New Architecture Of Global Financial Supervision-Macroprudential Oversight

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Abstract: Lessons learned from the recent financial crisis has alarmed the relevant international financial organizations to take prompt and appropriate action towards finding a new framework of regulation and supervision of the financial system so that in future the time detect and mitigate financial trouble. Actions are oriented on the reform of the existing supervisory framework in the period of expansion of financial contagion has shown serious weaknesses. G20 leaders issued a declaration relating to the structure of a comprehensive plan for reform of financial supervision, which is focused on improving the environment macro prudential surveillance at the international level, strengthening the financial stability of the Board (FSB) with the mission to effectively coordinate and synchronize actions to relieve and defense of the financial system from financial difficulties, developing a common diagnostic standards, designing control systemic risk and responsibility. On the basis of the declaration G20 countries with strong financial markets have taken appropriate action reform and redesign of its supervisory authority. The U.S. authorized the Fed to be responsible for financial stability, with a mandate to monitor risks and controls company that may be a source of threat to the financial system, focusing on major domestic and international firms and systematically important non-banking financial institutions. EU on the basis of reports Larosière Commission has established a strong centralized institutional supervisory framework, the establishment of the European Commission for the systematic risk that is responsible for macro prudential surveillance and the European system of financial supervisors, responsible for monitoring Macro prudential composed of a network of national financial supervisors from three financial institutions supervision, the principles of mutual respect, information and strengthening accountability.

Keywords: macro prudential supervision; reform of the supervisory framework; systemic risk, financial stability, EU, US,

Jel Classification: G15; G18; K2; L51

1. Introduction

The previous approach to the concept of macro prudential supervision that is limited to individual financial institutions within a national economy, did not give satisfactory results when it comes to the stability of the whole system and overall economy

His primary focus is on monitoring individual financial institutions is rational from the standpoint of consumer protection, but not enough to limit the financial troubles of macroeconomics and integrated financial markets. Lessons learned from recent financial crises, the main actors (the world's major organizations) in global financial markets are finally pointed out that financial instability cannot be defended only macro prudential access or control. Such an attitude has affected the achievement of consensus of all relevant financial institutions in the world, about election protection of the financial system, and that is, the reform of existing and construction of a new architecture of control, application, almost a forgotten macro prudential approach. Initiatives have originated, primarily from the G20, which was paid special attention to finding effective solutions to combat vulnerability of financial systems, which are also supported by the IMF, BIS, EU, Federal Reserve and other relevant institutions and organizations. Initiatives have been largely devoted to issues of reform of the supervisory framework, starting from the point that the previous one, with its structure, heterogeneous monitoring system, has shown many weaknesses and shortcomings, especially when it comes to integrated markets and cross-border cooperation, and which ultimately proved unreliable and weak to detect, limit and mitigate the current financial crisis. Debates are conducted in the direction of application and development macro prudential control, in terms of early detection and to take quick and effective corrective action with a view to combating the vulnerability of the financial system. At the same time, actions were initiated and undertaken activities to strengthen existing and new financial institutions with a specific mandate and objectives. Existing and new institutions of regulation and supervision aimed at reducing systemic risk, as the pillar of financial instability at the national and international levels, and strengthening the resilience of the financial system from future earthquakes, particularly in light of, global financial integration with the powerful international post-ante implications. The fundamental approach of the international community is on a strong international approach to the reform of the existing supervisory framework. Access to a strong international focus has expanded the range of analytical challenges and innovation in the creation of new oversight bodies. Taken innovative actions are already visible, in the form of increased workload and activities of existing reformed and commencement of new forming supervisory institutions, and all synchronized international cooperation and collaboration within certain groups, with the inclusion of all national (macro prudential control) and international institutions on the principles of trust and mutual respect. Reinforcement control of the new design is focused on the health of the financial system as a whole, primarily, focused on the early detection and limit systemic risk, which could occur action externalities (market failures) or from the common behavior of financial institutions, and spreading their financial contagion to the real sector. In light of recent international initiatives macro prudential control, the idea of the authors of this paper is that based on the relevant and latest world literature major financial institutions and the authors present basic theoretical setting macro prudential supervision and undertaken practical activities of important international financial organizations in the reform of existing and construction of a new monitoring architecture design. The aim is to highlight the activities that have taken and continue to take the relevant international financial organizations in the implementation macro prudential supervision and measures to combat the existing and the prevention and mitigation of any possible future financial crises. The paper is divided into two chapters. The first chapter, which consists of six parts, according to the latest world literature on the theoretical aspect macro prudential control, from the formation and evolution macro prudential control, then explains macro prudential surveillance policy, the following objectives macro prudential and supervision, and then discusses importance macro prudential analysis for effective policy implementation and monitoring instruments and tools used in the line of defense against financial difficulty. The second section contains an initiative of the relevant international financial institutions that have been taken or will be taken to combat existing and potential future of the global financial crisis. It discusses the activities and actions in finding new framework macro prudential supervision by U.S. authorities and EU, as well as similarities and differences between the two systems macro prudential supervision. Followed instead of the conclusion suggests the challenges that stand before the relevant international financial organizations in the implementation macro prudential supervision.

2. Theoretical Background

2.1. The Origins and Evolution Macro Prudential Supervision

Increased global association of financial systems in recent decades, initiated by the growing interest of international relevant institutions, for macro prudential surveillance. Escalating financial troubles are especially coming from the international banking crisis. Let us remember the crisis of 1974. vol. when the bankruptcy of a relatively small bank in Germany, Herstatt Bank[1], challenged, disturbed with

