played a role in the sharp build-up of household debt and the general proliferation of foreign currency lending. This raises the question about the extent to which the current institutional framework and the related regulatory and supervisory tools ensure the timely identification of systemic risks in the financial sector as well as the ability to solve them quickly and efficiently.

Prior to the crisis, the financial sector was not appropriately regulated and supervised in many developed and emerging countries. After the crisis, however, a number of countries reviewed their supervisory systems and made decisions to strengthen them. Basically, strengthening the role of supervisory authorities encompassed two essential elements. First, independent institutions (typically central banks) with clear responsibilities and tools were designated, which are responsible for mitigating and managing risks potentially arising in the financial sector at the system level (macroprudential policy). Second, institutional changes were made in order to bring microprudential (focusing on the stability and safety of individual financial institutions) and macroprudential policies more into line with each other. In practice, this was mainly achieved by integrating some or all of the microprudential supervisory powers into the central bank. Recent examples of integrating supervisory functions into the central bank include the reforms implemented in the UK, Ireland, Belgium and France; however, in general the overwhelming majority of central banks in Europe have microprudential supervisory functions. Today, only a few countries in the region (e.g. Poland) and the Scandinavian countries have a supervisory authority operating fully separated from the central bank.

The MNB's position on the issue is that the macroprudential framework must be strengthened in Hungary and the supervisory authority and the central bank must be integrated. A transparent macroprudential institution, with a range of appropriate powers and tools, should be set up. In addition, it should be ensured that macroprudential considerations are adequately taken into account in the prudential supervision of individual institutions (microprudential policy). Based on institutional motives, powers, tools and the past experience of coordination, it is appropriate that the MNB should be the institution primarily responsible for the conduct of macroprudential policy. The MNB, as macroprudential authority, should be given well-defined macroprudential regulatory tools, which it could use independently after adequate preparation and consultation.

Also, financial stability powers and tools in a broader sense should be consolidated within the MNB. In other words, the supervision of individual financial institutions currently carried out by the HFSA should also be integrated into the central bank. One advantage of this is that broader information will be available for micro- and macroprudential regulation as well as monetary policy, and quality of decisions may improve. In addition, actions taken by the regulatory authority will be more consistent and a broader set of tools will be directly available for the central bank to prevent the build-up of risks at individual or systemic level or to resolve crisis situations that have already occurred in a fast and efficient manner.

The MNB believes that the consumer protection, market supervision as well as capital and insurance supervision functions of the HFSA can also be integrated into the central bank.

In terms of timing, the MNB proposes the earliest possible introduction of macroprudential regulations. According to the MNB's proposa,l the partial or full integration of the HFSA could be carried out with effect from 1 January 2014, after the passing by Parliament of the new MNB Act at its spring session.

2. THE NEED TO STRENGTHEN FINANCIAL SUPERVISION

'It is vital that macroprudential tools and microprudential regulation are part of the armoury of a central bank to mitigate, if not prevent, the build up of excessive leverage and risk-taking in the banking and wider financial sector.'

(Mervyn King, Governor of the Bank of England[1])

From the perspective of financial supervision, the emergence and deepening of the international financial crisis was attributable to three main factors. First, authorities were late in recognising systemic risks; second, policymakers significantly underestimated the magnitude of the problems, and, third, these problems were not always managed properly. Due to the high vulnerability of the country (foreign currency lending, high public debt and the resulting high external indebtedness), the global economic crisis affected Hungary particularly severely. Accordingly, the question also arises in Hungary whether the current structure of supervisory institutions, the division of responsibilities and related powers between the HFSA, the Ministry for National Economy and the MNB ensure the timely detection of systemic problems that may arise and their fast and efficient resolution.

The crisis has highlighted that in the existing framework, the tripartite institutional structure to ensure financial stability has major flaws. In Hungary, three institutions share the responsibility for financial stability: the HFSA, the MNB and the Ministry for National Economy (formerly the Ministry of Finance). Cooperation between the three institutions is essential if risks are to be identified and managed at an early stage. Before the crisis, the institutional framework for that cooperation was the Financial Stability Committee (FSC), after the crisis the Financial Stability Board (FSB). However, while the FSC and FSB were in operation, no entity had clear responsibility for managing systemic risks,[2] the exchange of key information was not ensured and coordination was not always adequate.[3]

2.1. Deficiencies in the Hungarian system of macroprudential institutions

At present, Hungarian legislation fails to unambiguously allocate institutional responsibility for macroprudential risks (also known as systemic risks). The responsibility for the identification of systemic risks is assigned to the MNB and the HFSA, while the regulatory tools needed to prevent systemic risk are not available for them.

Pursuant to the MNB Act in force, the MNB, in cooperation with other competent authorities, promotes the stability of the financial system and the development and smooth conduct of policies related to the stability of the financial intermediary system; it identifies risks to financial intermediation, promotes the prevention of systemic risks and the mitigation or elimination of existing systemic risks. Following the amendment of the MNB Act in 2011, the macroprudential functions of the MNB have been broadened and made more

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[1] Mervyn King: Twenty years of inflation targeting, London School of Economics, London, 9 October 2012 http://www.bis.org/review/r121010f.pdf?frames=0

[2] For instance, the risks of foreign currency lending were discussed by the FSC several times, but there was no concord in the case of risk assessment and the need for any regulatory intervention, therefore substantive intervention was not taken (for more detail, see the report of the Committee on constitutional, judicial and procedural affairs of the Parliament, www.parlament.hu/irom39/05881/05881.pdf).

[3] The circumstances of the suspension of real estate funds in 2008 offer a typical example for the latter.

specific. The amended MNB Act has given the Governor of the MNB the mandate to issue decrees to regulate, in line with the decisions of the Monetary Council, the following areas:

- provisions to prevent excessive credit outflow,
- liquidity requirements to prevent the build-up of systemic liquidity risks,
- the conditions of the timing, build-up and operation of the countercyclical capital buffer,
- additional requirements to reduce the probability of default of systemically important financial institutions.

