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**Supervision of Financial Conglomerates – Are Measures Avoiding  
Systemic Risks and Achieving Financial Stability Available?**

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## Main systemic risks

Payment and settlement systems

Failure of big financial institutions

Solo-large size

Conglomerate

Synthetic products

Regulatory heterogeneity



### Preventive measures

1 Risk avoidance

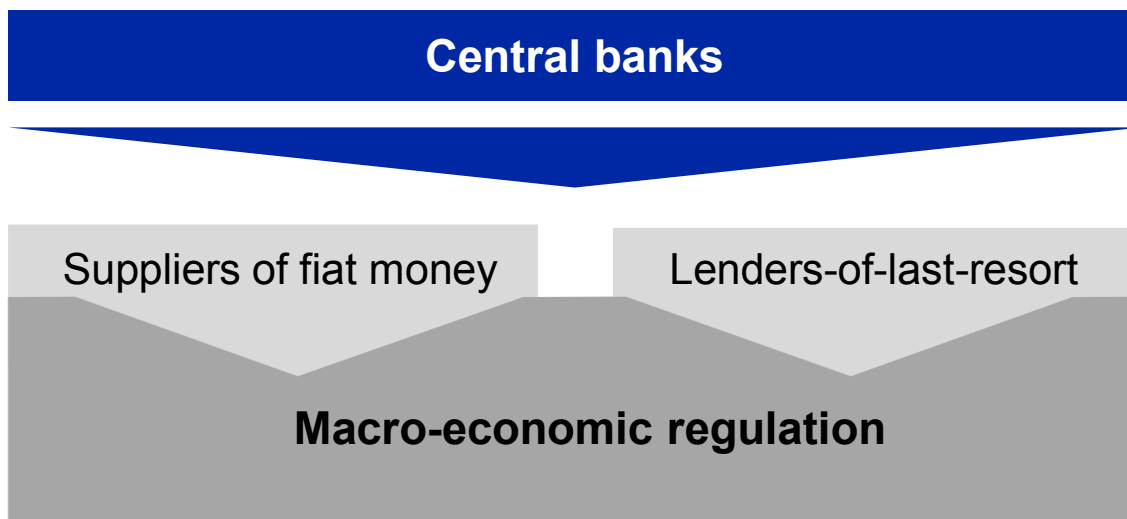
2 Risk mitigation

### Curative measures

1 Stabilization

2 Recovery







## Macro-prudential oversight

### Traditional Instruments

Monetary policy

Price stability

### Public goods approach

Rule-oriented system

structural approach



## Trend to conglomeration

Banks (credit institutions)

Securities firms

Insurances

Pension funds

“Shadow” financial institutions





## Phenomenon of financial conglomerates

Concept	Models for groups	Impact of financial crises
1 Definitions/notions	1 Integrated model	1 Consolidation v. conglomeration
2 Universal banking/ functional banking	2 Parent-subsidiary model	2 Too-big-to-fail
3 Parent concept of “allfinance”	3 Holding company model	3 Predominant leg
	4 Horizontal group model	