[1] Today, we use the term "Herstatt risk" in foreign exchange transactions

international repercussions, that led to the problem of payment in New York. The failure of this bank was one of the incentives for the establishment of the Basel Committee on Banking Supervision. These events are partially initiated in the coming s, successive studies in the field of supervision of the entire financial system, but did not initially called “macro prudential”. Notwithstanding the gradual research, architecture design of the whole issue of financial supervision, fifteen s ago, did not draw special attention. If we exclude the fact that only the banking system underwent a rigorous systematic review, they are some issues which needed special attention remained unanswered. These issues relate primarily to the development of financial markets, which are actualized the growing importance of securities, (the importance of insurance, securities and pension funds sectors,) which had led to a growing interest of investor protection and supervision of a growing number of non-bank financial intermediaries. Thus, monitoring the extra dimension which initiated the “reform” the oversight function, and aroused great interest all participants in financial markets, including the addition of the banking sector and non-bank financial institutions, financial infrastructure, the real sector and households. A pioneer in this venture was Great Britain, as one of the leading international financial centers, whose power 1998th vol. transferred the majority of oversight responsibilities with the Central Bank of England to the newly independent agency, the Financial Services Authority (FSA) which was responsible for oversight of the entire financial system. Scandinavian countries-Norway (1986), Iceland, Denmark (1988), and Sweden (1991) are possible strengthen the supervision of the United Kingdom, after the domestic financial crisis. No matter, as some countries earlier strengthen supervision of the financial system, is considered in financial circles, the establishment of the FSA has opened wide the door to reform the design supervision. After the 1998 suddenly the world has increased the number of unique control agencies, in which Europe is the forefront. After Great Britain, four members of the EU, Austria (2002), Belgium (2004), Germany (2002) and Finland (2009), have formed a single agency for oversight of all structures of the financial system, but the central bank. In Ireland (2003), Czech Republic and Slovak Republic (2006) supervisory bodies are formed with the central bank. Other EU countries have concentrated supervisory authorities in a separate agency (Estonia, Latvia, Malta, Hungary and Poland), while new members have recently formed the control of central banks. Outside the EU unified supervisory agencies were established in Colombia, Kazakhstan, Korea, Rwanda, Nicaragua, Japan, and after the great economic crisis in the second half of 2008 as the number of newly established independent agency to monitor the spread in other countries. (See more, Masciandaro, 2010) Similarly, Great Britain is based on a commissioned report of the Minister of Finance, the FSA (2009) considered the alternative of responsibilities between the prudential and supervision of business conduct, to the House of Lords 2009 released its report on the future of financial supervision and regulation. At the same time, as Switzerland and Finland have adopted a uniform system of supervision, while Austria, supervision split between financial markets and central banks, adjusting supervisory framework, with that, the greater responsibility for field supervision of the central bank and strengthening coordination between the two governments. In the EU a serious debate on the new architecture of control are managed at the highest level, to have reached full swing after a report commissioned De Larosière Group 2009 based on whose recommendation the Commission in May 2009, announced a proposal for a new structure of European financial supervision, which was finally adopted by the ECOFIN June 2009 and by the European Council, also in June. At the same time the U.S. was obsessed with “re-engineering” of the supervisory design, in particular, as the existing but showed many weaknesses before the crisis. Outdated argument for regulation of competition is often used as a reason to justify an American monitoring structure. (Coffee, J., et al., 1995) The lack of design oversight in the United States has initiated appropriate measures be taken, March 2008 which included an analysis of overlapping financial supervision, and in March 2009 adopted legal changes for the new financial regulations of the supervisory framework, and announced a new reform of the structure of the supervisory architecture.

2.2. What the macro prudential policy supervision

Using the term "macro prudential" became more common after a major international financial crisis, half of 2008 in many debates and discussions, not only among economists, but also in the framework of relevant international organizations and financial institutions, so that the well-known economists fought (Borio, C., 2009), said: "To paraphrase Milton Friedman, now all a little macro prudential. To understand macro prudential surveillance, it is necessary to distinguish between macro and macro prudential supervision. Macro prudential surveillance is solely concentrates on the stability of individual financial institutions and issues related to adequate management and control of operations. The key objective of supervision is to ensure adequate solvency and capital adequacy and the financial institutions are able to meet its payment obligations (liquid). Basically macro prudential supervision is to protect customers. Therefore, the banking sector, insurance companies and pension funds are under rigorous supervision, as they together "must represent a safe haven for savings and paying premiums. (DNB Euro system) Therefore, the focus macro prudential is monitoring the vulnerability off institutions from their environment, therefore, under the influence of exogenous factors, and macroeconomic imbalances that are given, such as a decline in stock market or property prices fall. Effective supervision is crucial micro prudential important, because without strong financial institutions, there can be no stable overall financial system. The coexistence of strong individual financial institutions is not a guarantee of financial stability as a whole. Due to insufficient safety and macro prudential oversight for the stability of the entire financial system is necessary macro prudential supervision concentrates on the monitoring of the entire financial system in time and transverse dimension. Macro prudential supervision is focused on risk factors which may be subject to all financial institutions at the same time, or the risk factors a financial institution whose infection can spill over to other financial institutions within the national or international financial markets. Vulnerability may arise from the financial system and the macroeconomic environment and are influenced to a large extent, endogenous factors. In this context macro prudential supervision should reflect the following processes: (Caruna, J., 2010)

- Monitors and analyzes the entire financial system, to determine its vulnerability,
- Assessment of potential threats to financial stability and making decisions about taking action to mitigate threats
- Implementation of measures to reduce current vulnerabilities,
- An assessment of these actions in order to determine to what extent they really reduced vulnerability.

Macro prudential surveillance should use existing, revised and new oversight policies. Access to these policies involves three basic, often overlapping categories: (Perrut, D., 2010)

1. Countercyclical regulatory measures that can be automatically installed as stabilizers,
2. Improving measures to deal with the infection,
3. Discretionary policy addressed the major threats to financial stability.

Among the proposed counter-cyclical approaches are "regulations that are supposed to impose financial institutions to strengthen their capital, liquidity, reserves and loan-multiple increase in value over a period of prosperity to a level that would be sufficient to withstand periods of significant crisis". (Group thirdly, 2010) Macro prudential concept of control includes three key elements: (Negrila, A., 2010)

1. Identification of distress in the financial system,
2. The prediction of systematic risk,
3. Responding immediately in the event of a crisis.

Macro prudential access control is top-down, economy-oriented on the entire system in which the financial market players to act, and helps assess the sources of risk and incentives. (Kawai, M., and Pomerleano, M., 2010). So, he focuses on oversight from above with an emphasis on exposure to systematically important institutions to various shocks. This further implies, not only monitoring the compliance standards of security and stability by these institutions, but also assessing whether these standards are sufficient to adequately protect systematically important firms and the rest of the economy from financial distress (Herring, R. and Carmassi, J., 2010) At the same time, it requires Integration of detailed information on banking institutions, corporations, non-bank financial institutions and domestic financial markets.

2.3. Definition macro prudential supervision

A basic approach to define macro prudential supervision is on ensuring the stability of the whole financial system and limit systemic financial vulnerabilities that can negatively affect the overall economy. Macro prudential surveillance is defined in several ways. Borio, C. (2009), Davis P. and Karim D., (2009) macro prudential regulation and supervision is defined as:

- The approach focuses on the financial system as a whole rather than individual institution,
- The treatment of total risk as endogenous, in connection with the collective behavior of institutions (as opposed to individual institutions),
- Intention to limit the possibilities and costs of the financial system out of trouble and cost of the real economy.

Macro prudential surveillance, as opposed to traditional Macro prudential supervision which focuses on individual financial institutions, includes the previously defined broad approach to the stability of the entire financial system. This approach allows the full attention of the largest financial institutions. Largest financial institutions may be potential sources of systematic threats, which require a greater commitment to them, primarily “by examining their common exposure and connections between key institutions and markets to shocks that may create development of bubbles, credit expansion, leverage and macroeconomic conditions.” (Borio, 2003)

2.4. Objectives macro prudential supervision

A determination macro prudential objective of supervision requires the prior definition of systemic risk. Besar, G., and other authors (2010) proposed a definition which covers non-financial and financial systemic risk; systematic risk is materialized when the initial disturbance transmitted through the interconnections those link businesses, households and financial institutions with each other, leading to the result of failure or degradation these networks. Milne, A., (2010) offers a definition of financial instability, stating that the systematic risk occurs when there is “widespread breakdown of financial flows.” At the same time, it means the result, but not necessarily materializes systematic risk of the financial system. For such a risk can be achieved and in one part of the financial system (such as market disruption derivatives 2005 when Ford and General Motors lost its investment rating), and that does not extend to the entire financial system and do not cause interruption of financial flows.

