



Securities Regulators and Systemic Risk

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Key Messages

□ Financial Architecture

- Interconnected, concentrated

□ Requires better work at “macro-level”

- Better mapping of systemic risks
- Strengthening of institutional arrangements for macro-prudential supervision

□ But also at “micro” level

- More effective/intrusive supervision
- Stronger cross-border arrangements



MACRO LEVEL

Increasing Interconnectedness

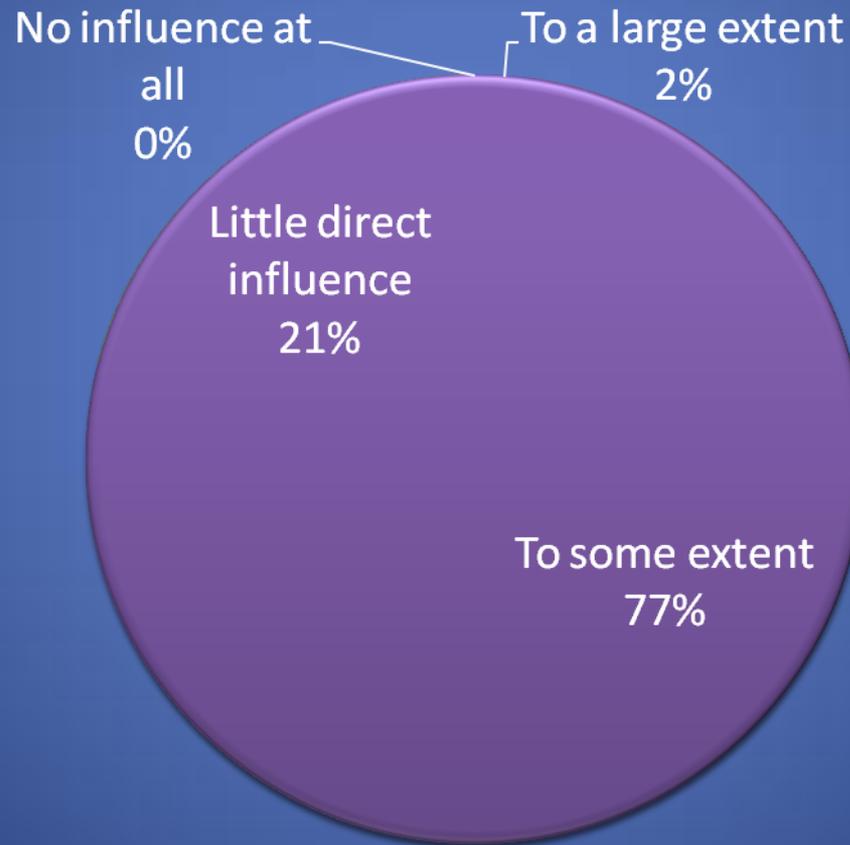


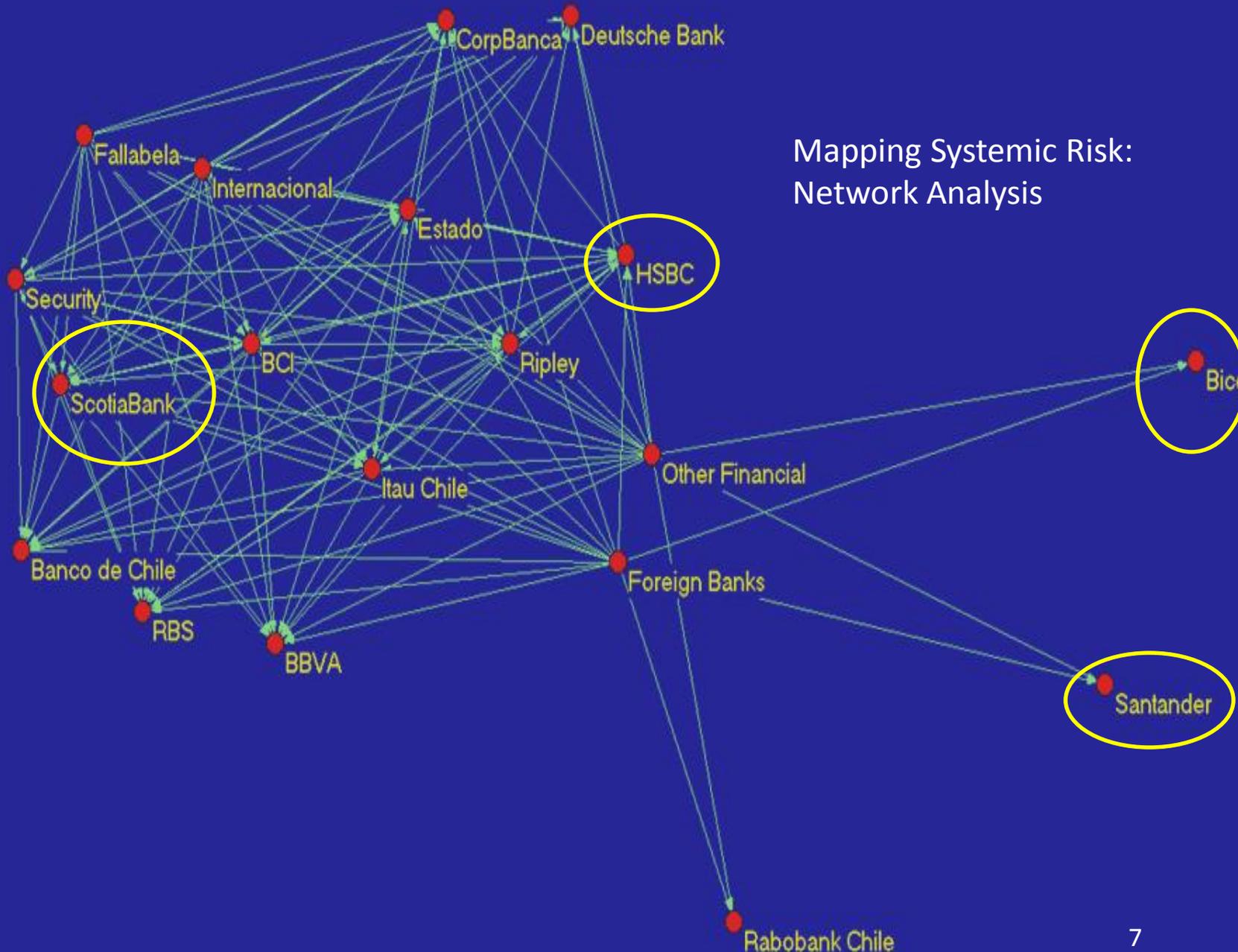
Index of number of bilateral links between economies as a share of all possible links