However, the powers wielded by the MNB since 2012 are still no guarantee for the efficient conduct of macroprudential policy, as there is limited room for intervention and several important elements are missing from the macroprudential framework.

a) **The wording of the Act does not reflect the coherence of the primarily responsibility of the MNB and its powers:** Even though the ministry responsible for economic policy and the financial supervisory authority supervising individual institutions both have a share in the responsibility for preventing and mitigating systemic risks, the identification, measurement and evaluation of systemic risks is clearly the legal responsibility of the MNB. Nevertheless, even though the MNB does have some of the direct tools required for the mitigation or prevention of systemic risks, the macroprudential *powers* of the MNB are far from unequivocal, due to potential overlaps with the legislative powers of the Government (that may include legislative obligations relating to the management of systemic risks).

b) **The objectives of macroprudential policy need to be defined more comprehensively:** The Hungarian framework is deficient also in the sense that it provides no clear definition of the objectives of macroprudential policy. It does not reflect the objective of the macroprudential approach beyond the stability of the financial system: the need for the financial intermediary system to contribute to *sustainable* economic growth via lending.

c) **Uncertainty concerning the powers of intervention by the MNB:** The MNB may adopt macroprudential decrees only in areas that are not already regulated by acts of Parliament or government decrees. This limits the possibility of the central bank for intervention in the four areas delegated to its scope of responsibilities and it also results in overlapping responsibilities. It is also unclear who, and in what form, is responsible for any failure to implement the necessary intervention measures. In order to manage this deficiency, it is necessary that the MNB is provided with an adequately broad range of specific macroprudential tools[4] (e.g. a right to issue decrees to define the maturity match and denomination match).

d) **Links between the Hungarian macroprudential policy and the European level information sharing and decision making process:** The MNB also needs to inform in advance the European Systemic Risk Board (ESRB) and, through them, the relevant Member States about major steps proposed by the MNB and to provide the relevant detailed background information.[5]

In the context of the aforementioned deficiencies in the Hungarian macroprudential institutional system, it should be noted that the recommendation of the ESRB of 22 December 2011[6] also requires these problems

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[4] For more details on the macroprudential tools proposed by the MNB, see section 3.2.

[5] Naturally, in the inverse situation Hungary also expects the authorities of parent banks to inform Hungary properly about any macroprudential intervention regarding the parent banks of subsidiaries operating in Hungary.

[6]http://www.esrb.europa.eu/pub/pdf/ESRB_Recommendation_on_National_Macroprudential_Mandates.pdf?8852c0499dd076503c1689b0620b4101. The Ministry for National Economy has sent the ESRB a summary of compliance with the recommendations in August 2012; in this, in line with the Government's decision of 5 July 2012, the MNB was identified as the authority with primary responsibility for Hungarian macroprudential policy.

to be redressed (appropriate framework for responsibilities, objectives, instruments and international coordination).

2.2. Deficiencies in cooperation between microprudential and macroprudential policies

Pursuant to the HFSA Act, the purpose of the work of the Supervision, in addition to 'traditional' microprudential supervision, is '[...] collaborating with the Magyar Nemzeti Bank with a view to preventing the build-up of systemic risks, and to mitigating and eliminating systemic risks that may already exist'. The present shared responsibility of the MNB and the HFSA in identifying systemic risks is problematic, as risk assessment by the two institutions, which use different information sets, may be different or even conflicting, and accountability is severely compromised.

Cooperation between the HFSA and the MNB was insufficient before the crisis and it was unable to prevent the emergence of systemic risks (such as foreign currency lending in Hungary). The framework of cooperation has not changed materially after the crisis either. Pursuant to the HFSA Act adopted in December 2009, the HFSA was reinforced and the Financial Stability Board (FSB) was set up. However, just as the former Financial Stability Committee, the FSB is not a decision making body either, only a consultative and information sharing forum convened every few months, which does not ensure the coordination of the work of the MNB and the HFSA with sufficient intensity and depth.

The close cooperation of the two institutions is also hindered by the fact that regular professional cooperation is not institutionalized below the senior management level. Discussions of strategic issues relating to prudential questions, joint workshops, crisis simulation exercises are infrequent and the coordination of communication with the supervised sectors is also lacking.

In view of the above, the reinforcement of the Hungarian supervisory framework requires not only the legal clarification of the powers and tools of the macroprudential authority, but also the coordination of macroprudential and microprudential oversight so that the new institutional system is capable of fast and targeted intervention if any systemic risk arises.

Box 1: What could the central bank strengthened with supervisory powers have done to reduce foreign currency lending?

The proliferation of foreign currency lending not only poses financial stability risks, but it also hinders the functioning of the real economy and causes significant social problems. The proliferation of foreign currency lending prior to the crisis[7] highlighted the fact that the tripartite financial stability institutional structure had significant deficiencies. From 2004, the MNB continuously stressed the risks associated with the increase in foreign currency lending, and had several rounds of consultations on the issue with fellow authorities responsible for financial stability (HFSA, Ministry of Finance). Unfortunately these discussions were unsuccessful, and neither the MNB nor the HFSA communicated sufficiently enough.

In 2006, the MNB set forth recommendations for the use,[8] mainly by the HFSA and the Ministry of Finance, of possible tools designed to curtail foreign currency lending, as these institutions had efficient regulatory tools. The following tools could have been used to prevent or reduce foreign currency lending: introduction of LTV limits, administrative restriction of foreign currency lending, higher capital requirements, stricter rules for asset valuation and provisioning and tighter supervisory controls.

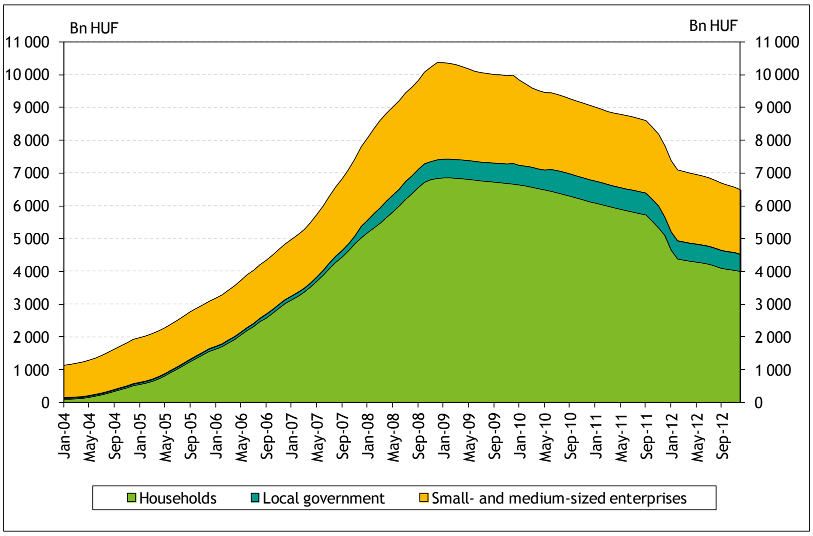
However, the joint recommendation by the HFSA and MNB on the systemic risks of foreign currency lending, with special regard to Japanese yen lending, was issued only with a significant delay, in February

[7] See, for example, Report on Financial Stability, April 2009.
[8] Report on Financial Stability, April 2006.

2008.[9] Subsequently, the HFSA prescribed a higher required capital (SREP) for Japanese yen-denominated loans.[10] By contrast, no regulatory action was taken against Swiss franc-denominated lending.