IMF, FSB, the BIS and the G20 proposed the following working definition of systemic risk: the risk of distortion of financial services that is caused by damage to all or certain parts of the financial system and has the potential serious adverse effect on the real economy. (Caruna J., 2010) As noted by Milne, the emergence of financial instability, certainly result in the reduction of economic activity, but also involves systematic risk, although such a phenomenon inevitably leads to the downward phase of an economic cycle and the transformation of economic activity, with plans to spread to systemic risk. The basis of systematic risk comes from two sources: (Bank of England 2009)

1. There is a strong common tendency of financial companies, as well as businesses and households that is too much at risk in time to revive the credit cycle and become too averse declining

2. Individual bank normally do not take into account the spillover effects of their actions on the risk in the rest of the financial infrastructure.

The main objective macro prudential supervision is to develop an approach that will be primarily pounce on ensuring financial stability of the whole system and limit systemic risk. The focus is therefore on the behavior of major financial institutions and the consequences of their behavior on financial markets. In essence, the goal macro prudential supervision is to safeguard the financial stability of the system by identifying vulnerabilities in the financial system of the country, and promptly informed way to prevent the crisis, calling the policy and regulatory measures to address these vulnerabilities. (Kawai, 2010)

2.5. Macro prudential analysis and monitoring

Macro prudential analysis, the IMF, (2006), "Financial Soundness Indicators (the Guide)" defines a frame of reference, which includes four elements:

- Assessment of the risks in the financial system from shocks,
- The application of indicators of financial stability,
- Analysis of micro-interactions,
- Monitoring of the macroeconomic situation.

Macro prudential analysis task is to collect data from different sources and to identify a wide array of indicators that may be of importance for the initial detection of imbalances at the macro level. It is important that the identified indicators can indicate the possible occurrence of potential threats to financial stability.

An important aspect of the analysis is the inclusion of structural and qualitative information in macro prudential analysis.

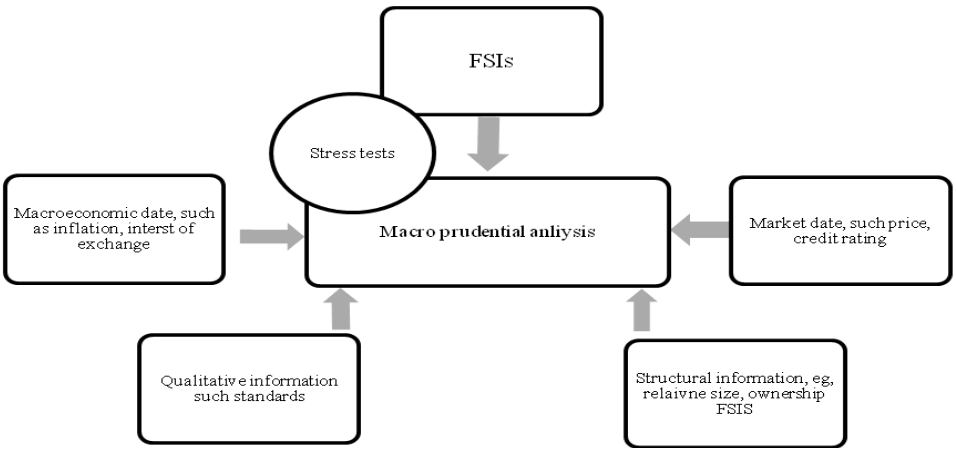


Figure 1 Components macro prudential analysis

Source: Davis, P., Presentation Macro prudential Analysis and financial soundness indicators Brunel University West London, yahoo Com-group-financial stability

Macro prudential analysis has a key but not the final part in support of macro-prudential supervision. It is essential to take specific supervisory activities under the supervision policy, also required the assistance and other policies. Assists other policies include external parties, such as financial institutions, other financial supervisory authorities regulators and policy standards. So, macro prudential surveillance is emerging as one of the key factors of policy for preserving financial stability. Also, in the context s macro-prudential supervision are important and other economic policies, and legal infrastructure, and tax regulation. The designs of these policies are mutually complementary, interrelated and stable from the standpoint of perspective must be considered together. (See more, Momirović, 2011)

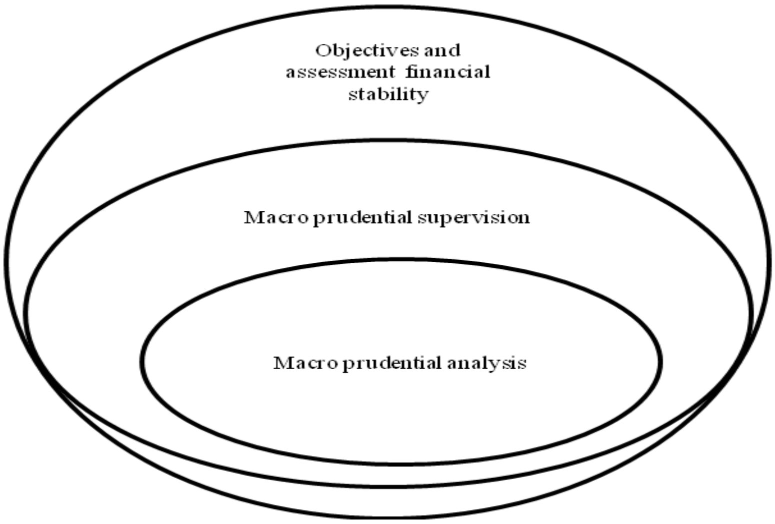


Figure 2 Venn diagram display macro prudential supervisory position in relation to macro-prudential **Analysis and Financial Stability**

Source: De Nederland she Bank: Towards a more stable financial system: Macro prudential supervision at DNB, Euro/system

2.6. Macro prudential monitoring instruments

Macro prudential surveillance uses a wide range of instruments to address and mitigate the financial systemic risk, including the instruments used to achieve other economic goals. The point is to develop and dynamically adapt instruments and tools in accordance with the needs providing macroeconomic financial stability. Dynamic adjustment is achieved by designing such a reinforcement of the instruments that will be able to detect and prevent potential financial distress and episodic shocks.

Table 1 shows some examples macro prudential instruments related to the main factors that may affect or limit the risk, as well as components of the financial system. Macro prudential listed instruments are used to promote flexibility and limit exposure of the financial system from shocks and vulnerability.