## Potential problems

Double gearing/excessive leveraging

Contagion

Lack of transparency

Conflicts of interest

Systemic risk



## Types of supervision

Stand-alone or solo-basis supervision

Supervision of homogenous financial groups

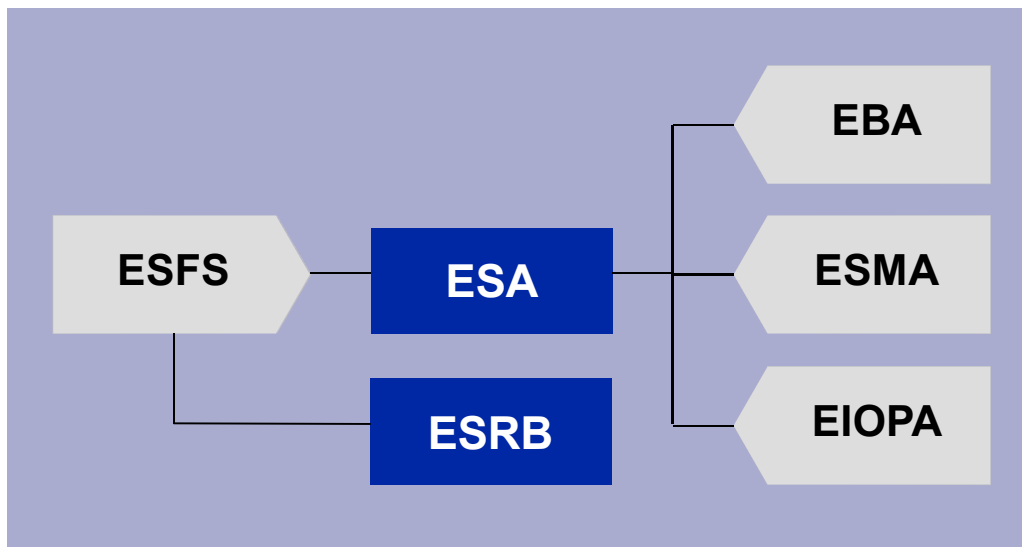
Supervision of financial conglomerates

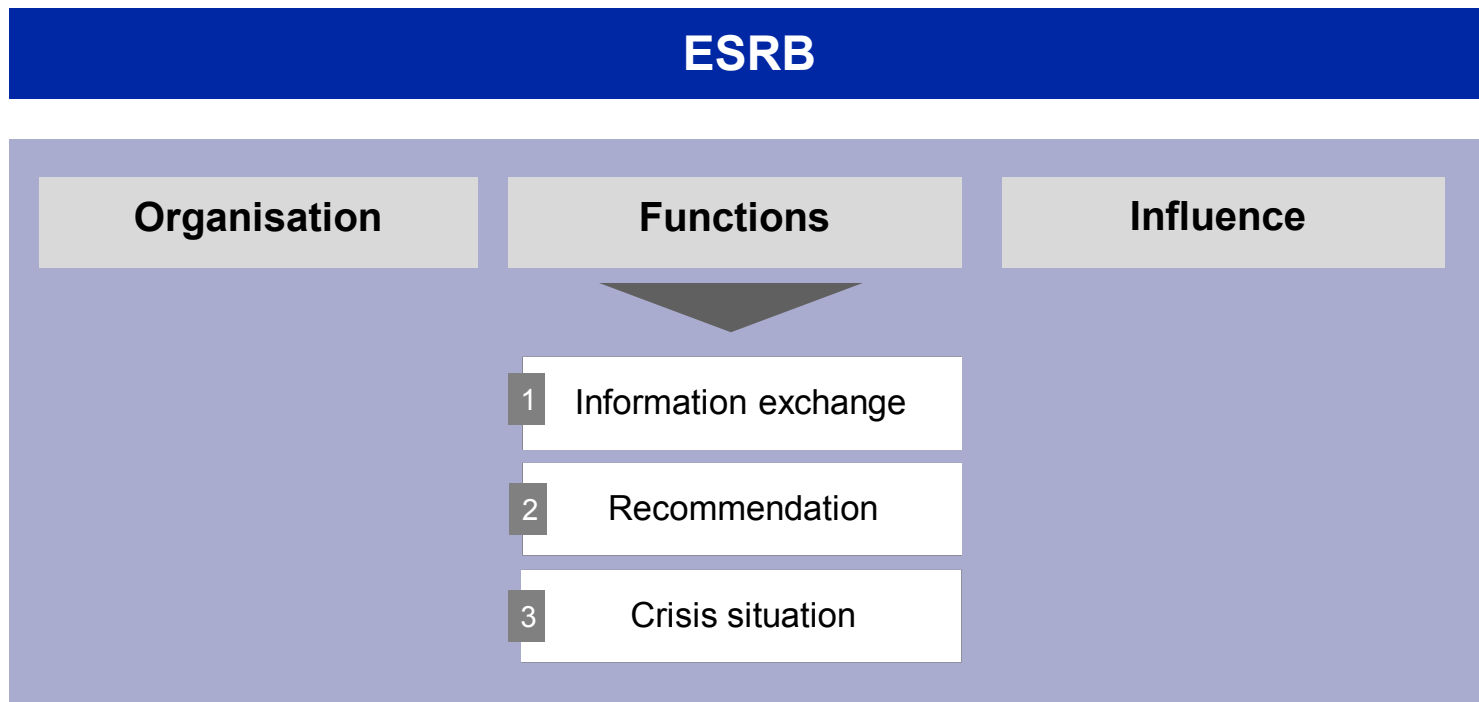
Mixed-activities groups



## International supervisory fundamentals

Organizations	Reaction to crisis
1 BIS & BCBS	1 G20 summits
2 Tripartite Group & Joint Forum	2 FSB, BCBS, IAIS
3 IAIS	
4 IOSCO	







