Index

Abbey National, 325 ABN AMRO, 323, 325 ABP (Algemeen Burgerlijk Pensioenfonds), 267 accountability, financial supervision and, 415-16 adverse selection, 8, 57 government intervention and, 380 insurance and, 348-50 advice, conduct-of-business rules and, 403 Adven, 219 Aegon, 360 Ageas, 371 algorithms, definition of, 237 Allianz, 360 allocation role of finance, 13 AlpInvest, 274 Alternative Investment Fund Managers Directive (AIFMD), 406 Alternative Investment Funds (AIFs), 405 American International Group (AIG), rescue of, 63 Amsterdam Bourse, 26 Anbang Insurance Group, 372 Anglo Irish Bank, 462 antitrust policy in EU and US, 473 of TFEU, 457-9 Antonveneta, 460 aquirers, in card-based payment systems, 209 artificial intelligence, definition of, 237 Asian-Pacific banks, 323 assent procedure, of European Parliament, 86 asset and liability management (ALM) risk, 312, 352 asset management, derivatives and, 171 asset purchase programmes (APPs), 127-30 assurfinance, 369 asymmetric information central bank communication and, 131 government intervention and, 380 transparency in financial markets and, 164 auction markets, 147 automated teller machines (ATMs), 235

availability effect, home bias and, 294 averaging provision, 152 AXA, 360, 371 bail-ins, 443-6 of Cypriot banks, 68 bailouts, euro crisis and, 74 balance sheet channel, monetary policy transmission through, 118 Banca d'Italia, 212 Banca Intesa 325 Banca Monte dei Paschi di Siena, 445 Banca Populare di Vicenza, 445 bancassurance, 366, 369 Banco Popular, 325 Banco Santander, 325 Bank Austria Credit Anstalt, 325 bank-based systems vs. market-based systems, 5, 17-29 corporate governance and, 20-4 financial functions provided by, 19 importance of type of system and, 24-6 legal systems and, 27-9 Bankhaus Herstatt, 212 banking crises, 42, 43 aftermath of, 48 in Europe, 50 events during, 50 in Sweden, 50 systemic, 42 banking markets across Europe, 317-30 competition in, 328 concentration in, 328, 329 integration of, 320 market structure and competition and, 326-30 banking systems BU, 331-3 comparison of, 330-2 Banking Union (BU), 99-100, 330-5 consolidation within, 332

477

478

Index

Banking Union (BU) (cont.) creation of, 75 SSM and, 412-14 bank lending channel, monetary policy transmission through, 118 Bank of America, 63, 315, 332 Bank of Cyprus (BoC), 68 Bank of England (BoE), Northern Rock crisis and, 53 Bank of Japan Financial Network System (BoJ NET), 212 Bank Recovery and Resolution Directive (BRRD), 437 bank runs, business cycle and, 55 banks, 299-335 Asian-Pacific, 323 bail-ins and, 443-6 Banking Union and, 330-3 Chinese, 324 competition among, 456 cross-border penetration of, 317 as delegated monitors, 306-9 domestic, 323 drivers of profitability of, 299 European, 323 fee-based business and, 300-1 global, 322 global systemically important, 332-3 international comparison of, 323-4 lending by, 299–300 as liquidity providers, 301-6 market integration and, 320 market structure and competition among, 326 - 30mergers and acquisitions of, 324-5 recovery and resolution following financial crises, 436-8 risk management models and, 309-17 semi-international, 323 stock markets as complements to, 26 super-regional, 332 Banque de France, 212 Banque Populare Caisse d'Epargne, 463 Barclays, 322, 331 bargaining power, of institutional investors, 263 Barings, 312 Basel Committee on Banking Supervision (BCBS), 96, 97, 386 Basel I Accord, 97, 386, 390 Basel II Accord, 97, 386, 429 Basel III Accord, 97, 386-91 criticisms of, 394-5 minimum capital requirements under, 387 structure of, 387

BATS (Better Alternative Trading System), 167 BBVA, 322 Bear Stearns, 61 bailout of, 63 bid-ask spread, 146 Big Bang, 401 big data, definition of, 237 biotechnology revolution, 255 bitcoin, 242, 244 BlackRock, 270 blockchain, 243 definition of, 237 BNP Paribas, 64, 314, 323, 325, 332, 371 BNP Paribas Cardif, 372 bond markets, 148, 155-66 corporate bonds and, 161-6 government debt management and, 158 integration of, 191 securitised instruments and, 165-6 size of, 148 transparency in, 164 bonds convertible, contingent, 163 corporate, 161-6 covered 156 definition of, 155 government, 156-61 issuers of, 156 Booking.com, 219 Borsa Italiana, takeover by London Stock Exchange, 167 Boxing Day tsunami of 2004, 342 Bradford & Bingley, government takeover of mortgages of, 64 Brexit, 81-3 brokers, 145 business cvcle bank runs and, 55 divergence from financial cycle, 56 moderation of, 25 Caisse Centrale de Reassurance, 347 calendar-based forward guidance, 135 call markets, 147 Cameron, David, 82 capital economic, 309, 351 going concern, 387 gone concern, 388 capital account restrictions, measuring, 197 capital adequacy requirements, 96 Capital Asset Pricing Model (CAPM), 282, 284