Table 1 Macro prudential instruments-the vulnerability of financial systems and components

vulnerability		Financial system component				
		Bank or deposit-taker		Non-bank investor	Securities market	Financial infrastructure
		Balance sheet*	Lending contract			

	Leverage	• capital ratio • risk weights • provisioning • profit distribution restrictions • credit growth cap	• LTV cap • debt service/ income cap • maturity cap		• margin/haircut limit	
	Liquidity or market risk	• liquidity/reserve requirements • FX lending restriction • currency mismatch limit • open FX position limit	• valuation rules (e.g. MMMFs)	• local currency or FX reserve requirements	• central bank balance sheet operations	• exchange trading
	Interconnectedness	• concentration limits • systemic capital surcharge • subsidiarisation				• central counterparties (CCP)

** Capital and other balance sheet requirements also apply to insurers and pension funds, but we restrict our attention here to the types of institutions most relevant for credit intermediation.*

Source: Rapport submitted by the Committee on the Global Financial System, Macro prudential instruments and frameworks: a stocktaking of issues and experiences CGFS Papers No 38, 2010

Macro prudential instruments in the table can be divided into three general categories, which can be regarded “as a line of defense to protect financial stability.” (De Nederland she Bank, 2010)

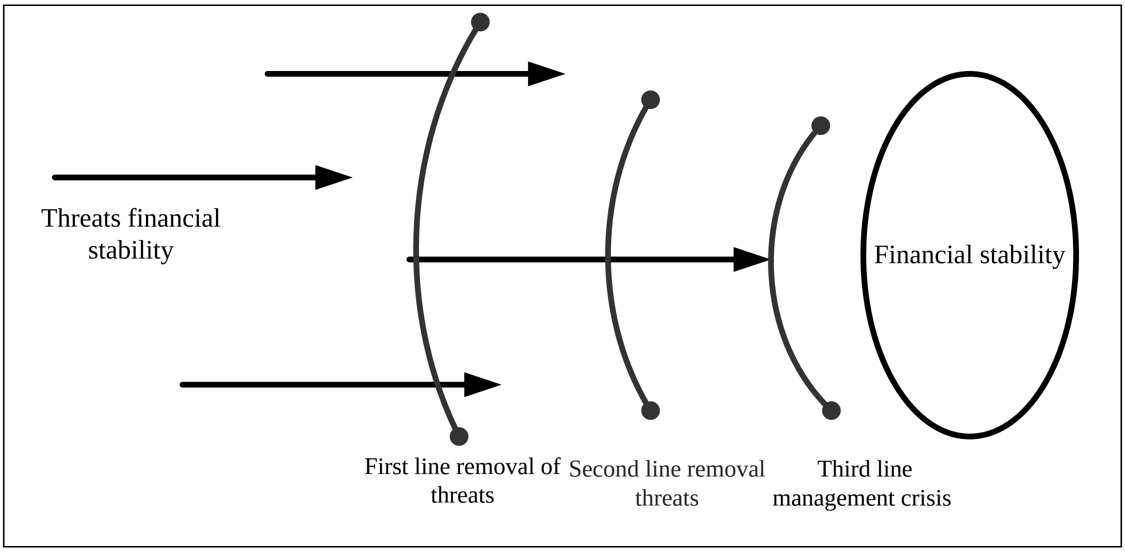


Figure 3 Schematic lines of defense to protect financial stability

Source: De Nederland she Bank: Towards a more stable financial system: Macro prudential supervision at DNB, Euro/system

Previous chart symbolizes pattern the defense of financial troubles that may affect the vulnerability or financial instability. From schematic presentation, military terminology, the first line of defense macro prudential supervisor involves removing threats financial instability, identifying financial troubles ahead and timely mitigation of its devastating effects. In practice it is not possible to eliminate all threats in advance. The reason for this is the first, which is difficult to quantify any imbalances due to their frequent fluctuations, etc., able to download mitigation actions are often limited, because, as the threat of financial instability are often beyond the immediate reach of macro prudential supervisory organ or the recommendations which are internationally coordinating, and whose speed and determination depends download the appropriate action. (See more, De Nederland she Bank, 2010)

The second line of defense, assume the responsibility to maintain and enhance resilience of the financial system when the first line of prevention is insufficient. In such situations, the second line of defense may be the solution, in cases where the authorities would be unlikely to mitigate these threats when the government or the uncertainty regarding the development of threats that may increase the vulnerability of financial systems. (De Nederland she Bank, 2010) In the case of events[2] in the financial system vulnerabilities should be robust and be able to absorb the trouble to maintain financial stability. It is also important that the system does not produce the risks and it is desirable to reduce debalnce.

When a break occurs in bubbles and the crisis and the system is unable to absorb shocks I, crisis management is the third, the crucial line of defense and protection of financial stability. In such situations, using potential instruments that can provide security, such as liquidity support, guaranteed deposit schemes and others. The purpose of using instruments to combat the crisis, so that the imbalances of the financial system be as little as, and that financial systems to recover as quickly as possible, in order to avoid, reduce or limit the damages that may arise in the real sector. In such situations the task macro prudential supervision is to assess how the organization and design of the main groups of instruments for regulating and, where necessary to make adjustments. Measures to combat the crisis that the government undertakes the form of capital injections and guarantees and the Central Bank in the form of liquidity support. Removal of threats, improving elasticity of the financial system and crisis management are mutually complementary and together are important for financial stability. "(De Nederland she Bank, 2010)

Separations between these lines of defense in practice are not entirely clear. For example, taking major measures of protection (such as deposit insurance) and security will surely discourage preventive effect and a massive run on the bank in terms of destabilizing withdrawal. Then, the supervisory authorities will never be able to fight and eliminate any financial trouble. Uncertainties regarding macro prudential events are large and scant use of instruments and tools for mitigation actions are limited to the relationship between costs and benefits. At the same time, reducing the vulnerability can produce moral hazard, in terms of reducing incentives for prudential behavior.

3. Activities on Finding New Framework

Exposure to financial systems externalities, which led to the current financial crisis, sparked at all actors in the financial market, a great concern for health of the financial system as a whole.

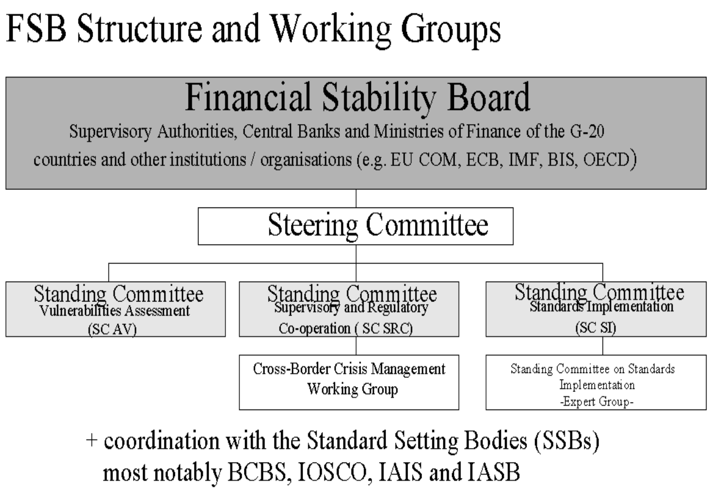
This concern was again aroused great attention and devotion, all the major international financial organizations to focus on reform and development of new supervisory policies and their settings, this new, present, and ready for the early detection and restriction, possible, future external shocks. All this

[2] The famous example from 2001. vol. when the threat of bursting balloons due to the large volume of lending IT and communications who subsequently became uncollectible causing shock in the financial system, but this risk could be extended to other financial institutions had been absorbed by those same financial institutions that were strong enough to time to adequately absorb the suddenly incurred the risk.

represents a new challenge for the financial “reinžinjere” to create new defense mechanisms to protect against financial shocks and pro-cyclical episodes. These innovative creations are made in designing the new architecture of the supervisory design, which contains a unique international and national system of defense against possible financial trouble and protect the real sector.

