Legislative purposes – complexities

- Some countries (Australia, Canada) have an act establishing the regulator (e.g. APRA act) and other acts establishing the regulatory framework for classes of institution (e.g. Banking Act in Australia). Both may establish prudential objectives.
- In Ireland, the Central Bank is also responsible for consumer protection and market conduct: ie there is no Irish equivalent of FMA or MBIE's consumer protection function. This is reflected in their objectives.
- Some countries sampled have added systemic prudential purposes since 2006. RBNZ act always had reference to a sound 'financial system'.
- Some countries have different objectives for <u>crisis</u> management powers, sometimes added since GFC. In Europe, these typically include depositor protection as well as financial stability matters.

Banking regulation purposes in Australia

- The Banking Act contains general regulatory powers (Division 1) and ‘crisis’ powers (Division 2)
- General regulatory powers are for prudential matters, defined principally as keeping banks in a ‘sound financial position’ and not causing or promoting ‘instability’.
- Crisis powers are also for protection of depositors:

It is the duty of APRA to exercise its powers and functions under this Division for the protection of the depositors of the several ADIs and for the promotion of financial system stability in Australia.

- These purposes don’t seem to have changed since 2006. In contrast, APRA’s APRA act purpose (discussed below) has changed slightly.

Primary prudential objectives - sample

Country	Key Objective(s)
NZ	promoting the maintenance of a sound and efficient financial system; avoiding significant damage to the financial system that could result from the failure of a registered bank.
UK (Bank of England FPC)	protecting and enhancing the stability of the United Kingdom’s financial system
UK (Bank of England PRA)	promote the safety and soundness of the firms it regulates
Australia (APRA act)	promote financial system stability in Australia
Ireland (Bank of Ireland)	to ensure the stability of the financial system overall; to ensure the prudential regulation of financial institutions; and to ensure the protection of consumer interests*.

*Irish central bank is the consumer protection and market conduct regulator: ie no Irish equivalent of FMA or MBIE’s consumer protection function

Examples of balancing objectives

Country	Balancing considerations
NZ	“Efficiency” is part of primary objective – act also imposes obligation to conduct cost benefit analysis
UK (Bank of England FPC)	Give consideration to the economic policy of government including its objectives for economic growth and employment
UK (Bank of England PRA)	Act in a way that facilitates effective competition in relevant markets. Respect other stated principles (**see next slide**)
Australia (APRA)	Balance efficiency, competition, contestability and competitive neutrality
Ireland (pre-GFC)	Promote the development of the financial services industry in Ireland (repealed after GFC)

Full list of principles applying to objectives of UK PRA (and FCA)

(a)the need to use the resources of each regulator in the most efficient and economic way;

(b)the principle that a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction;

(c)the desirability of sustainable growth in the economy of the United Kingdom in the medium or long term;

(d)the general principle that consumers should take responsibility for their decisions;

(e)the responsibilities of the senior management of persons subject to requirements imposed by or under this Act, including those affecting consumers, in relation to compliance with those requirements;

(f)the desirability where appropriate of each regulator exercising its functions in a way that recognises differences in the nature of, and objectives of, businesses carried on by different persons subject to requirements imposed by or under this Act;

(g)the desirability in appropriate cases of each regulator publishing information relating to persons on whom requirements are imposed by or under this Act, or requiring such persons to publish information, as a means of contributing to the advancement by each regulator of its objectives;

(h)the principle that the regulators should exercise their functions as transparently as possible.

Known changes to prudential objectives since 2006 – more focus on system

Country	Change
Australia (APRA act)	In 2006, underlying objective of financial system stability introduced. (Before, objective was to balance “financial safety” and the other balancing considerations above)
UK	FSA objectives split across FCA (conduct regulator), PRA (Microprudential) and FPC (Macroprudential). FSA objective of “maintaining confidence in the financial system” split into FPC and PRA objectives shown above. Central role of Bank of England recognised (formerly was only tasked to ‘contribute’ to protecting financial stability).
Ireland	Financial Regulation integrated into Central Bank, with objectives including “stability of the financial system overall”
New Zealand	2007 review led to NBDT Act and IPSA. RBNZ part 5 objectives for banks retained (note existing systemic focus). Minister given additional involvement in interpretation (Govt Policy Statement, Statement of Intent review)

Crisis Objectives

- As noted earlier, some countries (often where the GFC caused severe stress) have since altered or established specific objectives for crisis management or resolution tools. For example, the European Commission’s BRRD established resolution objectives which were implemented by individual countries across the EU (UK example below).

Ensure the continuity of banking services and critical functions in the United Kingdom	Protect and enhance the stability of the UK financial system	Protect and enhance public confidence in the UK financial system's stability	Protect public funds, including by minimising reliance on extraordinary public financial support
Protect depositors and investors covered by relevant compensation schemes	Protect, where relevant, client assets	Avoid interfering with property rights, in contravention of the European Convention of Human Rights	