capital buffers, in CRR/CRD IV, 391 capital conservation buffer, 391

More Information

479

Index

capital flows, measuring, 197 Capital Markets Union (CMU), 84, 100-86 Capital Requirements Directive (CRD), 98 Capital Requirements Directive IV (CRD), 386 capital buffers in, 391 Capital Requirements Regulation (CRR), 223, 386 capital buffers in, 391 Capital Requirements Regulation/Capital Requirements Directive (CRR/CRD) IV, macroprudential instruments under, 429-33 capital requirements, regulation under Basel III. 394 cardholders, in card-based payment systems, 209 card payments, 205, 207, 208, 209-11 Carlyle Group, 274 cartels, 457 cash demand for, 208 as means of payment, 205, 206, 208 cat bonds, 348 Cecchini Report, 83 central banks communication by, 128-32 monetary policy committees of, 110 Central Counterparties (CCPs), 214, 223-5 Central Securities Depositories (CSDs), 225 cheques, as means of payment, 205 Chinese banks, 324 Chinn-Ito index, 197 Chi-X Europe, 167 Chubb, 360 Citicorp, 371 Citigroup, 371 claim ratio, 340 Clayton Act, 473 closed-end funds, 247 co-decision procedure, of European Parliament, 86 Code for Conduct Fundamentals for Credit Rating Agencies, 10 collateralised debt obligations (CDOs), 31, 33 financial fragility and, 253-4 collective action, as driver of financial integration, 185 collective defined contribution funds, 264 collusion, 455 commercial integration, financial conglomerates and, 369 Commerzbank, 323, 325, 463 Community Competition Law, 471 competition assessing, 454 in banking, 456 in banking markets, 328 as driver of financial integration, 183

workable, 454 competition policy, 16, 450-74 antitrust and, 457-9 definition of, 451-2 dominant position assessment and, 464-70 economic rationale for, 452-7 enforcement of, 470 institutional structure and, 470-2 liberalisation of monopolistic economic sectors and state aid and, 461-4 merger examination and, 459-60 pillars of, 457-64 competitiveness, diverging, euro crisis and, 72 complete ERPT, 177 conditionality, 67 conduct-of-business supervision, 401-9 of market functioning, 407-9 retail customer protection and, 402-6 consultation procedure, of European Parliament, 86 contagion, 15 macroprudential analysis and, 425 contestability theory, 329 contingent convertible bonds (CoCos), 163 continuous auction markets, 147 Continuous Linked Settlement (CLS), 212 contract enforcement, 15 convergence criteria, 91 cooperation procedure, of European Parliament, 86 corporate bonds, 161-6 corporate governance, 20-4 of bank-based system vs. market-based systems, 20-4 in EU Member States, 21 Corporate Sector Purchase Programme (CSPP), 138 correspondent banking payments, 211 Council of the European Union, 86 countercyclical buffer, 391 countercyclical capital buffer, 429 counterparties, 336 CCPs, 214 country risk, 385 Covered Bond Purchase Programme (CBPP), 124, 138 covered bonds, 156, 163 Crédit Agricole, 323, 372 Crédit Agricole Assurances, 372 credit cards, 205 credit channel, monetary policy transmission through, 118 credit default swaps (CDSs), 32, 175-249 credit derivatives, 170-6

480

Index

credit enhancement, 61 credit provisions, innovations in, 238 credit rating agencies (CRAs), 9-308 criticism of, 10 governance of, 11 securitisation and, 59 credit ratings definition of, 9 expression of, 9 credit risk, 160, 311, 352, 385 assessment of, 250 credit ratings and, 9 credit scoring, 250 credit spread, 175 Credit Suisse, 322, 371 credit transfers, 205 cross-border insurance, 360 cross-border penetration, 317 cryptocurrencies, 242-7 definition of, 237 functioning of financial system and, 244 shortcomings of, 244 cryptography, definition of, 237 currencies pegged, 176 currency appreciation/depreciation, 176 currency crises, 42 currency swaps, 249 current account imbalances, euro crisis and, 70 Cyprus, bailout of, 68 Cyprus Popular Bank (Laiki), 69 Danske Bank, 323 Daria (storm), 342 Darling, Alistair, 306 data-driven supervision, 414 deadweight loss, 454 dealer markets, 146 dealers, 145 debit cards, 205 debt management offices (DMOs), 159 deductibles, 349 defined benefit funds, 264 defined contribution (DC) funds, 264 de Larosière, Jacques, 411 de Larosière Report, 411 delegated acts, 87 deleveraging financial crises and, 56 financial crisis of 2007-2009 and, 62 Delors, Jacques, 83 Delors Report, 83, 89