If the MNB had been a microprudential and macroprudential authority, with a good chance a significantly smaller stock would have built up, and the related risks could have remained moderate. The central bank, strengthened with micro- and macroprudential functions, could have used, among others, the tools of tightening capital requirements, raising the requirements for risk management and imposing administrative limits on foreign currency lending, and could have introduced in time, for example, the rules for LTV, PTI and maturity mismatch. Looking forward, it is more important to see that products, services and activities may appear in the future posing risks similar to those of foreign currency lending. However, these risks can be most efficiently addressed by delegating micro- and macroprudential functions and a broad set of tools to the central bank.

Chart 1: Build-up of foreign currency loans in the household, SME and local government segments



Source: MNB.

Note: Exchange rate adjusted data for the banking sector.

3. REINFORCEMENT OF THE SUPERVISORY FUNCTIONS OF THE CENTRAL BANK: ASSIGNING MACROPRUDENTIAL RESPONSIBILITY AND INSTRUMENTS

'In order to facilitate the transition from analysis to action, a clear mandate for macroprudential supervision is needed. And there are good reasons why central banks should be involved as long as their independence and the hierarchy of their objectives, with price stability as the primary goal, are respected. Their extensive knowledge of financial markets and the macro economy is very valuable for macroprudential purposes.'

(Jens Weidmann, President of the Bundesbank[11])

In the wake of the appreciation of macroprudential policy, the development of national macroprudential frameworks has started in European countries. There are two basic elements to this: the establishment of the institutional background and the elaboration and operation of the appropriate set of macroprudential tools.

[9] http://www.mnb.hu/Penzugyi_stabilitas/ajanlasok-tajekoztatok

[10] http://www.pszaf.hu/data/cms2255405/SREP_archive.pdf

[11] Jens Weidmann: Managing macroprudential and monetary policy – a challenge for central banks, SUERF/Deutsche Bundesbank Conference 2011, Berlin, 8 November 2011, http://www.bis.org/review/r111109g.pdf?frames=0

In respect of the first element, three solutions are emerging.[12] In countries where microprudential supervision is integrated into the central bank, the central bank tends to become the entity primarily responsible for macroprudential policy (the United Kingdom, Ireland, Belgium, the Netherlands, the Czech Republic). In these countries authorities have the theoretical possibility to use the entire set of instruments at their disposal to overcome systemic risks. Under other institutional arrangements, either a financial stability committee is set up (France, Sweden, Poland, Turkey) with representatives of the supervisory authority, the government and the central bank, or the former institutional structure is preserved and the viability of interventions affecting the entire system is assured by closer cooperation between the various participants (Norway, Switzerland). Although in the latter two cases central banks tend to play a leading role in coordination, the macroprudential powers of the central banks are not sufficiently broad, thus the possibility of their direct macroprudential intervention is also restricted. The powers of macroprudential authorities is limited to problem identification and formulation of recommendations for possible solution while actual decision making remains the responsibility of Parliament or the regulatory authority. In this case, communication and enforcement occurs under the 'act-or-explain' mechanism described above.

As regards the other element, the tools for the direct, systemic interventions of macroprudential authorities are being developed.[13] These tools are meant to cover two types of risks: on the one hand they try to mitigate the procyclical effects of the financial sector and on the other they attempt to strengthen the shock-absorbing capacity of the system by mitigating risks.[14] During the crisis most risks affected the banking system, and therefore the emerging tools focus on these institutions in the first round, but tools applicable to other segments of the financial system may also become more common in the future.

For the design of Hungarian macroprudential policy, the main reference points are the recommendations of the European Systemic Risk Board (ESRB).[15] In the recommendation on macroprudential mandates the ESRB has clearly declared that central banks must take a leading role in the formulation and conduct of macroprudential policies. The forthcoming recommendation on the intermediate objectives and tools of macroprudential policy will make proposals on what tools could be valuable under the direct control of this authority.

3.1 Clarification of macroprudential responsibility

As a first step, the MNB's responsibility for systemic risks must be clearly defined. The MNB is an evident candidate to be the macroprudential authority as, because of its role in monetary policy, it has considerable information advantage over its peers concerning the complex interactions of the financial intermediary system and the operation of the real economy. Second, the primary objective of the MNB, i.e. the achievement price stability, goes hand in hand with financial stability; that is, they mutually reinforce each other in most cases. In a high inflation environment the financial system cannot be stable while price

[12] IMF: Institutional Models for Macroprudential Policy, 2011 http://www.imf.org/external/pubs/ft/sdn/2011/sdn1118.pdf
ESRB: The macroprudential mandate of national authorities, 2012
http://www.esrb.europa.eu/pub/pdf/commentaries/ESRB_commentary_1203.pdf?3666718ac8990dc174fbee14ea9732bb

[13] For more details, see: United Kingdom: http://www.bankofengland.co.uk/financialstability/Pages/fpc/coreindicators.aspx, Czech Republic: http://www.imf.org/external/pubs/ft/scr/2012/cr12175.pdf, Sweden: http://www.riksbank.se/Documents/Rapporter/Riksbanksstudie/2012/rap_riksbanksstudie_Att_skapa_en_svensk_verktygslada_for_makrotillsyn_121106_eng.pdf , Switzerland: http://www.admin.ch/ch/d/sr/952_0/

[14] In the United Kingdom the central bank may impose additional capital requirements while the Czech central bank may specify, inter alia, additional capital requirements, liquidity rules and, subject to a consultation obligation, LTV and PTI limits for the credit market. In Sweden the tool set is still in the design phase but a broad scope for intervention is intended for macroprudential policymakers (additional capital requirements, liquidity indicators, LTV and PTI rules, leverage ratio). In addition, the Swiss central bank has a comprehensive set of macroprudential instruments, allowing it to issue rules for the banking sector as well as requiring certain products on the securities market to be channelled through the central counterparty.

[15] ESRB: Recommendation on the macroprudential mandate of national authorities, 2011
http://www.esrb.europa.eu/pub/pdf/ESRB_Recommendation_on_National_Macroprudential_Mandates.pdf?87d545ebc9fe76b76b6c545b6bad218c

stability is impossible to achieve in an environment of financial instability. Third, the financial system is the transmission channel of the interest rate for monetary policy. In the absence of a stable financial system, key policy rate changes are not sufficiently reflected in lending and deposit rates, thus the effect of monetary policy on the behaviour of economic agents is insufficient or even contrary to what is intended. Fourth, the central bank is unique in the position to create liquidity in the banking system and an appropriate liquidity providing policy is indispensable for preserving financial stability. Because of the above factors, the central bank is best placed to identify the most rapidly and profoundly the external systemic risks (arising from the operating environment of the financial system) or internal risks (arising from the internal operation of the financial system), therefore it is right that the MNB is primarily responsible for the identification, measurement and assessment of such risks. In addition to identifying risks, since early 2012 the macroprudential responsibility of the MNB has been made more specific in the sense that the central bank has been granted specific intervention tools in a limited scope. However, the relevant legislation still fails to identify a person or entity ultimately responsible for the conduct of macroprudential policy, which results in coordination and accountability problems.