G20 group of developed countries is the main initiator of regulation and supervision of global financial system. A key priority is to reform the regulation of the environment and improving macro prudential oversight of the financial system. Since the Summit in London, to Pittsburgh, The G20 was expanded and strengthened the mandate of the financial stability, (FSB Financial Stability Board) which contributed to rapid coordination of regulatory and macro prudential response to the crisis. Indeed, the main lesson and the lesson from the current crisis is that financial and supervisory authorities and regulatory bodies should act more quickly and than in the past, especially when it comes to the international financial system, namely, using macro prudential perspective of supervision and regulation mitigation and defense of the financial system from financial troubles. It is necessary to develop common standards of diagnostic, design, control risk, strong coordination of regulatory and supervisory plans and political responsibility to implementation appropriate actions.

According Carosio (Carosio, G., 2010) FSB jurisdiction has been extended “unprecedented high level of international coordination of regulatory issues.” In this context, the FSB is imposing additional duties and tasks include: undertaking joint strategic review undertaken policy development, definition and adoption of international standards, defining the guidelines and providing support for the establishment of an international supervisory body whose task will be to support the planning of an international crisis. (Momirović, D., 2011) The Pittsburgh Summit (2009), FSB and its members have continued to improve, coordinate and monitor the progress of financial reforms, defined by the G20 forum, which is essential for overcoming the present and prevent any future financial crisis.



Source: Schmitz, T., 4th ECFR Symposium International Co-operation of Financial Supervisory Authorities 2009

FSB is particularly focused on international and national policy development and the basic elements of international reform, which they agreed G20 members at the meeting in Pittsburgh, which relate to: (Report of the Financial Stability Board to G20, 2010)

1. Strengthening of bank capital and liquidity standards,

2. Improving OTC (off-exchange market) market, derivatives markets and basic infrastructure of the financial markets,

3. Important financial institutions to systematically reduce moral hazard,

4. Subsequent reform practices to support financial stability,
5. Systematically addressing the important financial institutions and the adoption of the resolution,
6. Strengthening compliance with international supervisory and regulatory standards and
7. Improve the structure of incentives and transparency.

Basel Committee on Banking Supervision (BCBS) has started an ambitious program to improve the standard of minimum prudential and concretization of the proposal (a package of reforms) that contain important, prudent measures, particularly in terms of solving the macro prudential problems. The aim is to improve the ability of the banking sector to absorb shocks - regardless of the source-derived from the financial and economic stress, and thus, significantly reduce the risk of spillover effects from the financial sector in the real economy. (Caruna, J., 2010)

These important prudent measures concerning: (Carosio, G., 2010)

1. A significant part of these reforms is aimed at businesses and activities that are systematic nature, in particular, requirements for capital, which were increased by the amount of activity, reported in the trading book, the opposite side of credit risk, securitization and complex re securitization,
2. Micro-prudential rules were revised to address the risk of spillover to the real economy, with a proposal to introduce protection of capital,
3. The total calibration process of the reform package of the Committee, special attention is paid to impact on the economy, both in stable and in transition countries, to ensure the gradual introduction does not threaten the current recovery process.

His dedication and commitment to intensify efforts in improving financial regulation and supervision reform, the G20 is confirmed at the summit in the Republic of Korea, 5 June 2010. , focusing on the following issues: (G-20, 2010b)

- Developing and strengthening capital liquidity standards
- Address systematic major institutions SIFIS
- Improve regulation of hedge funds, credit rating agencies, employees and OTC derivatives,
- Strengthening global accounting and financial standards.

Other issues that have driven the debate related to the development macro prudential supervisory framework, including monitoring College of cross-border institutions, and the continuation of securitization. In June, the summit in Toronto in Canada, their focus on these issues are defined in the context of four pillars: (G-20, 2010b)

- Strong regulatory framework and infrastructure of financial markets,
- Effective supervision
- Resolution and resolution of the institutions of systematic,
- Transparency International estimates and detailed review.

At a summit in Seoul November of the 2010th vol. proposal was adopted by the Basel Committee for super-review (BCBS) of Basel II related to the new regime of capital banks and the approval of the proposal on the FSB policy framework to address Systematically important institutions (SIFIs), but which will, SIFIs policies to enable further work on cross-border resolution of the increased capital and increased surveillance macro prudential for these entities, especially for those who are considered global systematically important financial institutions. FSB, (2010) criteria for identifying SIFIs will be agreed at future summits, and will apply from 2012. Simultaneous, again insisted on the earlier two posts, which are related to reaching a consensus on unique, high-quality international accounting standards by, 2011 and increasing stakeholder participation in setting the standards process.

3.1. Macro prudential supervision in the US

Obama's administration has proposed the Fed take control and be responsible for financial stability. This is the Fed was given the mandate to monitor risks in the financial system and the authority to control all the companies that may threaten financial stability. Increased surveillance will be applied to large domestic and international related companies, however, that the Fed will particularly focus on stronger regulation of major financial institutions, non-banks in the traditional sense. Administration's proposal calls for "fast revolution plan". (Kawai, M., 2010) This is a mandate to systematically important financial institutions should submit a regular "funeral plan" - a set of instructions on how institutions can be settled properly and timely if it would be necessary. (Kawai, M., 2010) Finally, the new bankruptcy laws will apply to these companies on the model applied by the Federal Deposit Insurance Corporation (FDIC) to a regular bank.

Reform of regulation and supervision of application macro prudential[3] include five key objectives: (The Department of the Treasure, 2009)

- Promoting a robust oversight and regulation of financial companies,
- Establishment of a comprehensive supervisory regulation of financial markets,
- Protecting consumers and investors of financial abuse,
- Improvement of management tools by financial crisis
- Improvement of international regulatory standards and improve international cooperation.