demand-side factors, growth of institutional investment and, 285-6 demographics, growth of institutional investment and, 281 dependency ratio, 282 Deposit Guarantee Scheme Directive, 100 Deposit Guarantee Schemes (DGSs), 446 deregulation, growth of institutional investment and, 278 derivatives, 248 institutional 'investors' use of, 263 risk sharing and, 251 derivatives market, 148, 170-6 credit derivatives and, 170-6 growth of, 60, 171 Deutsche Bank, 315, 322 Deutsche Börse, 460 Deutsche Bundesbank, 212 Deutsche Terminbörse (DTB), 173 Dexia, recapitalisation of, 64 diabolic loop, 73-5 direct debit, 205 direct finance, 5 Directive on Consumer Credit, 405 Directive on Liberalisation of Capital Flows, 96 Directive on Markets in Financial Instruments (MiFID II), 223, 404 directives, 87 direct writing, 340, 366 disintermediation, 26 distributed ledger technologies, 237, 242-7 diversification financial conglomeration and, 369, 370 international, by institutional investors, 285-9 domestic banks, 323 doom loop, 73-5 Dresdner Bank, 325 dual mandate, 111 duration, of asset or liability, 352 duty of care, retail customer protection and, 403 EBA Clearing, 221 Ecofins, 86 economic analysis, ECB's approach to monetary policy and, 114, 115 Economic and Monetary Union (EMU), 84, 90 Economic Bulletin, 130, 132 economic capital, 309, 351 economic development, financial system and, 7,24-6 economic growth financial innovation and, 254

financial integration and, 194–9 inflation and, 111

Delphic forward guidance, 135

Index

AOTE IIIOTIIIatiOII

481

economies of scale, financial infrastructures and, 215 economies of scope, financial infrastructures and, 215 effective lower bound (ELB), 133 efficiency hypothesis, 329 efficiency, of institutional investors, 262 efficient frontier, 283 Emergency Liquidity Assistance (ELA), 446 endowments theory, 29 Enhanced Credit Support, 122-4 EONIA, 152, 185 EONIA Panel, 119 equilibria, multiple, banking crises and, 52 equity markets, 148, 166-92 collateralised debt and equity vs., 150 as complement to banks, 26 consolidation of, 166-9 initial public offerings and, 169-71 integration of, 192 size of, 148 **ESTER**, 153 EUREPO, 153, 185 **EUREX**, 173 EURIBOR, 152, 185 EURO 1,212, 221 euro, adoption as single currency, 91 euro-area bias, 287 euro area, financial supervision in, 415 euro crisis, 64-9 causes of, 69-76 current account imbalances and, 70 diverging competitiveness and, 72 diverging financial cycles and, 71-2 doom loop and, 73-5 policy reactions to, 75 euro exchange rate, 176 euro money market, 150 interest rates for, 152-3 secured and unsecured segments of, 151 turnover in. 154 Euronext, 148 creation of, 167 merger with New York Stock Exchange, 167 European Alternative Investment Fund (AIF) Managers Directive, 274 European Atomic Energy Community (Euratom), 83 European Banking Authority (EBA), 411 stress testing by, 316 European banks, 323 European Central Bank (ECB), 107-13 communications policy of, 132-3 financial supervision by, 412-14

objectives of, 110-13 response to euro crisis, 67, 69 stress testing by, 316 structure of, 107-9 European Coal and Steel Community (ECSC), 81 European Commission, 85 European Community, 81 European Competition Network (ECN), 472 European Council, 86 European Economic Community (EEC), 83, 84 European financial integration, 81-104 approaches to, 85 of bond markets, 191 consequences of, 194-9 coordination of fiscal and economic policies and, 92-5 drivers of, 183-6 dynamics of, 87 economic growth and, 197 of equity markets, 192 financial, 95-102 of financial market infrastructures, 219-26 institutions and, 87-8 internal market programme and, 95-6 legal instruments and, 87-8 monetary, 88-92 of money markets, 189 risk sharing and, 195 European financial markets bond, 155-66 derivatives and, 170-6 foreign exchange, 176-8 money market, 150-5 European Financial Stabilisation Mechanism (EFSM), 66 European Financial Stability Facility (EFSF), 66 European Insurance and Occupational Pensions Authority (EIOPA), 411 European insurance system, 358-69 insurance markets across Europe and, 358-62 international outlook of, 366-9 market structure and, 363-6 portfolios and, 362-3 European Market Infrastructure Regulation (EMIR), 223 European Monetary System (EMS) creation of, 89 financial crisis and, 45 European Monetary Union (EMU), 89 European Money Markets Institute (EMMI), 153 European Options Exchange, 172 European Parliament (EP), 85, 86 European People's Party (EPP), 85