Consequently, by 30 June 2013, i.e. the deadline set in the recommendation of the ESRB, the MNB Act needs to be amended so that it clearly spells out the primary responsibility of the MNB regarding systemic risks and the contribution of the financial sector to economic growth. However, this responsibility may not be exclusive as the macroprudential responsibility of the MNB extends only to the accomplishment of the four tasks it is entrusted with (preventing excessive lending, mitigating systemic liquidity risks, operating the countercyclical capital buffer and reducing the probability of default of systemically important financial institutions) and taking action pursuant to these powers.

3.2 Assigning the required macroprudential tools

As a second step, the MNB's responsibility for systemic risk must be accompanied by appropriate instruments so that it can prevent the build-up of risks in time and manage any risks that have already emerged. Literature as well as representatives of the profession in general are increasingly embracing the idea that the main question of macroprudential policy is not whether central banks must intervene to manage systemic risks, but rather how efficient the tools available to them are (a good example is found in the speech delivered by Mervyn King, Governor of the Bank of England, at the London School of Economics in October 2012[16]). Moreover, in addition to the ESRB recommendation, the opinions of the ECB on the MNB Act[17] have also stated that the MNB must possess the instruments and powers necessary for the efficient performance of its mandate. At present, the tools supporting the MNB in meeting its macroprudential tasks consist in issuing decrees and making legislative proposals entailing the so-called 'act-or-explain' obligation.[18] However, the MNB Act does not clearly define the areas where exactly the decrees can be issued. On the one hand, the Act only enumerates the intermediate objectives of systemic risk[19] to be covered by the decrees, while, on the other hand, they may only include regulatory instruments within these intermediate objectives that are not regulated by Acts of Parliament or government decrees. As a result, the domains for MNB's legislative actions are limited, depending on the issues covered by acts or government decrees and, for the same reason, they also result in overlapping responsibilities. To address this problem, the MNB proposes that it should have primary macroprudential responsibility for the four

[16] For more details, see: http://www.bis.org/review/r121010f.pdf?frames=0.

[17] For more details, see: Point 7.2 of the ECB's Opinion CON/2011/104 and point 4.4. of the ECB's Opinion CON/2011/106.

[18] This is the so-called 'act-or-explain' principle. Pursuant to Article 58 of the MNB Act, the Governor of the MNB may submit a proposal to the Government or a member of the Government to adopt legal regulations if he takes note of risks in the financial system that require regulatory measures to mitigate. The recipient of the proposal must respond within 15 working days by initiating the legislative procedure or by justifying the reason for rejecting the request ('act-or-explain'). If the MNB announces its proposal in public, the response must also be made through public channels.

[19] For more details, see Section 2.1.

intermediate objective areas specified in the MNB Act and the macroprudential regulatory instruments that can be used most directly to mitigate those risks should be defined accordingly.

We recommend that legal regulations clearly state that certain instruments belong exclusively to the MNB while in respect of other instruments the central bank has the right to impose additional, stricter requirements over and above the rules laid down in Acts of Parliament or government decrees. To this end, on the one hand, the legislative mandate of the MNB must be amended and clarified in the MNB Act so that with the aim of preventing the build-up of systemic risks and mitigating risks the MNB is expressly allowed to depart, in its decree, from the rules laid down in acts or government decrees, and it must be assigned with the specific regulatory tools. On the other hand, the Government's mandate to adopt decrees must also be amended to eliminate overlaps.[20] The amendment we propose would not affect the existing power of the central bank to issue decrees covering areas not regulated by government decrees. In light of the aforementioned considerations and deficiencies, the MNB has elaborated a detailed proposal for Hungarian macroprudential instruments (Table 1).

Table 1: Macroprudential policy instruments and framework for the MNB

Macroprudential policy areas	**Macroprudential policy segments**	**Regulation in place**	**Possible instrument**	**Current owner of instrument**
1 Systemic liquidity risks	*1.1 Maturity transformation*	Yes	FX Funding Adequacy Ratio	Government
	*1.2 Short-term liquidity**	No	Liquidity Coverage Ratio	***Government (decision upon adoption of CRD IV/CRR)***
	*1.3 Stable financing**	No	Net Stable Financing Ratio	***Government (decision upon adoption of CRD IV/CRR)***
	1.4 Stable financing	No	Loan-to-Deposit Ratio	***MNB (until the Government regulates it)***
	1.5 Currency denomination mismatch	No	Limitations on on-balance net open positions	***MNB (until the Government regulates it)***
2 Excessive credit growth	*2.1 Administrative limits*	No	Cap on the quarterly and annual rate of credit growth	***MNB (until the Government regulates it)***
	2.2 LTV/PTI limits	Yes	Rules of responsible lending differentiated by products, currency denomination, and by tenures + Payment-to-income limits	Government

[20] Such mandate to issue decrees is found, for instance, in the Act on Credit Institutions and Financial Enterprises and in the government decree on prudent retail lending.

	*2.3 Special risk weights attached to mortgage lending**	No	Conditional increase of CRD/CRR preferential risk weights	Government (decision upon adoption of CRD IV/CRR)
	*2.4 Special risk weights for intra-financial sector exposures**	No	Changes in risk weights attached to lending within the financial sector	Government (decision upon adoption of CRD IV/CRR)
	*2.5 Leverage**	No	Leverage ratio	***Government (decision upon adoption of CRD IV/CRR)***
3 Countercyclical capital buffer	3.1 Limitations on credit/GDP gap*	No	Countercyclical capital buffer rate	***Government (decision upon adoption of CRD IV/CRR)***
4 Supplementary requirements for systemically important financial institutions (SIFI's) (CRD IV/CRR)	4.1 SIFI supplementary capital requirements*	No	OSII capital buffer	Currently unresolved (decision upon adoption of CRD IV/CRR) **Government/MNB**
	4.2 Temporary supplementary capital requirements for segments posing systemic risks*	No	Systemic risk buffer	Currently unresolved (decision upon adoption of CRD IV/CRR) **Government/MNB**

Note. The single European prudential regulation (Capital Requirements Directive and Regulation - CRDIV/CRR) with fixed parameters addressing both micro- and macroprudential issues is scheduled to enter into force in January 2014. Departures from the calibrations of the regulation will only be allowed for the components of what is called the flexibility package (for the details, see CRR Article 443a)), and even in their cases it can only mean tightening. Countercyclical and systemic risk- buffer requirements addressing the structural and cyclical aspects of systemic risks and the OSII capital buffer for the systemically important financial institutions will also be determined. These instruments and areas not covered by CRD/CRR can form the basis of national macroprudential instruments.

* Regulated by the EU regulation package (CRD IV/CRR) transposing Basel III requirements into EU legislation.