Analogously defined objectives, proposed a significant restructuring of the regulatory system by creating FSOC-Financial Services Oversight Council, which chair the Treasury, including the key financial regulatory officials as members. He also proposed the creation of CFPA-Consumer Financial Protection Agency, and a new NBS-National Bank Supervisor (National Bank for supervision)

"Financial Services Oversight Council" was formed in 2009 to provide macro prudential surveillance systems, and to monitor systemic risk issues, to develop prudential policies and mitigate systemic risk. Tasks and purpose of formation of the Council are:

- Advises Congress on financial regulation and make recommendations that will improve the integrity, efficiency, orderliness, and competitiveness as well as the stability of financial markets and maintain investor confidence,
- Monitor the market of financial services to identify potential threats to the stability of financial system
- To improve information sharing and coordination among members of the Council concerning policy development of domestic financial services, sets the rules and manner of inspection and reporting requirements and enforcement activities,
- Advises the Board of Federal Reserve on the importance of the main financial holding company, systematically important financial services markets, payments, clearing and settlement activities (and standards for such businesses and activities),

[3] At a summit in London, April 2009, G-20 leaders issued a declaration relating to the structure of a comprehensive plan for reform of financial regulation. On the basis of this declaration and accepted international
obligations of the United States have taken the responsibility, the G-20 proposals aimed at strengthening regulatory standards and implementation macro prudential supervision

- Provides a forum for discussion and analysis of emerging markets, development of financial regulatory issues and resolving legal disputes between members. (Division A-Improvements to supervision of financial firms, 2009)

The Council seeks to develop a process that will determine the number of non-banking financial companies over which will enhance supervision in accordance with Dodd-Frank Act, Wall Street reform and Consumer Protection Act. In the proposed framework macro prudential supervision is included every element of the Dodd-Frank Act[4]. FSOC to the frame above the law, implement, six broad categories, each of which reflects the different companies can be a source of potential financial troubles, and the possibility of scale, size and extent of connectivity and the activity concentration of companies. These categories are: 1. size, 2. lack of substitutes for financial services and products that companies provide 3. Connections with other finance companies, 4. Influence (leverage), 5. Liquidity risk and compliance due date 6. The existing regulatory oversight (Ambler, D., Amorosi M., 2011)

January 2011, FSOC issued proposed regulations in the form of notification, which contains all of the circumstances under which the non-banking financial companies, such as mutual funds and brokerage house listed under the supervision of the Fed. The proposed framework will be aligned with international reach on the way to identifying the relevant firms, the currently under development by the Basel Committee (Basel II) on Banking Supervision and the FCO, and that Dodd-Frank legislation authorizes FSOC to determine the non-banking financial companies which will be supervised by the Fed and improve macro prudential standards that will identify material financial troubles that may arise from the nature, scope, size, level of concentration, association or company-related activities and that may pose a risk to U.S. financial stability should reduce competition and regulatory arbitrage risk. It is expected that during the second quarter of the 2011, FSOC define the rules and begin systematically evaluating important individual non-bank firms in terms of the proposed regulation. At the same time the Fed has proposed criteria for determining whether a company mainly deals with financial matters and that therefore belongs to the non-banking sector in the Dodd-Frank Act.

All of this would include the Fed, the FDIC and the Treasury. This model could become effective if the Committee could clarify their goals and mandates, and he has enough resources and implementation tools. Also, fragmentation of regulation and supervision should be eliminated, consolidating these functions into one body. This should help the harmonization of prudential regulatory standards for financial institutions and procedures to prevent the arbitration of regulation, and therefore the systematic risk. (Kawai, M., 2010)

The creators of the reform of existing and new supervisory framework, both suggest that faced with the challenge not only U.S. but also internationally, and appeal to the outside world as they do the same, suggesting, thereby, macro prudential oversight, which requires international reforms, including improving the framework of capital, improving supervision of global financial market supervision coordination related international companies as well as strengthening macro prudential analysis, tools and standards for crisis management.

Regulation by some economists criticized from the standpoint of inconsistencies and inadequacies. Basically, the criticism concerning the division of responsibility among many agencies' supervision that can lead to a regulatory “gap”, then too low demand for capital and liquidity, and the plan of limiting access to liquidity in the event of stressful situations.

[4]Dodd-Frank legislation authorizes FSOC to determine the non-banking financial companies which will be supervised by the Fed and improve macro prudential standards that will identify material financial troubles that may arise from the nature, scope, size, level of concentration, association or company-related activities and that may pose a risk to US financial stability

3.2. Macro prudential supervision in the EU

Lessons learned and lessons from the current crisis, the EU set up, great challenges, especially when it comes to building a strong coordination of regulation and macro prudential supervisory framework, especially when it comes to establishing a regional financial and macroeconomic stability. Experience crises point to some weaknesses of the existing architecture of the financial supervisory framework, which failed to anticipate the negative macro-economic troubles in integrated financial markets and limit the accumulation of risks in the financial system. The financial supervisory framework, despite the appeal of the European Parliament on strengthening the playing field for all participants at the EU level, "is still different for all members, regardless of the significant progress achieved in the integration of financial markets and the increased importance of cross-border entities. (Regulation of the European parliament ... 2009) In order to eliminate the perceived weakness of financial supervision, the EU has engaged an expert team, November 2008 led by former IMF director, J. Larosière, known as Larosiere's Commission, which was February 2009 suggested some recommendations and conclusions concerning, primarily to establish a stronger, more efficient, more integrated, transparent and sustainable supervisory framework, with "the aim of better protecting the citizens and the restoration of confidence in the financial system." (L 331/162 EN Official Journal of the European Union 12/15/2010) Recommendations Larosière[5] Commission relate to:

1. The establishment of the European Commission for systematic risk (ESRB-European Systemic Risk Board), which will be responsible for macro-control macro prudential financial system in the community, with the aim of preventing or mitigating systemic risk to avoid episodes of widespread financial distress, the smooth functioning of the internal contributing to markets and ensuring a sustainable contribution to the financial sector to economic growth,

2. The establishment of the European System of Financial Supervisors (ESFC-European System of Financial Supervisors), consisting of a network of national financial supervisors, and who would work together with the new European Supervisory Authorities (ESAs), the transformation of the existing European supervisory committees in the European Banking Authority (EBA), European Securities and Markets Authority (ESMA), the European Insurance and Occupational Pensions Authority (EIOP). ESFC should be built on shared responsibility and mutual strengthening, combining nationally-based supervision of enterprises with certain tasks at the European level. ESFC will to harmonize the rules and the systematic use of supervisory practices. (Momirović, D., 2011)

Commission on 4 March 2009, supported the recommendations set out a group called "Movement for European recovery," with which later agreed to the European Council, to May months of 2009 Commission "Communication on Financial Supervision in the EU" initiated a series of reforms to the current preservation of financial stability, which includes the redesign of existing and construction of a new monitoring architecture design, with new institutions. Suggestions Commission during the month of June was adopted by the Council, so that they can create legal conditions for the full establishment of new legislative proposals.