482

Index

European Securities and Markets Authority (ESMA), 11, 411 European Stability Mechanism (ESM), 68, 100 creation of, 75 European Supervisory Authorities (ESAs), 411-12 European Systemic Risk Board (ESRB), 107, 434-5 European Union (EU) antitrust policy in, 473 Brexit and, 81-3 credit rating regulation by, 11 financial supervision in, 415 organisational structure of, 83 origins of, 81 treaties and, 83, 84 Eurosystem, 107 responsibilities of, 214 Excessive Deficit Procedure (EDP), 93 excess-of-loss re-insurance, 344 exchange rate channel, monetary policy transmission through, 118 Exchange Rate Mechanism (ERM), 43, 45, 89 exchange-rate pass-through (ERPT), 177 exchange rate, real, 178 exchange traded funds (ETFs), 232, 248 exclusionary behaviour, 457 Executive Board, of ECB, 108 expectations channel, monetary policy transmission through, 118 externalities, government intervention and, 380, 381 Fannie Mae, nationalisation of, 63 Fazio, Antonio, 460 Federal Reserve System forward guidance used by, 136 subprime mortgage crisis and, 306 Fedwire, 212 fee-earning activities, of banks, 300-1 financial conglomerates, 369-73 commercial integration and, 369 financial integration and, 369 functional vs. geographical diversification and, 370 operational integration and, 370 financial crises, 41-77 causes of, 69-76 European Monetary System crisis, 44 financial instability hypothesis of, 55-7 incidence of, 43 indicators for, 49 macroprudential supervision and, 436-46 theoretical models for, 50-7 by type and sequencing, 48 financial crisis of 2007-2009, 46, 57-64

divestment and, 371 securitisation and, 59-64 state aid to banks and, 436, 461, 464 US housing market bubble and, 57-64 financial cycles business cycle divergence from, 56 diverging, euro crisis and, 71-2 financial fragility, financial innovation and, 249-55 financial guarantee insurance, 60 financial infrastructures, 5, 202-26 integration of, 219-26 financial innovation, 230-56 cryptocurrencies and distributed ledger technologies as, 242-7 differences from other types of new product development, 231 drivers of, 231-5 financial fragility due to, 249-55 FinTech and, 236-42 long-run economic growth and, 254 pros and cons of, 249-55 regulation and, 232, 236, 239 in savings and investments, 247-8 financial instability, business cycle and, 55-7 financial instability hypothesis of financial crises, information problems and, 57 financial institutions government ensurance of soundness of, 15 monitoring by, 23 TBTF, 427-8 financial integration, 182-200 definition of, 183 drivers of, 183-6 economic growth and, 194-9 financial conglomerates and, 369 financial stability and, 196 measuring, 186-9 national financial supervision and, 410 financial intermediaries, 5 reduction of information asymmetry by, 9-11 reduction of participation costs by, 26 regulation under Basel III, 394 trading, diversification, and management of risk by, 12-14 financial intermediation alteration of mode of, 33 non-bank, 34 financial liberalisation, 17 financial markets, 5, 144-79 call, 147 continuous auction, 147 functions of, 144-50 hybrid, 147-8 impact of central bank communications on, 133

483

Index

order-driven (auction), 147 over-the-counter, 148 overview of, 148-50 participants in, 145 primary, 148 quote-driven (dealer), 146 secondary, 148 trading mechanisms and, 146 transparency in, 164 financial reform, political economy of, 17 Financial Services Action Plan (FSAP), 84, 97-8, 186 financial stability financial integration and, 196 macroprudential supervision and, 424-9 supranational mandate for, 442-3 Financial Stability Board (FSB), 16, 436 Financial Stability Oversight Council (FSOC), 435 - 6financial supervision, 409-18 BU and, 412-14 challenges for, 414-16 data-driven, 414 by ECB, 412-14 ESAs and, 411–12 in EU vs. euro area, 415 expectations and demands of, 417 national, drawbacks of, 409-11 regulatory capture and, 418 financial system, 3-37 corporate governance and, 20-4 economic development and, 7, 24-6 facilitation of trading, diversification, and management of risk by, 12-14 foreign participants in, 16-17 functioning of, 5 global, 34 government actions required for, 15-16 government regulation of, 15-16 growth of, 59 legal systems and, 27-9 loss spiral for, 62 overview of, 4-7 pro-cyclicality of, 56 reduction of information asymmetry by, 9-11 reduction of transaction costs by, 11 types of, 24-6 financial trilemma, 441 Finansinspektionen, 225 fine tune operations (FTOs), 121, 122 FinTech, 236-42 classification of 240 efficiency improvements due to, 236-42 First Banking Directive, 95

Fitch Ratings, 9 fixed-rate full allotment, 124 flood insurance, 346 forbearance, prompt corrective action vs., 385 foreign asset acceptance ratio, 287 foreign exchange markets, 148, 176-8 foreign participants, 16-17 Forsta Sparbanken, 49 Fortis, 325 bailout of, 64 forward contracts, 172 forward guidance, 133-6 forward transactions, 176 four-party payment scheme, 210 Freddie Mac, nationalisation of, 63 free-rider problem, 20 Fukushima nuclear plant accident, 342 fully supported conduits, 61 funded securitisation, 165 funding liquidity, financial crisis of 2007-2009 and, 61 funds of hedge funds, 273 futures contracts, 172 General Council, of ECB, 108 Generali, 360 Giscard d'Estaing, Valéry, 89 global insurance companies, 360 global systemically important banks (G-SIBs), 332-5 global systemically important insurers (G-SIIs), 369, 431 global systemic institution buffer, 391 going concern capital, 387 Goldman Sachs, conversion to commercial bank, 63 gone concern capital, 388 Gota Bank, 49 Governing Council, of ECB, 107, 109 government competition policy and, 16 failure of, government intervention and, 382-3 well-functioning financial system and, 15-16 government bonds, 156-61 issuance of, 156-9 yields of, 157-61 Government Metrics International (GMI) ratings, 21 Great Recession, 46, 124 Greece euro crisis and, 64-6 second rescue package required by, 68 Grexit, 68 Groupe BPCE, 323, 463