4. STRENGTHENING THE SUPERVISORY FUNCTIONS OF CENTRAL BANKS: INTEGRATION OF MICROPRUDENTIAL SUPERVISION INTO CENTRAL BANK

'One of the main lessons of the crisis may be that those countries where central banks assume banking supervision took advantage of their ability to react quickly and flexibly to emergency situations."
Christian Noyer, Governor of Banque de France [21]

In order to further strengthen the supervisory functions of the central bank and so as to resolve the inconsistencies and co-ordination-related problems arising from the different conclusions of micro- and

[21] Christian Noyer: Central Banks in the Financial Crisis, Paris Europlace, Paris, 3 July 2009

macroprudential supervision and different situation assessments, as well as to exploit the professional synergies and cost saving achieved through integration, we recommend that the two (micro- and macroprudential) supervisory functions should be integrated into one institution through the consolidation of the HFSA into the MNB.

4.1 Rationale for the integration

4.1.1. Theoretical considerations

Pre-crisis academic literature proposed little in the way of clear-cut universal guidelines whether microprudential supervision is more efficient if integrated into central bank functions (hereinafter: 'integrated model') or if performed as an independent function (hereinafter: 'separate model'). There are pros and cons for both, because the lender-of-last resort function and the monetary policy function of central banks can give rise to both synergies and conflicts (Table 2).

Table 2: Theoretical pros and cons of supervision integrated into central bank functions[22]

	Rationale for supervision integrated into central bank functions	**Arguments against integration**

Supervision	• Elimination of imperfections of co-operation between central bank and supervision
	    ○ Clearly defined responsibilities
	    ○ Alignment of targets (e.g. micro- and macroprudential policies)
	    ○ Shared information
	• Robust central bank independence and market reputation also strengthen the supervisory function.[23]
	• As central banks are also actors in the interbank market, first-hand information on market developments.
	• Synergies with central bank oversight of payment system
	• The concentration of the "scarce knowledge" of the state could make it more efficient in performing its tasks.
		○ The 'two heads are better than one' principle
		○ Positive impacts of competing authorities
		○ In principle, a financial stability council can also ensure efficient co-operation.

'Lender of Last Resort' function	• Due to their last resort lender function, central banks encouraged efficient proactive supervision more strongly. • In the event of last resort lending, there is direct information available on the solvency of the credit institution concerned.	○ Threat of regulatory capture (due to the existence of a supervisor-supervised relationship, the supervisor is late in declaring an institution as beyond salvage)

[22] The table has been compiled on the basis of the following studies: C.A.E. Goodhart, D. Tsomocos (2012): Financial Stability in Practice, Vol. 2. Edward Elgar Publishing; Nier et al (2011): Towards Effective Macroprudential Frameworks: An Assessment of Stylized Institutional Models IMF WP 11/250; Nier (2009): Financial Stability Frameworks and the Role of Central Banks: Lessons from the Crisis, IMF WP 09/70; Ingves et al (2011): Central Bank Governance and Financial Stability.

[23] This may also bear relevance to systemically important financial institutions (SIFIs).

Banking union	○ Banking union will be implemented in the euro area, in which the microprudential supervisory function will be delegated to the ECB.	
Monetary policy	○ Direct microprudential information enhances the efficiency of monetary policy.	○ Supervisory failures may also compromise the credibility and, hence, the effectiveness of monetary policy.
Social implications	○ The discontinuation of the duplication of functions will lead to reduction in costs.[24]	○ The integration of supervision into central bank functions may lead to excessive concentration of responsibilities and authority.

There are relatively few methodologically substantiated empirical studies that have examined the issue in light of practical experience. Fundamentally, these analyses, which, by definition, sought to identify the impacts of the variables outside the supervisory structure, found that the integrated model was more efficient. Goodhart and Schoenmaker (1995)[25] studying the bank failures of the 1980's and the 1990's and Merrouche and Nier (2010)[26] analysing the current crisis concluded that there had been significantly fewer bank failures and there had evolved less severe crises and imbalances under the integrated model. Obviously, these analyses only serve as guidance, as it is always the country (the political, public administrative and historical background) at issue and its financial system (degree of development, concentration, sectoral and international integration, etc.) that determine the context where an optimal supervisory structure needs to be designed and established.

4.1.2 International best practice

It is clearly the integrated model that has been gaining ground as a response to the crisis. Many of the countries with an advanced financial system have decided to consolidate the so far separate supervisory function into central bank functions. By contrast, no information is available on a trend opposite to this. Although the reasons underlying the reform also include the special characteristics and motives in the countries concerned, fundamentally, there are two main arguments underpinning integration. One is that co-operation between separately operating supervisors and central banks often proved to be inadequate, which did represent a problem despite the fact that, formally, there was some forum to support and facilitate the exchange of opinions and dialogue between the two institutions. The other is that macroprudential supervision has gained in importance in an internationally integrated financial system, i.e. a supervisory structure fundamentally designed to supervise single institutions cannot explore, identify and manage systemic level risks. Recently, central banks have assumed macroprudential responsibilities, and hence microprudential supervisory powers in a number of cases, in order that micro- and macroprudential supervision can be harmonised.

In most EU member states central banks already perform a microprudential supervisory function. The crisis has also prompted other member states to follow suit. The integration of an earlier separate supervisory function (Financial Services Authority) into central bank functions is expected to be completed this year in the UK (see Box 2). Likewise, in response to the crisis and for reasons similar to those in the UK, Belgium and Ireland have also decided to include supervision in central bank functions. The same pattern can be

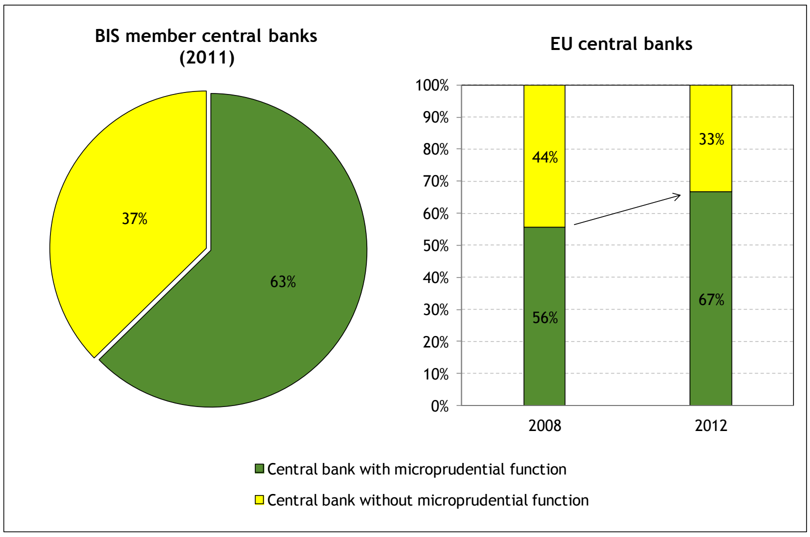
[24] At the level of both the state and the supervised institutions in the area of compliance.