September 2009 "The European Commission" adopted legislative proposals on the implementation of the new structure of financial supervision in the EU. The aim of the new legislative suggestions is to strengthen the regulation of financial institutions, as well as formatting new bodies to the macro and micro prudential supervision. After much discussion and debate at last, December 2010**,** the Law on the Establishment of ESRB, which it has become an independent body responsible for monitoring macro prudential financial system within the EU? Logistical and other assistance ESRB will have by the ECB in the form of providing analytical, statistical and administrative support. National central banks and supervisors will support technical advice, through the recently established secretariat, to

[5] In March 2009, the European Commission and the Council of Europe adopted a recommendation de Larosière group. May 2009, the Commission published a Communication on Financial Supervision in the EU, describing in detail how these recommendations could be put in operation, focusing in particular on the establishment of the proposed ESFS the ESRB.

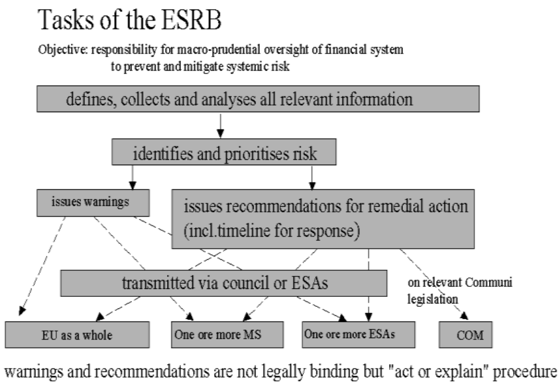
assist the ESRB-in to manage and define the political framework for the preparation of warnings and recommendations. In addition to the ECB, a newly established institution will have the support of the national central banks within the Union and three new a Safe institutions and the European Commission. ESRB has three main objectives: (Constancio, 2010)

1. To monitor and identify the priorities of systematic risk to financial stability. Develop appropriate frameworks of analysis that are crucial for the achievement of this objective. To this end ESRB will be:

- Engage in a dialogue with the financial community to obtain market information,
- Maintain contacts with other partners outside Europe (such as the Financial Stability Oversight Council, which has since been established in the US and other financial institutions in the world),
- Exchanger's ideas with the academic community.

2. To translate risk assessments into action by the competent authorities. ESRB will provide specific guidelines on how to respond to systemic risks when they are discovered, issuing warnings and recommendations for corrective actions in response to these risks. ESRB, the European and national authorities will work together so that the danger of risk will not be without effect, as several times in the past.

3. To improve the interaction between micro-and macro-prudential analysis, in order to improve estimates of systematic risk. To this end, the ESRB will serve as a forum for the exchange of information between national central banks and supervisory authorities. Also, you need a common language and supranational coordination between macro and macro prudential supervisor.



Source: Schmitz, T., 4th ECFR Symposium International Co-operation of Financial Supervisory Authorities 2009

ESRB Further work will focus on the operational activities of the establishment of mutual links, analysis and mutual information on the possible sources of systematic risk, using existing and establishing new analytical tools, constantly improving macro prudential standards and transparent implementation of selected policies. Reporting on the health of the financial system, will be performed quarterly, and will also be passed study of long-term structural issues that will be important for financial stability. It will also be based on comprehensive analysis of the entire financial system, provide timely and valid assessments and forecasts on key financial risks that may threaten the financial stability of the EU. In analysis, the ESRB will use a wide range of quantitative and qualitative macro prudential tools, in particular indicators and models that signal financial trouble in the initial stage, the way the wider financial problems and stress tests. Also, the ESRB has a mandate to investigate study and adapt the methodology for early detection, assessment and prognosis of systemic risk. Similarly, the Central Bank within the EU is mutually connected with the research makroprudencijalnih policy regulation and supervision, known as "Mars."[6] (ESRB's macro prudential Research Network) Analysis of systematic risk will be based on an assessment of collected relevant macro prudential data from all member countries, which will also include the European Central Bank (ECB). Also, aggregate data will be submitted to the European supervisory authority for the supervision of financial institutions. In addition, it will be used and information from the market of the real sector which are of importance for macro prudential analysis. Analysis of the data will contribute to making certain conclusions. These conclusions will be forwarded in the form of warnings and recommendations, member states, too fast and efficient taking remedial action.

Way of delivering information will define the Advisory Technical Committee (ATC). Forwarded to the warnings and recommendations, as defined by the EU Council and Parliament will have no binding effect. ESRB will have, over time, to build a respectable and credible early warning system for systematic risks, to its intended, effect of the principle of "comply or explain" authoritatively established. Thus, the ESRB should be held accountable, independent body to conduct surveillance at macro prudential Union without legal personality. (Official Journal of the European Union L 331 / 1, 12/15/2010)

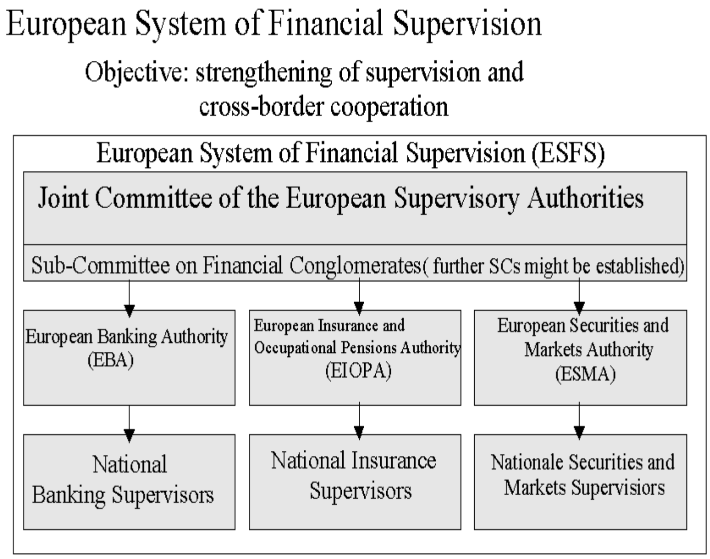
In implementing macro prudential supervision and the European Parliament has a role that consists in inviting the Chairman ESRB and that members of Parliament, present recommendations and warnings related to early warning, provided that they are not in the domain of secrets. If you are strictly confidential and not public, the Chairperson ESRB, they can be orally examined together with the Chairman and Deputy Parliament. ESRB reports to the European Parliament and the Council at least annually and more frequently in the case of massive financial troubles. (Official Journal of the European Union L 331 / 1, 12/15/2010). Member States may, but need to act upon the recommendations of the ESRB. If you fail to comply with the recommendations required to explain their reasons. In addition, the ESRB will work closely with the FSA (Financial Stability Committee) and IMF (International Monetary Committee) and other relevant international institutions and bodies.