## Conglomerate-wide measures

Accounting and capital adequacy (Basel III)

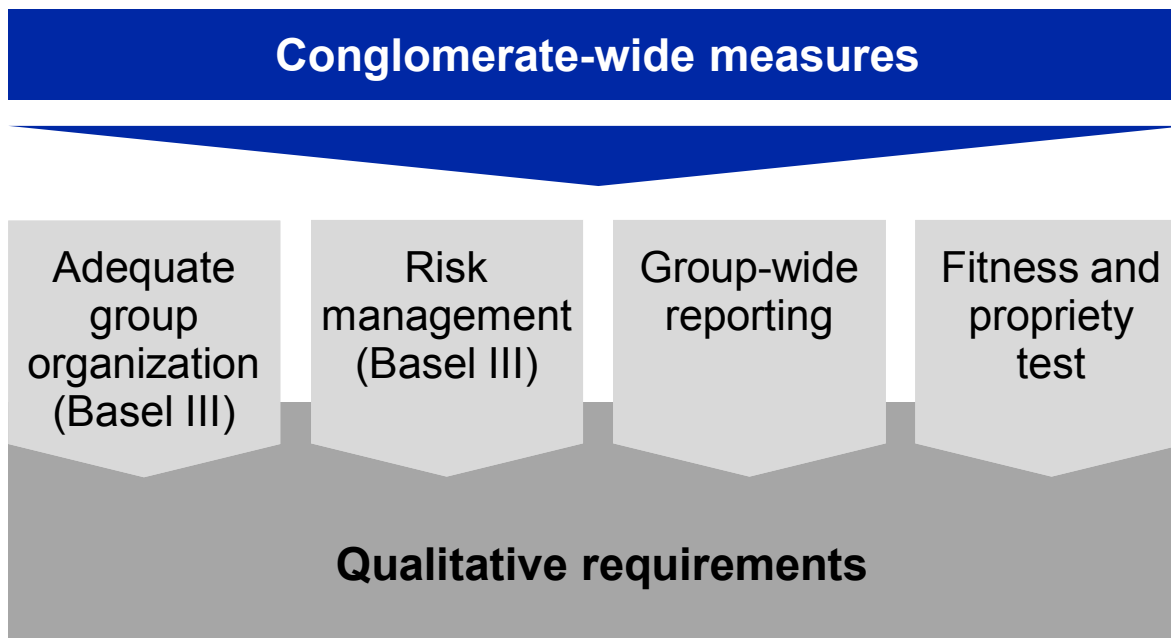
Consolidated risk supervision

Concept of economic unity

Liquidity requirements (Basel III)