484

Index

Harmonised Index of Consumer Prices (HICP), 110 HBOS, 325 hedge funds, 248, 270-4 funds of, 273 global market in, 273 Herfindahl Index, 328 hold-up problem, 20 home bias, 189, 286-94 evidence on, 288-92 explanation of, 292-4 home-country control, 95, 384 home equity insurance, 249 horizontal agreements, 459 housing market bubble, in US, 57-64 HSBC, 322, 331 H-statistic, 455 hub-and-spoke model hub functions and, 355-6 spoke functions and, 356 Hurricane Harvey, 342 Hurricane Irma, 342 Hurricane Katrina, 342 Hurricane Maria, 342 Hurricane Sandy, 342 hybrid markets, 147-8 Hypo Real Estate, 463 secured-credit facility received by, 64 HypoVereinsbank, 325 Iceland, nationalisation of banking system in, 64 implementing acts, 87 inaction bias, supervisory independence and, 383 indirect finance, 5 inflation, 111-13 measurement bias in, 112 inflation targeting, 115 information asymmetry, reduction by financial intermediaries, 9-11 information technology revolution, 255 ING Bank, 323, 332, 371 initial public offerings (IPOs), 169-71 insider trading rules, 407 institutional investors, 261-95 assets of, 265, 280 definition of, 262 differences among, 275-6 drivers of growth of, 278 functions of, 264-76 growth of, 276-82 hedge funds, 270-4 home bias and, 286-94 insurance companies, 268 international diversification and, 285-6

mutual funds, 268-70 in new EU member states, 278 pension funds, 264-8 portfolio theory and, 282-3 private equity investors, 274-5 re-intermediation and, 276-8 types of, 264-76 insurance asymmetric information and, 348-50 claim ratio and, 340 compulsory, 351 cross-border, 360 deductibles and, 349 direct writing and, 340 expense ratio and, 340 financial guarantee, 60 flood, 346 home equity, 249 Insurance Mediation Directive and, 98 life, 339 non-life, 339, 358 re-insurance and, 344-8 securitisation of risk as alternative to, 348 small claims, mathematics of, 342 small vs. large claims, 339-44 underwriting cycle and, 353 insurance cycle, 353 Insurance Distribution Directive, 405 Insurance Mediation Directive, 98 insurance penetration, European, 358 insurers, 268 Asian-Pacific, 368 assets of, 269 competition among, 365 global, 360 life, 268, 365 limited-liability, 363 mutual, 363 non-life, 268, 365 profitability assessment of, 340 risk management model use by, 351-8 integrated financial markets, 183 interchange fees, 210, 219 interest channel, monetary policy transmission through, 118 interest rate risk, 385 interest rate swaps, 172, 249 interest rates euro crisis and, 69 for euro money market, 152-3 intergovernmental approach, to financial integration, 85 internal finance, 6

International Accounting Standards

485

Index

(IAS), 409 International Financial Reporting Standards (IFRS), 409 International Monetary Fund (IMF), support for Greece from, 67 International Organisation of Securities Commissions (IOSCO), Code for Conduct Fundamentals for Credit Rating Agencies of, 11 International Swaps and Derivatives Association (ISDA), 173 Internet, 235 Intesa Sanpaolo, 323 Investment Services Directive (ISD), 404 Ireland, euro crisis and, 67 Irish Nationwide Building Society, 462 issuers, in card-based payment systems, 209 Joint Supervisory Teams (JSTs), 413 JPMorgan Chase, 63, 315, 332 judicial settlements, as operational risk, 314 Juncker, Jean-Claude, 85 KBC 323 Kerviel, Jerome, 313 King, Mervyn, 306 Landesbank Hessen-Thuringen, 463 Landesbank WestLB, 462 large exposure requirements, 431 Leeson, Nick, 312 legal instruments, 87-8 legal risk, 386 legal systems, financial systems and, 27-9 Lehman Brothers, failure of, 63, 123 lending, direct vs. intermediated, 308 Lerner Index (LI), 328, 454 leverage ratio (LR), 393, 430 of LTCM, 272 Libor fraud, 314 life insurance companies, 268, 365 limit order, 147 limited-liability insurance companies, 363 liquidity, 160 banks as providers of, 301-6 ECB measures to enhance, 122-5 of ETF shares, 248 management of, by banks, 304-6 market, 62, 315 risk reduction and, 12 transparency in financial markets and, 164 liquidity buffers, 430 liquidity coverage ratio (LCR), 393