[25] Goodhart, C.A.E. and Schoenmaker, Dirk (1995): 'Should the Functions of Monetary Policy and Banking Supervision Be Separated?', Oxford Economic Papers, New Series, Vol 47

[26] Merrouche, Ouarda and Erlend W. Nier (2010): 'What Caused the Global Financial Crisis? Evidence on the Build-up of Financial Imbalances 1999-2007', IMF Working Paper 10/265

observed in the Czech Republic, Italy, France and Lithuania, where, although responsibility for banking supervision (as a more or less autonomous function) already lies with the central bank, prudential supervision of insurance and the capital markets has also been redefined as a central bank function in response to the crisis. Thus, central banks in the overwhelming majority of EU member states now also perform a microprudential function as well (Chart 2).

Chart 2: Microprudential functions of central banks in an international comparison



Note: BIS member states: a total of 59 countries; for the details, see http://www.bis.org/about/orggov.htm.
Source: Central Banking Publications: How Countries Supervise their Banks, Insurers and Securities Markets (2009, 2012); central bank websites

Box 2: Supervisory reform in the UK[27]

The reform that drew to a close in the UK in April 2013 is likely to offer us a few lessons to learn. In the pre-crisis period, international practice considered the UK supervisory regime as a benchmark, i.e. an example to be followed. However, the country's tripartite financial supervisory system, where separate supervision, the Bank of England and the Treasury worked in cooperation in the form of a committee (similar to Hungary's Financial Stability Council), fared poorly during the crisis. Analyses claim that this fragmented supervisory structure was unable to recognise and identify risks in a timely manner and respond to them appropriately. Therefore, the UK government set about transforming its supervisory system so as not to make the same mistakes again.

Financial stability responsibilities and instruments have been transferred in their entirety to the Bank of England. Responsibility for the microprudential supervision of financial institutions lies with the central bank's subsidiary authority (Prudential Regulation Authority, 'PRA') and a macroprudential decision-making body (Financial Policy Committee, 'FPC') also operates within the central bank. However, the consumer protection and market surveillance functions have been delegated to a new separate institution (Financial Conduct Authority, 'FCA').

Within the Bank of England, the FPC responsible for macroprudential policy decisions is the forum where micro, macro and consumer protection information are all available and where the main policy decisions

[27] For the details, see 'The Financial Policy Committee's powers to supplement capital requirements: a Draft Policy Statement', Bank of England, January 2013 (http://www.bankofengland.co.uk/financialstability/Documents/fpc/policystatement130114.pdf), and for the instruments: http://www.bankofengland.co.uk/financialstability/Pages/fpc/coreindicators.aspx.

are made. Members of the FPC, which meets quarterly, are the Governor and four senior officials of the Bank of England, among them the head of the PRA, the head of the FCA, four external members appointed by the Treasury and a non-voting representative of the Treasury itself.

Under the current arrangement, the FPC has two main powers. It may offer *recommendations* to market participants and authorities. Its recommendations for the PRA and the FCA are on a comply-or-explain[28] basis. Nevertheless, it *may give directions* to regulators to adjust specific macroprudential tools. As a first step, the powers to determine the counter-cyclical capital buffer (CCB) and the sectoral capital requirement (SCRs) have been delegated to the FPC. The macroprudential toolkit may, at the Government's proposal, expand to include new ones.[29] The FPC publishes its assessments in the Financial Stability Report published half-yearly and an abridged version of the minutes of its meetings in the spirit of transparency.

4.1.3 The establishment of the banking union is a call to action: we need to strengthen our own supervisory system

There is a need for supervisory reform in order to avoid the re-emergence of past problems and to handle potential competitive disadvantages. In addition to the integration process observable at national level, supervisory integration will also be implemented at the level of the European Central Bank in the near future. In addition to the monetary policy of euro-area countries, the European Central Bank is anticipated to assume responsibility for the microprudential oversight of the banks of these countries as well from July 2014. Furthermore, it will also have a macroprudential mandate shared with national authorities. A common resolution mechanism will also be added to supervisory structure concentrated in the central bank ('resolution' in an international context means the restructuring or the orderly liquidation of failing banks). The institutional reform of the ECB could serve as an example not only for the euro area, but also for other, non-euro area European countries.

Due to the banking union, the safety of the deposits placed with the participating financial institutions will increase; the funding costs of these banks will be lower, because, what with the issue of the vicious circle of banking and sovereign risks resolved, the credit rating of the euro area may improve, which, in turn, leads to lower government bond yields. Therefore, unless Hungary joins the banking union, the current risk differential between Hungary and the euro area may grow, which is, ultimately, likely to weaken the borrowing power of Hungary's public sector and banking system, with all the concomitant fiscal and economic implications of such weakening. **It follows that Hungary will have to establish a similar structure within its boundaries if it decides to stay outside the banking union, and progress will have to be made in all two components (supervision and resolution)**.

4.2 How can we benefit from integration?

Integration can create harmony between micro- and macroprudential policies. In the past, several unsuccessful organisational attempts have been made to coordinate the activity of the HFSA and the MNB aimed at supervising financial institutions and the financial system as a whole.[30] Integrating the two authorities is a simple but effective solution to ensure the mutual support of micro- and macroprudential knowledge in identifying risks and the consistence of these two approaches in key decision making situations.

Integration can provide for an optimal allocation of supervisory and regulatory tools. The distinction between micro- and macroprudential policies is not always clear, and some tools may serve both micro- and macroprudential objectives. One of these tools is additional capital requirement (in the framework of the so-called ICAAP-SREP

[28] This is the principle of 'act-or-explain' described earlier.

[29] For the time being, the leverage ratio is planned to be included (in 2018 at the earliest according to their current plans).

[30] This was also an objective of the Financial Stability Committee (FSC) set up in 2004 at the level of the deputy governor and the state secretary as well as the Financial Stability Board (FSB) operating at the governor-ministerial level and holding meetings since 2010. Thus, the authorities have 'tried out' a number of operational solutions, however, they have not been able to ensure efficient cooperation so far.

dialogue with credit institutions), which may be used by the supervisory authority — independently from the macroprudential authority — in order to increase the price of the risky activity of a bank or several banks pursuing similar activities. However, there are some specifically macroprudential tools in the hands of the HFSA: it is the Supervisory authority, not the MNB that has the authority to prohibit or restrict systemically risky activities and products. Granting both types of intervention powers to a joint, integrated authority can guarantee the most efficient and flexible use of micro- and macroprudential tools.

Integrating the HFSA with the MNB can result in an adequately strong and independent supervisory body capable of controlling systemically important financial institutions. As a global trend, after recovering from the crisis efforts are made to reduce the degree of threat the largest banks pose to national economies. To this end, authorities may prescribe higher capital requirements for them, prepare resolution plans, and, if necessary, separate the deposit-taking activities from the more risky investment and trading activities, bringing these institutions, in any case, under more rigorous and distinguished supervisory control. A supervisory authority integrated into the MNB and empowered to use a full range of micro- and macroprudential tools would be able to guarantee an adequate level of protection against effects that weaken the supervisory activity, which is a prerequisite for exercising effective control over large banks.