Intra-group transactions

Quantitative requirements









## New Joint Forum Principles (Dec. 2011)

Supervisory powers and authority

Supervisory responsibility

Corporate governance

Capital adequacy and liquidity

Risk management



## Supervisory powers and authority

Comprehensive group-wide supervision

Cooperation and exchange of information

Independence and accountability

Resources



## Supervision responsibility

Comprehensive group-wide supervision

Supervision cooperation, coordination and information exchange

Prudential standards coverage

Monitoring and supervision

Supervisory tools and enforcement



## Corporate governance

General principles

Structure of financial conglomerate

Suitability of significant owners/board members/senior management

Responsibility of board of head company

Remuneration



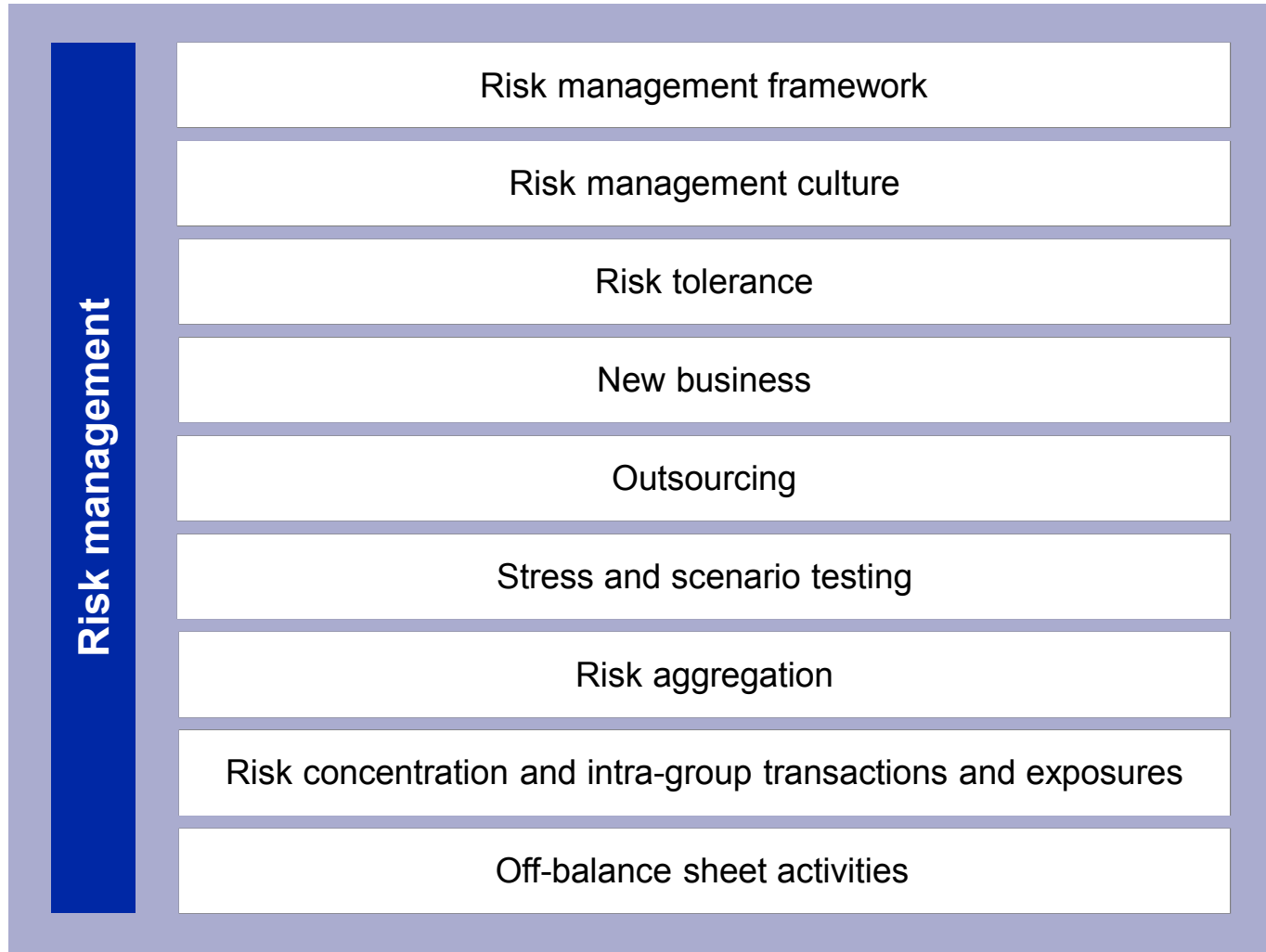