Mapping Systemic Risk: Qualitative Tools



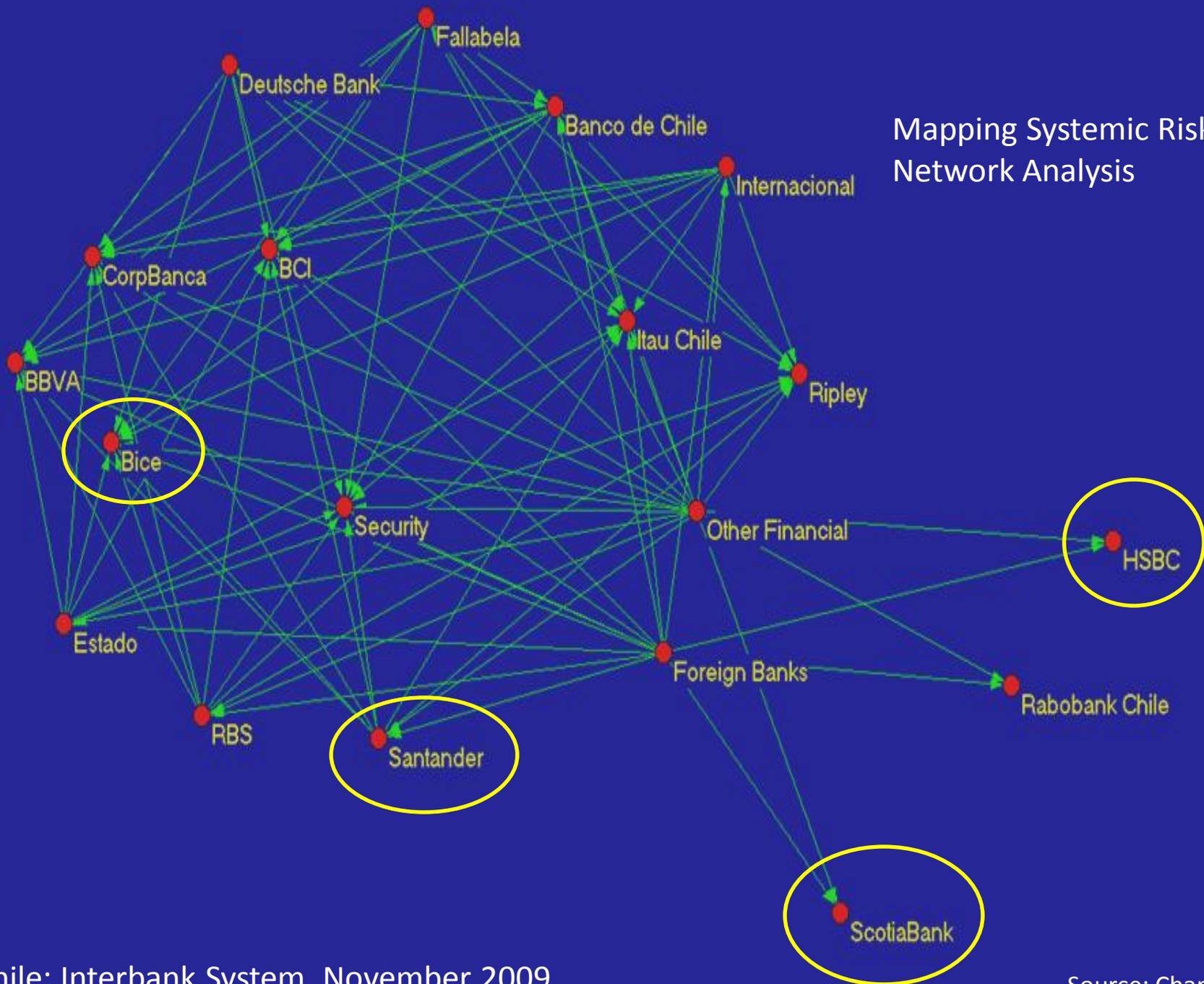
Mapping Systemic Risk: Quantitative Tools