The European system of financial super auditors (ESFC) will focus on the micro-prudential[7] supervision. He will "bring together stakeholders of financial supervision at national level and at European level to act as a network." (Official Journal of the European Union L 331 / 1, 15.12.2010) ESFC[8] will cooperate at EU level with all stakeholders that the network should consists of three micro-supervision authorities, (European Banking Authority, European Securities Markets Authority and the European Insurance and Occupational Pensions Authority) on the principles of trust and mutual respect, especially when it comes to ensuring the flow of reliable and relevant information. Direct supervision will perform the relevant government oversight and super-audit institution, except for credit rating agencies, which will be under the direct control of European Securities and Markets Authority. Monitoring institution will replace the existing national system of supervisors, with new major powers, particularly in developing existing and define new technical standards, application of correction rules, taking timely and adequate measures in case of financial distress, then to act as intermediaries in removing any misunderstandings between members and college work supervisors for cross-border cooperation.

[6] "Mars" for macro prudential research aims to create and develop conceptual frameworks, models and tools that will be used to improve macro prudential supervision in the EU. He will address the investigation of financial instability that may affect the real sector of the construction of theoretical and empirical models, models of support to the finding of early warning indicators of systemic risk and to improve the methodology of forecasting and risk assessment.

[7] Moreover, in addition to detection of regulatory weakness, the crisis has shown that monitoring in some cases lacking even when the regulation was appropriate. Moreover, financial regulation and supervision are generally micro-prudential, with emphasis on the situation of individual actors, without correctly taking into account the systemic consequences. (Read more see Gerlach, S., Giovannini, A., C. Tille, are the golden years of central banking over? 2009)

[8] The three institutions of government, together with the national super-auditors are ESFC.



Source: Schmitz, T., 4th ECFR Symposium International Co-operation of Financial Supervisory Authorities 2009

ESFC will include in its mandate to act towards achieving the following objectives: (Commission of the European Communities, Brussels, SEC (2009) 1234)

- To improve the functioning of the internal market, including particularly high, efficient and consistent level of regulation and supervision,
- To protect depositors, investors, policyholders and other beneficiaries,
- To protect the stability of the system and
- Strengthen international supervisory co-ordination.

ESFC will, in coordination with the ESRB, the national super-auditors communicate recommendations to adhere to the principle of “act or explain.” Therefore, the aim of reform is to ensure smoother and full coordination and interaction between macro and micro prudential supervision. Indeed, for better macro prudential oversight and effectiveness of ESRB-in is necessary to timely and reliable flow macro prudential in information and data, with simultaneous information flow in the reverse direction, which will be relevant for national macro prudential supervision.

3.3.Different and similarities between architecture reform macro prudential control the U.S. and EU

Comparing institutional arrangements macro prudential supervision, or supervisory model designs, between the U.S. and the EU can be observed one major common point, namely that central banks play a prominent role in both a supervisory architecture design. This role stems from the important goal of maintaining financial system stability, which was clear during this crisis. In addition there are common features and differences. In the U.S., the Central Bank (FED) has strengthened the role of the macro prudential supervision. In the European Union, the ECB is not directly involved in macro prudential control but has an important logistical role in providing analytical and statistical support ESRB. Then, in the U.S. macro prudential body are focused on regulatory and supervisory policy, in contrast to the ESRB, who is focused on making appropriate recommendations and giving opinions. In addition, the role of crisis management are different, the system Fed may respond to a crisis by improving liquidity, using the traditional support and tools, as opposed to the ESRB, who has no authority to manage the crisis, except to advise the European Council of the financial trouble.

4. Instead of Conclusion-Supervision Challenges Macro Prudential

Application macro prudential monitoring the economic policy makers, many countries, after the explosion of global financial troubles and unexpected spillover of infection between the integrated international financial markets is a major challenge and temptation. Challenges and temptations can be found in the environment, which is often uncertain and difficult to predict. Then, the fact that the financial crisis of low-frequency events that occur under divergent circumstances, further complicating the already complex situation of the court crisis. Use, historical statistical information for the detection of certain rules and trends of the origin and development crisis, and the accumulated potential imbalance in current circumstances it is almost impossible. This is because, as deregulation, information technology and financial innovation led to turbulent changes in the financial, markets, not only within a national economy but also at international level. The consequences of these changes are always new and unpredictable developments (invisible hand) on the domestic and international financial markets, on which they cannot build a reference, historical, statistical and other empirical material, with which one could identify certain trends and certain legality, which in some circumstances repeated. However, if they are identified and pro-cyclical shocks arising in the financial system, it does not necessarily mean that it is now and has been a crisis, for many phenomenon of financial distress can be resolved efficiently and timely corrections. (Such as market disruption derivatives 2005 when there was a crisis when many companies lost their investment ratings, but the crisis has not spread to the whole system, just because of the rapid and efficient correction). From the above, it follows that the assessment of the appearance of financial difficulty, is primarily a subjective assessment.

Despite the application of quantitative statistical analysis, the accumulated shocks and pro-cyclical phenomena, however, the creators macro prudential and other forms of surveillance is widely accepted that in the short term, subjective value more acceptable, especially as they can be quick and efficient corrections to rectify the beginning of the accumulation of financial trouble. Hence it follows that the challenge for macro prudential surveillance in convincing policy makers and all stakeholders in the financial markets to accept macro prudential analysis, control and surveillance. Before this, there are numerical issues of admissibility on how to macro prudential access control into practice. For example, how many will be successful analysis of financial trends in the identification of financial imbalances and other factors that may cause a crisis and how they will be translated to the appropriate supervisory authority or other policy measures. Precisely, the current crisis has raised major challenges for all countries of the world and financial institutions to seek new forms of defense against shocks, which are already visible, and that consist of the reform of existing and construction of new national and international framework macro prudential supervision. The challenge in convincing policy makers and other participants in financial markets is a crucial conjuncture in terms of expansion (prosperity) when it requires a high level of practical credibility macro prudential supervisor. This practical credibility stems from the many conflicting issues of monitoring and short-term goals of profitability of institutions, which often result from measures to improve financial stability. For this conflict arises the necessary collaboration and coordination between policy-economic policies and all other stakeholders at the national but international level in order to provide equal and equitable economic conditions.

Uncoordinated and unilateral policies are counterproductive in cross-border cooperation, particularly if the financial vulnerability transferred to other countries and unregulated markets. Also, a mutual connection within the financial system and integrated cross-border cooperation provides special features of a complex international financial system. International is a strong correlation with each other, further complicated the identification of initial occurrence and assesses the impact of shock on the entire financial system. This form of connection and cooperation ads to the uncertainty that often leads to "unknown unknowns" that cannot be predicted because of the low frequency external shocks.

It is best if the shocks can be absorbed by strengthening the resistance of the system with robust suspension (limiting) and strong infrastructure. Volatility due to low frequency external shocks have real limitations, which is reflected in the limits of the supervisory authority, but that does not mean abstention from macro prudential supervision. Recent history has confirmed that no maintenance of macro prudential control leads to a reduction in the risk of shocks external including cost reduction. It is important that macro prudential monitoring transparent to the general public informed on the true and effective way of benefits macro prudential control, that is, informed about what he can do and what not to limit and prevent financial shocks and pro-cyclical phenomena in situations where nothing else can be done in emergency circumstances has occurred.

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