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
Adyen, 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
acquirers, in card-based payment systems, 209
artificial intelligence, definition of, 237
Asian-Pacific banks, 323
asset 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, 330–3
consolidation within, 332
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,
326–30
mergers 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
Bargings, 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 cycle
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
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
c o-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
anittrust 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
coordination procedure, of European Parliament, 86
corporate bonds, 161–6
corporate governance, 20–4
do banking-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
counter cyclical 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
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
Delphi forward guidance, 135
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
Deutshe 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 conglomerates 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
Ecofin, 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
Index

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

enhanced credit support, 122–4

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

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
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, 413
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
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, 49
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
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), 16–17
Financial Supervision, 410–24
BY 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 triennium, 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
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
interest channel, monetary policy transmission through, 118
interest rate, 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 (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 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, 428
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
stressing the banking sector and, 438–40
systemically important financial institutions and, 427–8
use and effectiveness of measures for, 432–3
main refinancing operations (MROs), 121, 152
Major, John, 91
mandatory information provisions, 402
margin calls, 305
Market Abuse Regulation, 408
market-based systems, bank-based systems vs., 5, 17–29
market 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, 380–2
market 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, 382
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
mutual 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
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,
126–7
over-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 Services Directive (PSD), 221
payment systems, 203–15
card-based, 209–11
definition of, 203
economic features of infrastructure 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
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
  government stake in, 64
real estate-related instruments, 430
  real exchange rate, 178
real-time gross settlement (RTGS) systems, 211
reinsurance, 344
  excess-of-loss, 344
  proportional, 344
re-intermediation, 276–8
repurchase agreements (repos), 34, 151
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,
  425–6
  risk aversion, financial crisis of 2007–2009 and, 62
  risk management
    by banks, 309–17
    centralisation of, 316–54
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 (RWCRI), 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
  market
    economic features of infrastructure of, 215–19
  Securities Markets Programme (SMP), 67, 124–7
  securitisation, 13, 29–34, , 59–64
    by banks, 301
collateralised debt obligations and, 31
defined, 32
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
  of special purpose vehicles and, 31
  of subprime mortgages, financial fragility and,
  252–4
  synthetic, 165
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 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
| Treaty of Lisbon, 84, 87 | housing market bubble in, 57–64 |
| Treaty of Nice, 84 | railroad expansion in, 254 |
| Treaty of Rome, 83, 84, 88, 95 | value at risk (VaR) methodology, 313 |
| Treaty on European Union, 110 | Vanguard, 270 |
| Treaty on the Functioning of the European Union (TFEU), 16, 84, 452 | Veneto Banca, 445 |
| antitrust provisions of, 457–9 | venture capital funds, 248 |
| assessment of dominant positions under, 464 | vertical agreements, 459 |
| liberalisation of monopolistic economic sectors and state aid and, 461–4 | Visa, 458 |
| price stability and, 92 | Vivat, 372 |
| T2S, 225 | Wachovia, sale to Citigroup, 64 |
| two-sided markets, 218 | Washington Mutual, sale to JPMorgan Chase, 64 |
| tying, 457 | welfare loss, 454 |
| Uber, 219 | Werner Committee, 88 |
| UBS, 322 | Werner, Pierre, 88 |
| Undertakings for Collective Investments in Transferable Securities (UCITS), 405 | Werner Report, 88 |
| underwriting cycle, 353 | wholesale payment systems, 211–12 |
| underwriting risk, 352 | winner’s curse, 164 |
| UniCredit, 323, 325, 332 | Winterthur, 371 |
| United States antitrust policy in, 473 | workable competition, 454 |
| Zurich, 360 |