Mapping Systemic Risk:
Network Analysis

Mapping Systemic Risk: Network Analysis



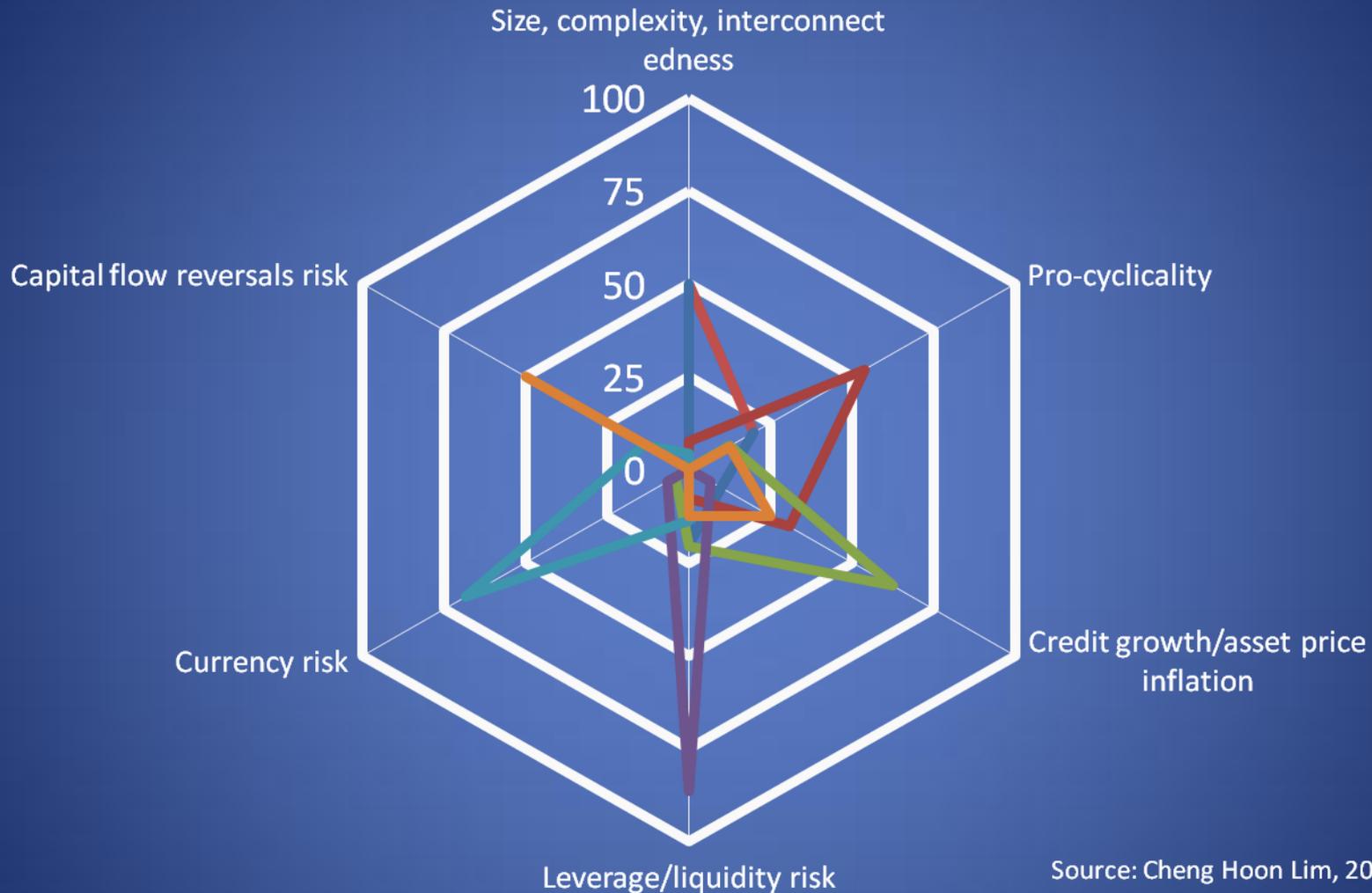
Institutional Setting



Institutional Setting

- A macroprudential authority should be designated
 - With clear powers (information collection, designation authority and calibration of other policies)
 - and a framework for accountability
- A body or other formal mechanism of coordination should be in place to ensure coordination among relevant policies to address systemic risk

Instruments and Objectives



Source: Cheng Hoon Lim, 200

- Capital surcharges for SIFIs
- Countercyclical provisioning
- Caps on loan-to-value ratios
- Limits on maturity mismatch
- Limits on net open currency positions
- Reserve requirements for non-residents

Instruments

- The choice of instruments should be based on a set of desirable features:
 - Effectiveness
 - Limited opportunity for arbitrage
 - Aimed at the roots, not the symptoms
 - As little distortionary as possible
 - Low cost
- A mix of rules and discretion may be optimal under current circumstances



MICRO LEVEL

Better Supervision

- ❑ More intrusive on-site inspections
 - Frequency of inspections
 - Depth of work and resources allocated
- ❑ Stronger reporting requirements
 - Currently gaps on “unregulated” entities
 - But also on regulated entities (granularity, periodicity)
- ❑ Proactive enforcement
 - Many regulators rely heavily on moral suasion
- ❑ Continue strengthening supervisory colleges