liquidity crisis, financial crisis of 2007-2009 and, 61 liquidity enhancement, 61 liquidity risk, 315, 385 credit ratings and, 9 Lithuania, adoption of euro, 91 Lloyds Banking Group, 360, 463 Lloyds-HBOS, government stake in, 64 Lloyds TSB, 325 loans by banks, 299-300 loan-to-income (LTI) ratio, 430 loan-to-value (LTV) ratio, 430 lock-in effects, 455 London International Financial Futures and Options Exchange (LIFFE), 172 London Stock Exchange Group, 460 London Stock Exchange (LSE), 148, 167, 401 longer-term refinancing operations (LTROs), 121, 122 longevity risk, 352 Long-Term Capital Management (LTCM) crisis, 272 Lothar (storm), 342 Maastricht Treaty on European Union (TEU), 83, 84.90 machine learning, definition of, 237 Macroeconomic Imbalance Procedure (MIP), 94 macroprudential supervision, 423-47 bank recovery and resolution and, 436-8 crisis management and resolution and, 436-46 DGSs and, 446 ELA and, 446 ESRB and, 434-5 financial stability and, 424-9 financial trilemma and, 441 FSB and, 436 FSOC and, 435-6 instruments of, 429-33 Member States and SSM and, 434 microprudential supervision vs., 424-5 pillars of, 426 resolution tools and, 440 risk assessments and, 425-6 in single-country settings, 441-2 solutions to coordination problem and, 442-6 SRM and, 438-40 stress testing and, 428-9 systemically important financial institutions and, 427-8 use and effectiveness of measures for, 432-3 main refinancing operations (MROs), 121, 152

486

Index

Major, John, 91 mandatory information provisions, 402 margin calls, 305 Market Abuse Regulation, 408 market-based systems, bank-based systems vs., 5, 17 - 29market concentration in banking markets, 328, 329 competitiveness and, 468 market dominance abuse of 468 assessment of, 464-70 market definition and, 465 response to, 469-70 market failure, government intervention and, 380 - 2market forces, as driver of financial integration, 183 market liquidity, 315 financial crisis of 2007-2009 and, 62 market manipulation rules, 407 market order, 147 market power, 453 government intervention and, 380, 382 welfare effects of 453 market risk, 311, 352, 385 credit ratings and, 9 Markets in Financial Instruments Directive (MiFID), 97, 404, 408 MasterCard, 458 May, Theresa, 82 merchant fees, 211, 219 merchants, in card-based payment systems, 209 Merger Regulation, 459 mergers and acquisitions of banks, domestic and cross-border, 324-5 of banks, economics and performance of, 326 examination of, competition policy and, 459-60 friendly, 22 of insurance companies, 363 Merrill Lynch, Bank of America's purchase of, 63 microprudential supervision, macroprudential supervision vs., 424-5 microprudential supervision of banks, 384-95 Basel III and, 386-94 capital buffers in CRR/CRD IV and, 391 forbearance vs. prompt corrective action and, 385 liquidity measures and, 393 risk-weighted capital ratios and, 390-3 stages of, 384 microprudential supervision of insurers, 395-401 minimum capital requirement (MCR), under Solvency II, 398 minimum harmonisation, 96

minimum requirement for own funds and eligible liabilities (MREL) targets, 443 minimum standards, 384 model risk, 316 monetary analysis, ECB's approach to monetary policy and, 116 monetary integration, 88-92 monetary policy pre-emptive approach to, 117 transmission of, 118 monetary policy of the ECB, 106-37 communication policies and, 128-33 conventional instruments for, 116-22 euro money market and, 151 forward guidance and, 133-6 inflation and, 111-13 interest rates and, 117-20 open market operations and, 120-2 quantitative easing and, 127-30 role of euro-dollar exchange rate in, 177 strategy of, 113-17 unconventional, 122-30 money creation, by banks, 301-3 money market, 148 money market funds (MMFs), 247 financial fragility and, 252 uncertainty about, 63 money markets, integration of, 189 monitoring, by banks, 306-9 monolines, 60 monopoly definition of, 452 monopoly power, 453 Monthly Bulletin, 132 Moody's Investors Service, 9 moral hazard, 8, 57 government intervention and, 381 government involvement in insurance and, 344 insurance and, 348 Morgan Stanley, conversion to commercial bank, 63 mortgage-backed securities (MBSs), 33 MSCI (Morgan Stanley Capital International) Europe Index, 283 MSCI (Morgan Stanley Capital International) USA Index, 283 multilateral interchange fees (MIFs), 458 mutual funds, 247, 268-70 assets of, 271 mutual insurance companies, 363 mutual recognition, 384 Nasdaq Clearing, 225

