Minister Jānis Reirs: Merging of the FCMC with the Bank of Latvia is a logical completion of the "capital repair" of the financial sector

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News

The Ministry of Finance (MoF) has submitted for the review to the meeting of the Cabinet of Ministers the assessment report prepared in cooperation with the Bank of Latvia and the Financial and Capital Market Commission (FCMC) on merging the FCMC with the Bank of Latvia. Risk-benefit analysis confirms that merging the FCMC with the Bank of Latvia is a meaningful step, because a public benefit is gained as a result thereof. At the same time, the identified risks are manageable, by implementing corresponding risk hedging measures, inter alia, appropriate allocation of rights and responsibilities.

The Minister for Finance Jānis Reirs specifies: "Merging the FCMC with the Bank of Latvia is a logical completion of the "capital repair" of the financial sector. Synergy of information and competencies will help to more comprehensively evaluate the risks in the financial institutions, enabling the adoption of more efficient, well-considered decisions oriented towards a particular problem. This will henceforth enable more effective monitoring and development of the financial sector. In the long term, the merger will also result in gaining potential saving of resources. It is planned that the joint Bank of Latvia would commence working in 2022 or 2023."

The assessment also entails the financial impact evaluation, characteristics of the decision-taking competencies, as well as the mechanisms of ensuring independence of monetary policy, macroprudential supervision policy, supervisory and resolution functions.

The Chairperson of the FCMC Santa Purgaile emphasises: "Implementation of the monetary policy and financial sector supervisory functions in a single institution is not a unique experience. There are several countries in Europe successfully implementing such model. The merger of the FCMC and the Bank of Latvia would result in more effective possibilities for facilitating financial stability and reducing systemic risks, ensuring more comprehensive view on changes in the financial and capital market, as well as more purposeful promotion of the financial sector development."

As a result of merging the FCMC with the Bank of Latvia, also larger effectiveness in the implementation of the macroprudential supervision policy and macroprudential supervision is expected, as well as the possibilities for implementing more effective administrative process in the competent authority with respect to taking decisions and appealing them.

Starting from the third year following the merger, also the saving of staff, financial and material technical resources is expected in the medium term, which can provide for the possibility of limiting the growth of costs of supervision of the supervised entities, despite the costs of the merger in the short term. The total annual operational expenses could be by about 1.6 million euro or 3.4% lower than the expenses of two separate authorities. The merger will also facilitate more coordinated and effective development of the financial sector.

The President of the Bank of Latvia Mārtiņš Kazāks emphasises: "There are several significant preconditions for the merger of the FCMC and the Bank of Latvia provided for in the law On the Bank of Latvia to proceed smoothly and leave a positive impact on the Latvian economy. Changing the central bank governance model can be mentioned as one of the most significant of them, inter alia, ensuring the separation of the monetary policy and financial sector supervisory functions. Thus, one of my priorities for the nearest future would be the development of new, up-to-date law On the Bank of Latvia."

The most significant risks arising out of the merger of the FCMC with the Bank of Latvia entail larger concentration of influence within the financial system, as well as potential conflict of interests between the monetary policy, macroprudential supervision and microprudential supervision, especially, the risk of incorrect stimulus. The report specifies that the reputation of the central bank, constituting a significant precondition for implementing the monetary and macroprudential supervision policies, may also be potentially adversely affected by the supervisory, resolution and protection system activation functions. It is also possible that the assets of the central bank may become subject to microprudential supervision and resolution decisions, as a result whereof the capacity to act can be restricted for the central bank and its financial independence can be endangered.

Nevertheless, the identified risks are manageable, by implementing corresponding risk hedging measures, inter alia, appropriate allocation of duties, rights and responsibilities, operation and statutory regulation of the internal control system. As regards taking decisions at the level of the decision-taking body of the Bank of Latvia, it should be noted that, in the Eurosystem, the most significant decisions regarding the formation and implementation of policies (for example, decisions on the monetary policy) and a large part of individual decisions in the field of microprudential supervision are taken by the Governing Council of the ECB, thus reducing the risk with respect to possible conflict of interests at the national level. Certain types of decisions (for example, individual supervisory decisions) would be delegated to a specially established Supervisory Committee.

There is no uniform approach or the best practices existing in the international practice as regards the role of the central bank and the degree of involvement thereof into the supervision of the financial sector. Nevertheless, it should be emphasised that in 11 out of 19 Eurozone member countries the supervision of the financial sector is largely concentrated under the competence of the central banks.

By merging the FCMC with the Bank of Latvia, the MoF will continue implementing the functions of the policymaker of the financial and capital market with the relevant legislative initiative. The financial and capital market participants also henceforth will be obliged to fully cover the costs necessary for implementing the supervisory and resolution function thereof.

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