Similarly, it is an integrated authority that could most efficiently carry out the resolution and crisis management of banks potentially becoming insolvent.[31] Specifically, the crisis management of banks is an area that requires micro- and macroprudential competences at the same time, because it is important to have a clear view of the solvency, liquidity and operation of the credit institutions concerned as well as to assess the extent to which insolvency could jeopardise the stability of the financial system as a whole. In addition, given the rapid pace of crises (a bank run may practically evolve without any precedence), ad hoc decision making is of critical importance, and this makes the rather time-demanding coordination procedure between separate authorities simply impossible.

Integration can contribute to a more efficient performance of classical central banking functions, including, in particular, the conduct of monetary policy. In the current macroeconomic environment price stability must be achieved in a way that, as a secondary objective, the central bank's opportunities for stimulating the economy can be exploited to the highest possible degree. In order to meet this challenge, it is necessary to make use of all elements that increase the efficiency of monetary policy. Based on international experience, if microprudential supervision is integrated into the central bank, this provides direct access to additional information on the operation of financial markets and the transmission mechanism, thereby considerably facilitating monetary policy decision making.[32] Moreover, such direct supervisory information helps the central bank oversee the payment, clearing and securities settlement systems and take well-founded and quick decisions in its capacity as the lender of last resort.

Integration enables standard, consistent and trustworthy communication. If micro- and macroprudential as well as monetary policy objectives were harmonised, the share of responsibilities among the individual institutions could be clearly defined, while eliminating the current duplications. Integrated with the Supervisory Authority, the MNB could convey clear-cut messages on the state and risks of the financial sector and any risk mitigating measures that may be required.

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[31] During the financial crisis banks have had to be bailed out in several countries, and in some cases these burdens have undermined the fiscal situation of the countries concerned. For that very reason, more and more states are creating so-called bank resolution tools, which helps avoid banks becoming insolvent to be bailed out from public funds. However, it can still be guaranteed that functions that are of key importance for the national economy (deposits, current accounts, corporate lending, etc.) continue to operate with the least possible shock. Upon the MNB's initiative this regulatory work has already started in our country, but its progress is rather slow.

[32] See e.g. Peek, Joe, Eric Rosengren, and Geoffrey Tootell (1999), 'Is Bank Supervision Central to Central Banking', Quarterly Journal of Economics, Volume 114, pages 629-653; WHELAN, Karl (2012) "Should Monetary Policy be separated from Banking Supervision?", European Parliament, Directorate General for Internal Policies

The promotion of national interests at international forums could be more efficient. The HFSA and the MNB participate in various committees and colleges of the European Union, and there are some forums where both institutions are represented, yet only one of them has the right to vote. It is also not rare that in a specific policy issue the MNB and the HFSA represent different positions. Since in the European Union decisions on the regulation of banks are increasingly being made at EU level, and the degree of international integration of the Hungarian financial system is rather high, it would be essential for us to improve our advocacy capacity through more uniform action, which could be obtained by the integration of the two authorities.

Integration could also be advantageous from the perspective of cost efficiency. Taking merely the number of employees into account, we find that the HFSA and the MNB operate in a rather cost efficient manner: compared with the EU average and relative to the size of the country these two institutions are among those with the lowest staff headcounts. Nevertheless, there have still been duplications in the activities of these two authorities where further savings could be achieved (e.g. HR, Communication, IT, etc).

The integration of the HFSA and the MNB, however, is not a 'miracle weapon', it does not necessarily guarantee a more efficient supervisory system in itself. The details of implementation such as the duties, responsibilities and tools to be assigned to the new organisation and the organisational-management mechanisms to be set up to ensure smooth operation are of key significance.

4.3 What functions can be integrated in Hungary?

Regarding the concept, the oversight structure should be determined after due consideration of the following country-specific factors[33]:

- the level of development of certain market segments and their weight in financial intermediation;
- the spread of inter-sectoral products and the frequency of transitions,
- the feasibility of coordination between institutions responsible for financial stability, particularly in crisis situations.

Practical examples show that the full or partial supervision of the banking sector by the central bank can be regarded typical (see Table 1 of the Appendix). As has been mentioned, in a majority of the regulatory reforms that have taken place recently or are still going on[34] (Belgium, Ireland, Great Britain), the micro- and macroprudential functions are integrated within the same organisation. Nonetheless, to ensure that systemic risks are fully covered, it may be necessary to consider extending the integration of supervisory functions to other sectors of the financial system as well.

4.3.1 Prudential supervision of the capital market and insurance sector

The supervisory activities of HFSA include the supervision of banks, insurance companies and capital market participants. As banks play the most important role in the Hungarian financial system, the majority of the advantages of integration may, in theory, be achieved by integrating the supervision of the banking sector into the central bank. However, the stability of the financial system depends not only on the status of the banks, but also of the other participants, and therefore consideration needs to be given to the issue as to whether the supervision of investment enterprises active in the money and capital markets, and insurance companies should also be included in the integrated organisation. Another argument could be for full integration that the prudential supervision of the three sectors takes place even currently in an integrated

[33] HM Treasury (2012): 'A new approach to financial regulation: securing stability, protecting customers', Presented to Parliament by the Chancellor of the Exchequer by Command of Her Majesty, CM 8268, January 2012

[34] During the reform of the German financial supervisory system the close cooperation and division of tasks between the Deutsche Bundesbank and Bafin were kept, as a result of which on-site inspection is still carried out by Bundesbank, while regulatory tasks and communication belong to the Bafin.

organisation, with the same methodology, and under the same management. It also ensures the level playing field between sectors because the supervisions of various strengths or different supervisory philosophies do not lead to unnecessary differences in the quality and requirements of supervision.

Integration into one institution could also bring benefits of the economies of scale. In addition, the fading borderlines between the individual sectors and the review of all risks of the financial groups, performing diversified activities and generally controlled by banks, also indicates that their prudential supervision should be exercised centrally, by one organisation. The same was also referred to by Lorenzo Bini Smaghi, a member of the Board of Directors of the ECB, in his speech delivered in 2007 when, on behalf of the ECB, he welcomed the participation of the central banks of the Member States in promoting the soundness of financial institutions.[35]

The excessive responsibility and competence concentration, referred to above, could be the most important argument against the integration of the capital market and insurance supervision.