Nasdaq, merger with OMX, 167 Nasdaq Nordic, creation of, 167

487

Index

national flexibility measures, 429 National Flood Insurance Program (NFIP), 347 natural monopoly, 453 Netflix, 219 Netherlands, flood insurance in, 347 net settlement system, 212 net stable funding ratio (NSFR), 394 network effects, 455 network externalities cryptocurrencies and, 244 financial infrastructures and, 217-19 New York Stock Exchange (NYSE), merger with Euronext, 167 non-life insurance companies, 268, 365 Nordbanken, 49 Nordea, 49, 325 Nordea Group, 323 Northern Rock, 51, 53, 306 notional amount, 175 Odyssean forward guidance, 135 off-balance-sheet vehicles, 61 OMX Nordic Exchange creation of, 167 merger with Nasdaq, 167 one-sided markets, 218 open-ended forward guidance, 135, 136 open-end funds, 247 open market operations of ECB, 120-2 euro money market and, 152 openness effect, home bias and, 293 operational integration, financial conglomerates and, 370 operational risk, 312-53, , 386 options, 172 order-driven markets, 147 organised exchanges, 172 other systemically important institutions buffer, 391 output floor, 388 Outright Monetary Transactions (OMTs), 69, 125, 126 - 7over-the-counter (OTC) markets, 148, 172, 173-4 **Own Funds Directive**, 96 partially supported conduits, 61 participation costs, reduction by financial intermediaries, 26 pass-through coefficient, 177 payment cards, 205, 207, 208, 209-11 payment schemes, 204 payments, definition of, 203

payment systems, 203-15 card-based, 209-11 definition of, 203 economic features of infrastruture of, 215-19 Eurosystem and, 214 post-trading services and, 212-14 retail, 203-9 wholesale, 211-12 peer-to-peer (P2P) lending, 238 pension funds, 264-8 assets of, 266 Pfandbriefe, 163 physical ETFs, 232, 248 Poisson process, 342 pooling, 11 pooling equilibrium, 349, 351 portfolio theory, 282-3 Portugal, assistance sought by, 67 post-trading services, 212-14 integration of, 222-6 predatory behaviour, 457 prepaid cards, 205 price-based indicators, of financial integration, 186, 187-9 price discovery as financial market function, 145 institutional investors and, 263 price fixing, 16 price stability, 111 as ECB's primary objective, 92, 110 inflation and, 111-13 primary markets, 148 principal-agent problem, 381 principal risk, 214 private equity funds, 248 private equity investors, 274-5 professionalism effect, home bias and, 293 profitability, of banks, drivers of, 299 prompt corrective action (PCA), forbearance vs., 385 proportional re-insurance, 344 prospectus, 407 Prospectus Regulation, 408 proxy contests, 23 Prudential, 360 prudential carve-outs, 460 prudent-person rules, 295 public action, as driver of financial integration, 186 public investors, 145 Public Sector Purchase Programme, 138 pull transactions, 204 push transactions, 204, 206

Qualifying Holdings Directive, 460 qualitative forward guidance, 135, 136

Payment Services Directive (PSD), 221

More Information

488

Index

quantitative easing (QE), 127-30 effectiveness of, 129 quantitative portfolio regulations, 295 quantity-based indicators, of financial integration, 187, 189 quote-driven markets, 146 railroads, expansion in United States, 254 RBS, 323 government stake in, 64 real estate-related instruments, 430 real exchange rate, 178 real-time gross settlement (RTGS) systems, 211 recourse, 61 RegTech, definition of, 237 regulation, 87 financial innovation and, 232, 236 growth of institutional investment and deregulation and, 278 purposes of, 15-16 rationale for, 380-3 regulatory capture and, 418 Regulation on Credit Rating Agencies, 11 Regulation on Markets in Financial Instruments (MiFIR), 404 Regulation on the Introduction of the Euro, 88 regulatory capture, 418 re-insurance, 344-8 excess-of-loss, 344 proportional, 344 re-intermediation, 276-8 repurchase agreements (repos), 34, 151 reputational risk, 386 required reserves, euro money market and, 151 retail payment systems, 203-9 components of, 204 core payment instruments and, 205 efficiency of, 205 innovations for, 238 process and, 204 Retriva, 49 reverse qualified majority voting (RQMV), 94 Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, 332 risk asset and liability management, 312 country, 385 credit, 311, 352, 385 interest rate, 385 legal, 386 liquidity, 315, 385 longevity, 352 market, 311, 352, 385 model, 316

operational, 312-53, , 386 principal, 214 reputational, 386 underwriting, 352 risk-adjusted return on capital (RAROC), 310, 351 risk assessment, macroprudential supervision and, 425 - 6risk aversion, financial crisis of 2007-2009 and, 62 risk management by banks, 309-17 centralisation of, 316-54 derivatives and, 171 drawbacks to using internal models of, 315-16 by financial intermediaries, 12-14 by insurers, 351-8 modern, 309-15 risk margin, 397 risk sharing financial innovations in, 248 financial integration and, 195 risk taking channel, monetary policy transmission through, 118 risk-weighted assets (RWAs), 387 risk-weighted capital ratio (RWCR), 387, 390-3 robo-advice, definition of, 237 Rothschild-Stiglitz model, 349 Royal Bank of Scotland, 325 Sanpaolo IMI, 325 Santander, 64, 323 Savings Directive, 98 Schmidt, Helmut, 89 seasoned equity offerings, 169 SEB Bank, 323 Second Banking Directive, 95 secondary markets, 148 secondary public offerings, 169 securities, 144 securities market economic features of infrastruture of, 215-19 Securities Markets Programme (SMP), 67, 124-7 securitisation, 13, 29-34, , 59-64 by banks, 301 collateralised debt obligations and, 31 credit default swaps and, 32 in Europe and United States, 166 funded, 165 off-balance-sheet vehicles and, 61 originate and distribute model and, 29 of risk, as alternative to insurance, 348 special purpose vehicles and, 31 of subprime mortgages, financial fragility and, 252 - 4synthetic, 165

