

NEW CONCEPTS REGARDING THE FUNCTIONING OF FINANCIAL SYSTEMS

MĂDĂLINA ANTOANETA RĂDOI*

Abstract

On the financial market, the last three decades have gained the status of a real “revolution” as a consequence of the amplitude, transformation and restructuring of financial services and competing processes. The importance that should be paid to the transformations of financial systems is also given by their impact both at micro and macro level over economy as a whole.

Keywords: consolidated financial regulations, special regulations, surveillance of objectives, financial conglomerates, unique market of financial services etc.

Introduction

Over the last decades the evolution of financial markets has indicated the fact that national financial markets are opened towards private financing due to the necessity to attract international capital resources, a situation which has led to an increase of competition. A series of phenomena has generated this situation: the increasing number of budgetary deficits and the payment deficits incurred by many OECD countries or emerging countries, the chaotic development of credit systems and the use of unregulated financial instruments. These have contributed to the appearance of financial crises which still exist at international level, including in the Euro zone.

Increasing the efficiency of financial markets implies restructuring actions including for the regulation structures of these markets – these issues being frequently tackled during the last two years both within the G7 and G20 countries and especially within European financial and banking bodies – ECOFIN (Economic and Financial Affairs Council), ESCB (European System of Central Banks) and ECB (European Central Bank).

Literature Review

1. Regulation systems for financial markets

Over the last 5 years, the evolution of the European financial systems has become convergent with the American one. These convergent movements had as former matrices the adoption of the unique Euro currency and the globalization of financial markets. The European model continues to be different from the American one because it emphasizes solidarity and consensus, thanks to its more thorough regulation of financial markets. However, the evolution of financial markets is characterized by convergence.

Present developments within the financial regulation systems both worldwide and within the European zone are based on two principles: consolidated regulation and special regulation.

Economies of scale and several political advantages are favorable to consolidated regulations; this kind of regulations is more adapted to the tendencies of forming Financial Conglomerations and it offers a whole set of services and financial products. ,

* Lecturer, Ph. D., Faculty of Economic Sciences, “Nicolae Titulescu” University, Bucharest (e-mail: radoimalina@univnt.ro).

Arguments for:	
a unique financial regulation authority	a financial regulation authority
- one-spet undertaking for authorization	- more facile organizing
- expertise concentration and economies of scale (e.g., by conglomerating authority positions)	- more clearly defined powers
- lower surveillance costs	- closer to regulation activities
- more adapted to the evolution of the financial sector towards financial conglomerates	- more adapted to the differences regarding risk and financial activities, a clearer insistence on objectives and regulation motivation
- cooperation ensured between surveillance forms: a coordinator for conglomerate surveillance	- better approach to regulation activities
- no arbitration required for regulation problems	- more discrete presence
- more transparent form for the consumer	- more inclined towards objective accomplishment surveillance

1) Source: Karel Lannoo

According to European Commission directives, financial systems regulations refer to three categories of financial institutions: credit institutions, investment services suppliers and insurance companies. Credit institutions include commercial banks, building and loan associations, mutual and co-operative banks and mortgage banks (or building societies). Investment services are enumerated in the annex to the identically named Directive and are linked to the use of the mentioned instruments; performing institutions are investment banks (or merchant banks or banques d'affaires) or stockbrokers for one, more or the whole set of services. Insurances include societies that are authorized to issue life or goods insurances.

The basic problem is the information exchange between the different surveillance structures seen especially in the context of the appearance of financial conglomerates that are active at international level and as a necessity to establish a (national) coordinator for the surveillance.

Surveillance performed on the basis of objectives. A method to adapt to the conglomerate formation is creating a more objective oriented surveillance and directing surveillance towards separate issues such as:

- stability, creditworthiness;
- business deontology: information and transparency, practice based on correctness and honesty, equality between market participants.

The agency for stability would concentrate on systemic problems and the deontology agency would concentrate on behavior – protection of depositors/investors. Thus, a model that combines functional surveillance with the objective oriented surveillance would result. For banks/investment services, surveillance could be based on objectives, and for banks insurance could remain fundamental, because of the difference between products and the inverted structure of risk.

Such a surveillance structures exists in Italy. D'Italia Bank supervises financial institutes in order to ensure financial stability, while COMSOB deals with banking and stockbrokers' deontology. Objective-oriented surveillance can be increased within the wholesaling and retailing areas of activity, considering that information asymmetry and market failure are more frequent within the retailing areas of activity, this fact increasing the need for consumer protection. This formula that is supported by France has the advantage of reducing contamination risk between the two sectors.

