Gertrude Tumpel-Gugerell: What is the role of central banks for banking supervision?

Introductory remarks by Ms Gertrude Tumpel-Gugerell, Member of the Executive Board of the European Central Bank, at the panel discussion at the ZEIT Konferenz “Finanzplatz: Menschen und Entscheidungen”, Frankfurt am Main, 8 September 2008.

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The ECB has already expressed its position on the possible role of central bank in financial supervision in 2001. This was triggered in the context in which some countries were in the process of transferring the supervisory function from the central bank to independent authorities.

The main position at that time, which remains valid today, is that there is no optimal arrangement for the organisation of supervision at the national level. All organisational models – sectoral supervision, supervision by objectives, supervision in a single authority – can in principle work well or fail depending on circumstances. However, regardless of the model, it is important that there exists a very close and smooth interplay between the central banking and the supervisory function.

Does the experience of the turmoil bring new elements in this domain? This is certainly the case. In general the turmoil has clearly confirmed the importance of a strong interaction between central banks and banking supervisors as also confirmed by the specific recommendation of the Financial Stability Forum in this field. As a new element the turmoil has somewhat contributed to specifying the relevant areas in which this interplay should be reinforced.

First, in the area of *monitoring and assessing risks to financial stability*, central banks can benefit from extended access to supervisory information and intelligence to better understand risks and vulnerabilities for the financial system as a whole. At the same, there is clearly the issue, of how to translate the outcome of the financial stability assessment into supervisory action. In principle one cannot but agree that there should be a way through which, if the central bank identifies serious risks to financial stability, the competent supervisor should be able to act. Therefore, communication needs to go both ways: from the central bank to supervisors and vice versa within the respective legal framework.

Second, in the area of *liquidity*, there is clearly room for a closer interplay between the two authorities. Central banks would benefit from enhanced access to supervisory information and intelligence for its role of maintaining stable money markets. To that end for instance access to information on banks’ liquidity contingency planning funds would be useful. At the same time, supervisors would benefit from information available at central banks stemming from their role in the money markets.

Third, in the area of *crisis management and resolution*, depending on the nature and feature of the crisis, there is a need for close interaction between the two authorities. Provision of Emergency Liquidity Assistance is a clear point in case where central banks need supervisory information for decision-making. In this field, I believe that an important step forward is represented by the recent MoU on financial stability arrangement signed by the EU central banks, supervisors and ministries of finance in June 2008.

Finally, referring more to the supervisory domain but still linked to the central bank interest, the turmoil has evidenced the need for strengthening the macro-prudential dimension of regulation and supervision. This means the regulatory and supervisory requirements should be able to ensure adequate capital and liquidity buffers throughout the economic cycle. In this regard, the actual impact of the new capital adequacy regime under of Basel II will have to be monitored very closely.