

# FINANCIAL REGULATION

A Transatlantic Perspective

Edited by

ESTER FAIA, ANDREAS HACKETHAL,  
MICHAEL HALIASSOS AND  
KATJA LANGENBUCHER



**CAMBRIDGE**  
UNIVERSITY PRESS

## CONTENTS

<i>List of figures</i>	page vii
<i>List of tables</i>	ix
<i>List of contributors</i>	x
<i>Foreword – Vítor Constâncio</i>	xii
<i>Editors' preface</i>	xxi
<i>Acknowledgements</i>	xxiv

### PART I Micro- and macro-prudential regulation 1

- 1 The road from micro-prudential to macro-prudential regulation  
ESTER FAIA AND ISABEL SCHNABEL 3
- 2 Lessons from the European financial crisis  
MARCO PAGANO 23
- 3 Bank stress tests as a policy tool: the European experience during the crisis  
ATHANASIOS ORPHANIDES 49
- 4 Monetary policy in a banking union  
TOBIAS LINZERT AND FRANK SMETS 61
- 5 Competition and state aid rules in the time of banking union  
IGNAZIO ANGELONI AND NIALLEN LENIHAN 89
- 6 Bail-in clauses  
JAN PIETER KRAHNEN AND LAURA MORETTI 125
- 7 Shadow resolutions as a no-no in a sound Banking Union  
LUCA ENRIQUES AND GERARD HERTIG 150
- 8 A political economy perspective on common supervision in the Eurozone  
TOBIAS H. TRÖGER 167

	<b>PART II Investor and borrower protection</b>	<b>193</b>
9	Keeping households out of financial trouble MICHAEL HALIASSOS	195
10	Financial market governance and consumer protection in the EU NIAMH MOLONEY	221
11	Financial advice ANDREAS HACKETHAL	245
12	U.S. financial regulation in the aftermath of the Global Financial Crisis HOWELL E. JACKSON	271
13	Risk aversion and financial crisis LUIGI GUISO	290
14	Household finance and the law – a case study on economic transplants KATJA LANGENBUCHER	313
	<i>Index</i>	336

## FIGURES

1.1	Transmission channels of systemic risk	5
2.1	Two-year moving correlation between bank sector monthly stock returns and 10-year domestic sovereign debt returns and domestic sovereign exposures of banks in the euro-area periphery	27
2.2	Two-year moving correlation between bank sector monthly stock returns and 10-year domestic sovereign debt returns and domestic sovereign exposures of banks in the euro-area core	28
2.3	Bank resolution in the US and EU	36
2.4	Average reduction in the funding costs of banks due to government guarantee (basis points)	37
2.5	Book leverage ratio versus regulatory capital ratio: median of top 20 EU banks	42
2.6	Correlation between the leverage ratio and the regulatory capital ratio for listed EU banks	43
2.7	Global banks' Tier-1 capital as percentage of risk-weighted assets in 2006	45
2.8	Global systemically important banks' leverage ratios in Q2-2013	46
3.1	Economic performance in the US and the euro area	50
3.2	Credit-crunch-induced recession in the euro area	56
3.3	Policy-induced credit crunch in the periphery	57
3.4	The impact of the policy-induced credit crunch	59
4.1	Lending of last resort to markets	71
4.2	Share of the Eurosystem in Euro Area MFI main liabilities	72
4.3	Lending of last resort to individual institutions: ELA	73
4.4	Challenges and risks of financial dominance	74
4.5	Lending of last resort in a banking union	79
8.1	ECB/NCA interplay within the SSM	177
8.2	ECB supervisory decision making	185

- 11.1 Portfolio return and risk profiles for 3,400 online broker clients  
(2003–2012) 247
- 11.2 Comparison of stated risk preferences and average actual  
portfolio risk 249
- 13.1 Share of highly risk-averse people in the Survey of Consumer  
Finances 304

## TABLES

4.1	The importance of banks for the ECB's monetary policy	65
8.1	Direct ECB supervisory competence according to SSM regulation	173
13.1	Evolution of the distribution of risk preferences among US households	303