2. The Problem of EU Financial Regulation

Creating a unique market for financial services is based on three pillars:

- a minimum of homogeneity for the various national markets – an effect of EU directive implementation within the areas of banking, investment services and insurance which are meant to ensure a mutual acknowledgement of the financial instruments, services and services suppliers;

- the principle of the “unique passport”, that is the authority granted in one country for establishing branches in any other member country or for providing trans-border services;
- the responsibility of the host country to act as a supervisor.

Directives were introduced late and quite differently in the member countries so that the actual setting up of the unique market for financial services recorded important delays.

The Commission reacted taking into account the reluctance manifested by the member countries, but this led to the creation of a quite insignificant Forum of the EU Stockbrokers’ Commission (FESCO – a British abbreviation), whose mission is to promote cooperation between regulating authorities for the stockbroker markets.

FESCO lacks an official status, it works on the basis of consensus and it cannot make compulsory recommendations. That is why, as soon as EURO currency was issued, EU leaders adopted – during the March 2004 Lisbon Summit – the Financial Services Action Plan (FSAP), at the Commission’s initiative.

France considered it necessary to go further and faster; thus, during the second semester of 2000, when this country held the Presidency for The Council of Ministers, Laurent Fabius (The Minister of Economy and Finance) asked for the creation of a small work group that had to study the possibility of creating a more daring plan, including the creation of a Pan-European Regulation Forum, located in Paris. England opposed the idea and tried to block it. The group was nevertheless created and it included a British official, Sir Migel Wicks, and its president is Alexandru Lamfalussy, former President of European Monetary Institute. Reports were presented in November 2000 and February 2001 to the group.

At present, the points of view are the following ones:

Most of the member states support the idea of having a unique regulation forum, e.g. France, and an integrated but dual system. The idea of a Pan-European regulation forum is regarded as a solution for the present chaos in this field. Germany supports the idea of a unique Pan-European authority. England opposes it.

Other countries continue to prefer the system of national authorities and concurrence between the existing different jurisdictions.

The Lamfalussy Group does not intend to propose a Pan-European regulation authority although the creation of a Stockbrokers Committee has the role to accelerate this process, which is seen by a few as the beginning of creating a SEC (an American regulation body known as the Securities and Exchange Commission).

The group identified the numerous and important gaps existing in the EU legislation and proposed the following priority measures, which were adopted and applied by the end of 2003:

- a unique prospect for issuers, with a unique preliminary registration system;
- modernizing quota registration requirements and introducing a clear distinction between quota admission and transaction admission;
- generalizing the mutual recognition principle for wholesaling markets, including a clear definition of the professional investor;
- modernizing and developing investment rules for investment funds and pension funds;
- adopting IAS (International Accounting Standards);
- unique passport for recognized stock markets and applying the principles that surveillance is ensured by the host country.

Lamfalussy Group noticed that within the EU there are about 40 public bodies that deal with regulating and supervising stockbrokers’ markets. Competence and responsibilities are different. “At European Level the result is fragmentation and, often, confusion.”

The main point that the Group aims to attain is represented by the measures that are meant to accelerate the decision process within the EU and to ensure a more thorough control over directive

implementation by the member states. In this respect, a four stage approach was proposed for the decision and implementation process.

3. Unifying financial services regulation and surveillance in Romania

Taking into account the tendencies generated by the financial revolution and especially by the increase of capital market importance in financing firms and setting up financial conglomerates and supermarkets, as well as the dominating opinion expressed by most EU states, the re-consideration of regulation and surveillance structures is regarded as an opportunity in Romania, this process leading to a concentration of the existing structures in a unique authority.

Distinction between wholesaling and retailing markets, which is supported by France and applied in Italy, is regarded as fertile and it could be taken into account in a later development stage on the Romanian markets, if the case may be. For the moment, however, our country should follow the way opened by the UK and embraced by Hungary. The conceiving and application of unitary standards might create better conditions for the development of financial services and the accomplishment of a more efficient surveillance.

The development of self-regulating bodies is not a way to be followed (see the problems tackled by ANSVM – which, after years, was granted this right by the CNVM).

Conclusions

Tendencies regarding the transformation and restructuring of the financial system that manifest at international and European level will continue to exist, including in Romania.

Information exchange and collaboration between regulation and surveillance institutions, if well organized, have chances to generate positive results.

We do not believe that, at present, there are many persons who support the idea of setting up a surveillance authority, but such persons exist in all the three sector of financial services in our country (the banking system, the capital market and the insurance market).

The public debate could contribute to clarifying points of view and the choice of a regulation and surveillance system that could correspond both to the need for a normal development in this area and to the tendencies that exist in Europe.

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