## Capital adequacy and liquidity

Capital management requirements

Capital adequacy assessment and measurement techniques

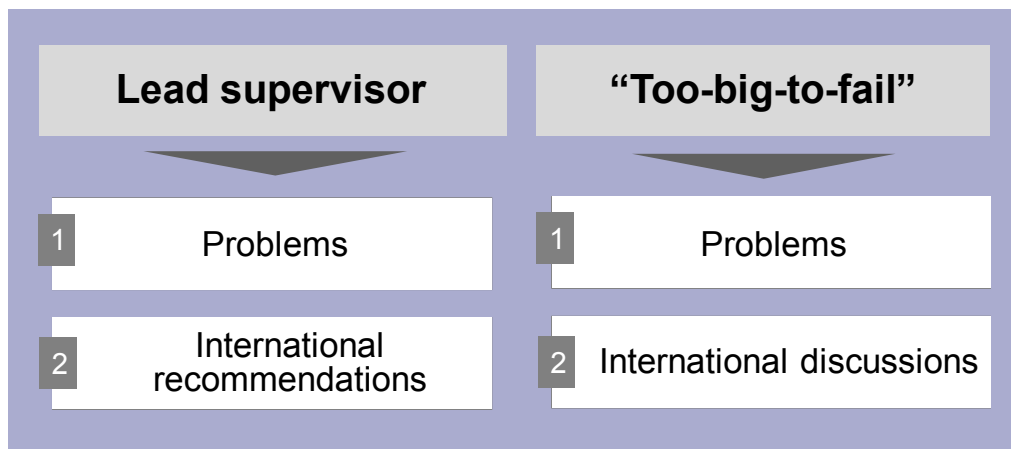
Intra-group transactions

Liquidity requirements

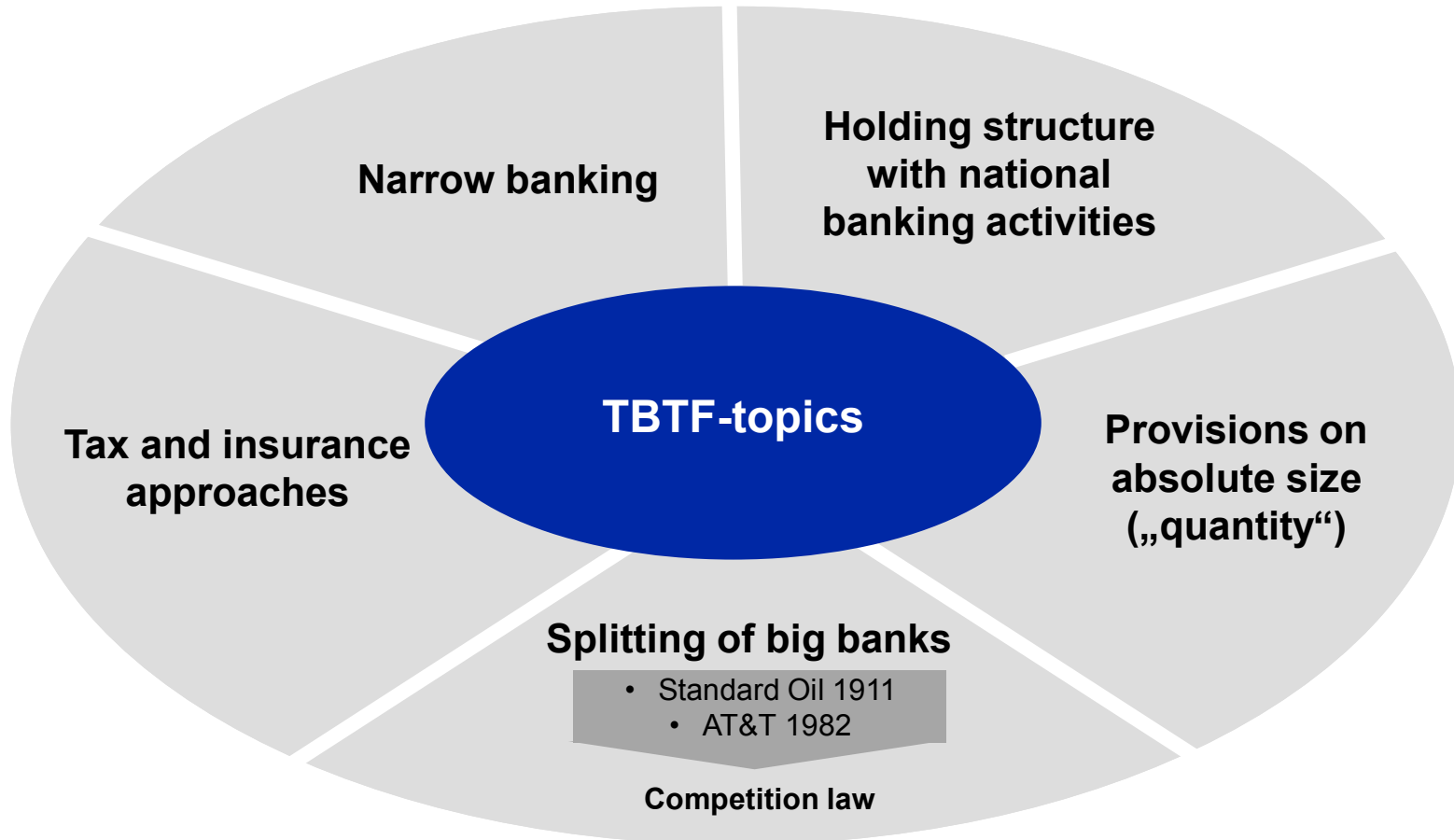




## Specific supervisory issues









## Organizational issues

Living wills

Separation of business units

Resolvability

*Coherence with group principle?*



## **Fundamental questions for future financial conglomerates supervision**

**Is there anything like a concept of convergence?**

**How should the principle “same business, same rights, same rules” be applied?**

**Can some entities remain unregulated and unsupervised?**

**To what extent does structure matter?**

**What about maximum size rules?**

**Should big banks be splitted into parts?**

**How can supervisory cooperation be increased?**