



**Anne le LORIER**  
**Deputy Governor, Banque de France**

***Regulating non-banks: ways forward and challenges ahead***

Dear Ladies and Gentlemen, Dear Colleagues and Friends,

On behalf of the Banque de France and of the ACPR, I would first like to thank very much the speakers and the participants in today's conference for the quality of their presentations. Indeed, they helped us to have insightful debates on the on-going efforts made to prevent systemic crisis as much as possible, strengthen the global financial system and its resilience i.e. its capacity to withstand systemic shocks.

As illustrated today, this is not an easy task and the global regulators are facing many challenges in shooting at a moving target: the financial system not only adapts, but also transforms itself and anticipates regulatory changes, sometimes constructively, sometimes less, thereby continuously modifying the sources, the channels and the shape of systemic risks. Regulation itself can be ill-designed, too narrowly focused or can generate unintended consequences.

There is no doubt that tremendous efforts have been made in the wake of the financial crisis to reach our objective of financial stability, providing the policy-makers with additional tools to build-in robustness into the global financial system, increase the loss absorption capacity of financial institutions and infrastructures, and limit the scope for contagion while new approaches to prevent systemic risk have been developed, namely macroprudential policies.



However, due to the magnitude of the task, its difficulty and its complexity, global regulators had to proceed with a sequential approach, starting by the banking system where their know-how was the best, and expanding gradually a framework to the rest of the financial system in concentric circles. As a consequence, we are currently facing three challenges that I would like to focus on: keeping the momentum for reforms, allowing for the diversity and ensuring the robustness of the global financial system.

### ***1/ Keeping the momentum***

After such a long and intense conference day, you might already feel a sentiment of regulatory fatigue! Consequently, you might appreciate the feeling of regulators and financial intermediaries after more than 8 years of intense regulatory developments and debates! And yet, the latter are not completed nor their implementation! Banking regulation, which is almost complete now, will only come into force in 2018-2019, even though it has already been largely factored in by markets and banking institutions. But regulation is still under development for the rest of the financial system. Pressures increase from regulated entities, which complain about regulatory uncertainty, and from policy-makers, who are keen to foster economic recovery and growth after 8 years of low economic performances almost a lost decade! Keeping the momentum relates to three objectives:

- complete the regulatory agenda, in particular regarding what is named now as “market-based finance”, so as to effectively and comprehensively strengthen the financial system and remove regulatory uncertainty;
- make sure that the regulatory spectrum expands well beyond the sole banking sector so as to avoid unfair level playing field, regulatory arbitrage and a paradoxical outcome that is favoring and encouraging those who are still “in the shadows.” On top of that, keeping pace with the creativity of all players is no small challenge.



- devoting adequate resources and designing the proper organization of supervision which needs to be intrusive.

## ***2/ Preserving diversity***

While the objective of expanding the scope of regulation beyond the banking sector may require applying similar –though not identical- regulation to similar asset classes or risks, irrespective of the legal status of the intermediary bearing them, it must also be acknowledged that business models, accounting frameworks, liability structures, time horizons of decisions may differ across sectors and entities. In that respect, it can be argued that that “one size does not necessarily fit all” and that one should preserve and ensure diversity. This is especially the case in the financial system, where identical behaviors at the same critical moments, possibly due to identical regulations, may generate endogenous risk and amplification as in Professor Shin’s Millennium Bridge analogy. This reasoning applies not only to financial intermediaries but also to financial market infrastructures, where networks effects through interlinked Central Counterparties might actually amplify shocks. Keeping a systemic eye of financial intermediaries means that one should not look at them in isolation but rather consider both how their behaviors can propagate systemic risk in the financial system and how their failure can disrupt the provision of critical financial services to the real economy.

## ***3/ Increasing global robustness***

This latter point brings me to the issue of recovery and resolution of both financial intermediaries and market infrastructures. This is probably the key novelty in the regulatory framework that is emerging from the crisis. It serves both the objectives of preventing disorderly resolutions and of being a tool for effective and efficient crisis management. It encompasses both quantitative requirements, at this stage in the form of additional capital requirements for systemic banks and more



qualitative and strategic plans, designed at the level of systemic institutions. Discussions are well advanced for banks, still in their beginning for infrastructures, mostly to come for the others, as long as they will be considered as systemic players. This is the area where the issues probably are the more complex, having to deal with different legal and failure regimes, the recognition of foreign resolution authorities and powers and for regulators and supervisors, the need to strike the right balance between the appropriate degree of transparency for stakeholders and creditors and of discretion for supervisors, to prevent runs or self-fulfilling prophecies. This heavy agenda may keep us quite busy for some times, but it is a cornerstone to our overall objective of preserving global financial stability.

Encompassing all these endeavors, solving the tension between globalization, on the one hand, and differences between national or area wide regulatory framework, on the other hand are no small challenge.

A healthy debate between academics, regulators and all sectors of the financial industry - who are not the least vocal-, is very much needed. I hope that today's conference has been helpful in advancing this debate. Beyond debates, availability of data and access to these data by the various stakeholders will be key for making progress. Last but not least, concentration, increasing complexity, and the fact that some players are still very much out of the radar screen - such as hedge funds for instance- should keep everyone on their toes, in particular when assessing interconnectedness.

I thank you very much for your attention.