4.3.2 Resolution

The costs of the financial crisis were so high partly because the supervisory authorities were unable to apply effective crisis management tools against problem banks, which were left with capitalisation and the continuation of the bad portfolios. By introducing crisis management functions into European and national legal regulations, an organisation or organisational unit needs to be created which will manage the problem banks (governance, separation, sale, liquidation, etc.). That organisation must have accurate, detailed and up-to-date information of institutions actually having or developing problems,[36] in order to be able to make responsible decisions immediately as soon as a crisis situation occurs – practically all that information is supervisory information. It also points to the same direction that the borderline between the early supervisory intervention phase against problem but still solvent institutions and resolution is not always a clear-cut line and that the resolution steps often need to be combined with supervisory measures.

However, the organisation or organisational unit in charge of the resolution tasks must be clearly separated from the organisation or organisational unit involved in everyday supervision, because, due to the relations between the supervisor and the supervised institution and the supervisory incentives rewarding the avoidance of bankruptcies, a supervisor in general is unable to declare an institution to be beyond recovery at the right time (the technical literature refers to that phenomenon as regulatory capture).

In summary, therefore, there are several arguments in favour of implementing the resolution function within the MNB performing prudential supervision. However, if it is within the central bank, it must be separated within the organisation from the organisational unit responsible for direct supervision.

4.3.3 Financial consumer protection

The organisation of consumer protection and prudential supervision into a joint or separate institution has been a subject matter of disputes for a long time in the technical literature due to the potential synergies and contrasts between them (Table 3).

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[35] Lorenzo Bini Smaghi: Central bank independence: From theory to practice, Good Governance and Effective Partnership Conference Budapest, Hungarian National Assembly, 19 April 2007, http://www.ecb.int/press/key/date/2007/html/sp070419.en.html

[36] On banks or investment enterprises

Table 3: Relation of consumer protection and prudential supervision

Conflicts between consumer protection and prudential supervision	Arguments for integration
Different supervisory approach, objectives and culture	The consumer protection tools may be used for numerous micro- and macroprudential purposes (see, e.g., regulation of foreign currency loans)
Conflict between focuses and resources: Prudential supervision may be infringed: consumer protection may push prudential supervision into the background, because it is more spectacular and is followed more by public attention in ordinary periods Consumer protection may be infringed: the Supervisory Authority may close its eyes to any unfair conduct towards customers (e.g., pricing) if it is important for improving the capital position.	There is a smaller chance that the required interventions may not take place due to inadequate separation of responsibilities and competences
	Consistent approach towards institutions
	Avoidance of duplication and possibilities of intervening into each other's tasks

At present, the consumer protection tasks are performed by the HFSA. Although in theory it may involve advantages and disadvantages, as indicated in the table, in the current Hungarian context there are strong arguments for integration into the central bank:

- *The financial culture of the Hungarian population is low, which is partly the reason why consumer protection problems are often very severe and are also micro- and macroprudentially important.* Good examples include foreign currency loans, agent sales, transparent pricing, private insolvency or the issue of a positive credit information system, in which the financial stability aspect was at least equally important as consumer protection.
- *The consumer protection tools are strong and are suitable also for managing prudential problems.* The majority of the banking consumer protection rules are not harmonised in Europe, and that is why, in comparison to prudential regulations (where the national room for manoeuvre is decreasing due to the Single Rule Book)[37] it will be possible to come up with flexible, targeted local responses to local risks presumably also in the future. In relation to that, it should be noted that the consumer protection rules are applicable also to branches and cross border services, i.e., they have the widest possible scope.

4.3.4 Market surveillance

Market surveillance is primarily responsible for maintaining the integrity of financial markets. Market surveillance focuses on the activities of institutions and the products and services issued and distributed by them, including their licensing, the assurance of their adequate quality and transparency and authority actions against market manipulation and insider trading in order to facilitate fair competition. It is unlikely that the potential monetary or macroprudential synergies resulting from the integration into the central bank of those functions would be significant, and therefore consideration should be given to performing the function in a separate organisation.

The performance of market surveillance activities in a separate organisation would not be absolutely unique in comparison to the supervisory structures of advanced countries. One of the most typical examples of the

[37] Capital Requirements Directive and Regulation (CRD IV/CRR).

separate securities market supervision is the Securities and Exchange Commission (SEC), which operates independently from the other authorities in the United States. In nine Member States of the European Union[38] a separate authority controls the capital and securities markets, but in those countries they are usually combined with some other supervisory function (e.g., prudential capital market supervision (France), consumer protection (Belgium, United Kingdom and the Netherlands)).

[38] Cyprus, France, Greece, Luxembourg, Italy, Portugal, Romania, Spain and Slovenia.

ANNEX

Table 1: Microprudential supervision in the EU Member States

Separated supervisory authority(ies)	**Central bank is is also involved in the supervision**	**Twin Peaks (prudential supervision at the central bank, consumer protection and market surveillance are separate authorities)**	**Full integration in the central bank**
Denmark Estonia Finland Poland Latvia **Hungary** Malta Sweden Luxembourg	Austria[1] Spain[2] Italy[3] Portugal[4] Cyprus[5] Germany[6] Romania[7] Slovenia[8] Bulgaria[9] Greece[10] France[12]	Netherlands United Kingdom[11] Belgium	Slovakia Czech Republic Ireland Lithuania

[1] The OeNB and FMA both take part in banking supervision
[2] The Banco de Espana is responsible for banking supervision
[3] The Banca d'Italia performs the supervisory tasks towards banks and financial intermediaries
[4] Banking supervision and related consumer protection within the Banco de Portugal
[5] Banking supervision at the Central Bank of Cyprus
[6] The central bank (Bundesbank) shares the banking supervisory tasks with the Supervision (BaFin)
[7] Banking supervision at the National Bank of Romania
[8] Banking supervision at the Bank of Slovenia
[9] Banking supervision at the central bank
[10] In Greece the Bank of Greece controls banking and insurance supervision. The capital markets are inspected by a separate supervision (HCMC).
[11] There is a separate prudential supervisory unit within the Bank of England (PRA)
[12] The capital markets are supervised by a separate institution (AMF), and within the Banque de France an absolutely separate unit supervises credit institutions and insurance companies (ACP)

Source: Central Banking Publications: How Countries Supervise their Banks, Insurers and Securities Markets (2012); central bank websites

Table 2: Capital and securities market supervision in the EU Member States

Securities market supervision by a **separate** authority, independent from the other supervisions	Prudential securities market supervision, integrated into the central bank, but market surveillance (and consumer protection) is in a separate authority	**There is no separate** securities market supervisory authority	
		Supervised by the central bank	Supervised by an authority, which is independent from the central bank and supervises several sectors
Cyprus France* Greece Luxembourg Italy Portugal Romania Spain Slovenia	Belgium United Kingdom Netherlands	Czech Republic* Ireland* Lithuania* Slovakia*	Austria Bulgaria Denmark Estonia Finland Poland Latvia **Hungary** Malta Germany Sweden

* The central bank performs the consumer protection tasks.
Source: Central Banking Publications: How Countries Supervise their Banks, Insurers and Securities Markets (2012); central bank websites