Index

489

securitised instruments, 165 Securum, 49 separating equilibrium, 349, 350 settlement process, 214 shareholders' rights, protection of, 28-9 Sherman Act, 473 single banking licence, 95 Single Euro Payments Area (SEPA), 185, 220-2 Single European Act (SEA), 83, 84, 89 Single Market Initiative, 324 Single Resolution Board (SRB), 438-9 Single Resolution Fund (SRF), 438, 439 Single Resolution Mechanism (SRM), 99, 438-40 Single Supervisory Mechanism (SSM), 99, 412-34 small and medium-sized enterprises, 161 Small, but Significant Non-transitory Increase in Prices (SSNIP) methodology, 466-7 SNS Reaal, 371 socially responsible investing (SRI), 14 Société Générale (SocGen), 313, 323, 419 solvency capital requirement (SCR), under Solvency II, 397 Solvency Directive, 96 Solvency II Directive, 98, 395-401 criticisms of, 400-1 structure of, 395 sovereign debt Greek default on, potential consequences of, 64-6 regulation under Basel III, 395 sovereign debt crises, 42, 43, 50 Spain, external financing to support banks in, 68 special purpose vehicles (SPVs), 31, 301 spillover effects, 381 spot transactions, 176 Stability and Growth Pact (SGP), 93-4 reform of, 75 Standard Chartered, 322, 331 Standard & Poor's Ratings Services, 9 standing facilities, 152 state aid, 16 monitoring and control of, 461-4 state contingent ended forward guidance, 135 STEP2 platform, 221 stored value cards, 205 stress testing, 316, 428-9 structure-conduct-performance (SCP) paradigm, 328 structured investment vehicles, 61 subprime mortgages, 57-64 bank losses and, 305 securitisation of, financial fragility and, 252-4 sunk costs, 455

super-regional banks, 332 supervision rationale for, 380-3 supervisory independence and, 383 Supervisory Board, 414 supply-side factors, growth of institutional investment and, 278-81 supranational approach, to financial integration, 85 sustainability, finance's role in accelerating transition towards, 13 Svenska Handelsbanken, 323 swaps, 249 Sweden, banking crisis in, 50 switching costs, 219, 455 synthetic ETFs, 232, 248 synthetic securitisation, 165 systemically important financial institutions (SIFIs), 427-8 capital surcharge for, 431, 432 identification of, 427 systemic banking crises, 42, 44-8 aftermath of, 48 systemic risk buffer, 392, 432 takeover bids, 23 TARGET, 185, 186, 225 targeted long-term refinancing operations (TLTROs), 127 TARGET2 (Trans-European Automated Real-Time Gross Settlement Express Transfer System), 211 term premium, 157 term spread, 160 terrorist attacks of 9/11/2001, 342 Third Insurance directives, 96 three-party payment scheme, 210 threshold-based ended forward guidance, 135 time contingent forward guidance, 135 TIPS (TARGET Instant Payment Settlement), 221 too big to fail (TBTF) institutions, 427-8 trading mechanisms, 146 transaction costs, reduction by financial system, 11 transaction platforms, 219 transparency of central banks, 133 conduct-of-business rules and, 402 in financial markets, 164 financial supervision and, 415-16 retail customer protection and, 402 of trading, 407 Transparency Directive, 409 Travelers, 371 Treaty of Amsterdam, 84

490

Index

Treaty of Lisbon, 84, 87 Treaty of Nice, 84 Treaty of Rome, 83, 84, 88, 95 Treaty on European Union, 110 Treaty on the Functioning of the European Union (TFEU), 16, 84, 452 antitrust provisions of, 457–9 assessment of dominant positions under, 464 liberalisation of monopolistic economic sectors and state aid and, 461–4 price stability and, 92 T2S, 225 two-sided markets, 218 tying, 457 Uber, 219

UBS, 322 Undertakings for Collective Investments in Transferable Securities (UCITS), 405 underwriting cycle, 353 underwriting risk, 352 UniCredit, 323, 325, 332 United States antitrust policy in, 473 housing market bubble in, 57–64 railroad expansion in, 254

value at risk (VaR) methodology, 313 Vanguard, 270 Veneto Banca, 445 venture capital funds, 248 vertical agreements, 459 Visa, 458 Vivat, 372

Wachovia, sale to Citigroup, 64 Washington Mutual, sale to JPMorgan Chase, 64 welfare loss, 454 Werner Committee, 88 Werner, Pierre, 88 Werner Report, 88 wholesale payment systems, 211–12 winner's curse, 164 Winterthur, 371 workable competition, 454

Zurich, 360