AUTORITÉ DES MARCHÉS FINANCIERS

09 octobre 2020

Discours de Robert Ophèle, président de l’AMF – Conférence annuelle 2020 de la CMVM (Comissao do Mercado de Valores Mobiliario) - « Financial stability – the perspective of the non-banking financial sector » - 8 octobre 2020 (en anglais uniquement)

Seul le prononcé fait foi

Many thanks to the CMVM and many thanks to you dear Gabriela for giving me the opportunity to share some thoughts with you on the threats posed by non-banks to financial stability.

The development of Non-bank financial intermediation has been very impressive after the great financial crisis, to a large extent it has been a substitute to bank financing which was somewhat restrained by the new Basel 3 regulation. Correspondingly, while there was a feeling that the robustness of the banking sector had been significantly enhanced by this new regulation, non-bank financial intermediation, once known as shadow banking, appeared more and more to be the weak, dangerous link of the financial sector.

For a long time, it was a rather theoretical discussion, but COVID-19 real-life stress provided some hard facts to discuss, and while highlighting the global soundness of the sector it also brought to light a number of targeted vulnerabilities.

One could easily advocate that the non-bank financial sector's resilience has been demonstrated throughout the March-April episode. Market infrastructures have remained open, receiving - with high levels of volatility - record volumes of equity trades with, for example, a peak of €11 billion daily on Euronext Paris, almost triple the usual volume; post-trade services performed their role: despite sharp price movements, which led to significant margin calls by CCPs, these calls were all honoured and clearing houses encountered no major difficulty, playing their role of shock absorbers.

Open-ended investment funds sometimes faced large redemption requests, but suspensions were rare and did not trigger any systemic spillovers. Furthermore, funds considered vulnerable in the stress simulations produced by the European Securities and Markets Authority (ESMA) and the European Systemic Risk Board (ESRB) did not face any of the problems feared.

But naïve optimism would be highly inappropriate. Some segments of the debt market just froze and resumed only after the decisive interventions from central banks; some segments of the MMF industry suffered from such high outflows that they were on the brink of being suspended. Suspension of MMFs, instruments which are perceived as cash equivalent, would have been a disaster with detrimental spillover effects throughout the whole financial sector.

The crisis has indeed highlighted both the high level of interconnectedness of the fund industry with all other financial institutions and just how complex its supervision could be. Complex indeed since we often have a management company licensed in one jurisdiction, but having registered its funds in other countries, their management delegated to other firms, and selling the funds worldwide, often as units of life insurance contracts.

I do believe that the March-April episode is a free warning that should trigger a review of our regulatory framework and of our supervisory approach.

In that perspective, let me share with you some preliminary proposals for the EU fund industry.

First, there is a disastrous lack of official data in the fund industry to allow a close monitoring of the sector at the European level. Each national competent authority has its own set of data but on top of suffering many gaps, especially on the fund holder side, these data are neither harmonized nor consolidated in the EU. Supervisors have too often had to rely on external, commercial sources to conduct their analysis. COVID-19 made us improve our approach: we collected and shared a lot in crisis mode within ESMA's or IOSCO's networks. Thank you Gabriela for having been instrumental as chair of the Investment Management Standing Committee of ESMA in order to improve data and fact sharing at the EU level. But we should obviously dramatically improve and industrialize our data collection. Supervisors should be in a position to monitor almost in real time the evolutions of every category of fund, their liquidity position and their recourse to any liquidity management tools.

Second, we should review the prudential framework and harmonize the regulation in order to have a fully-fledged Single rulebook in Europe.

For MMFs, liquidity ratios should be adapted to the crisis we have encountered with, possibly, a two-tier system, with a core requirement and, on top of it, a guidance that could be alleviated in times of crisis in order to play a countercyclical role. The scope of the prohibition of support to MMFs – which, by the way does not exist in the US – should be clarified if not reduced.

More generally, directives with minimum harmonisation should be replaced by regulations without national options. A comprehensive range of Liquidity Management Tools - swing pricing, anti-dilution levies, redemption notices, gates, side pockets… - should be available in all jurisdictions and we may want to go further and make these LMTs not just available on an optional basis but compulsory for some types of fund, with due mention of course in their prospectus. It is advisable to have a toolkit with all types of LMT to be able to adjust to every specific situation.

The responsibility of every supervisor should be fine-tuned in order to avoid overlapping remits and loopholes; one could in that respect imagine to have a lead supervisor designated in the home country of the asset manager. His role would obviously be facilitated by the harmonization mentioned. And finally the role of central bank would also need to be clarified. It would be prudent to understand ex ante what could be expected from central bank in case of systemic financial crisis, how access to central bank money could be organized for non bank institutions either indirectly through the banking system or directly as we have seen in the US.

As you may realize we have a heavy program on our agenda, ahead of us; non-bank intermediation is at the core of any financial market union and we still need to make considerable progress in order to achieve this in the EU.

Thank you for your attention.

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20 avril 2022

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