It is one of the main duties of a central bank to maintain both monetary as financial stability. Ensuring financial stability is implemented mainly by prudential supervision. After the financial crisis of 2008, the structure of the prudential supervision was thoroughly reformed, not only in Belgium but also in the European Union. Legislation became stricter.

**Micro- and macroprudential supervision**

The microprudential supervision on individual financial institutions has to prevent those institutions going bankrupt. The supervisor assesses the risk a financial institution takes by inspecting if the financial reserves are sufficient to cover any loss. The ultimate objective is to protect savers, investors and insured.

Macroprudential supervision is necessary to preserve the stability of the financial system as a whole, by analysing the interdependence between financial establishments, this in order to prevent any negative impact on the real economy.

**Reorganisation of prudential supervision in Belgium**

The 2 July 2010 act has reformed the structure of the supervision on the financial sector in Belgium, on the so called “Twin Peaks” or bipolar model. This model has been adopted since 2011.

Both the macroprudential and microprudential supervision of credit institutions, stock-broking firms and insurance companies have been entrusted to the National Bank of Belgium.

The FSMA (Financial Services and Markets Authority) is responsible for fair treatment of financial consumers and the integrity of the financial markets and products. The FSMA is the successor to the former Banking, Financial and Insurance Commission (CBFA).

**Reorganisations of prudential supervision in the EU**

Micro- and macroprudential supervision have also been reformed in the EU, with the intention of reinforcing the financial supervision structure. This has been accomplished in a phased plan.

As of 1 January 2011 the three European Supervisory Authorities were established: the European Banking Authority (EBA) in London, the European Insurance and Occupational Pensions Authority (EIOPA) in Frankfurt and the European Securities and Markets Authority (ESMA) in Paris. They form a network and cooperate closely with the national supervisory authorities.
The 31 March 2011 the European Systemic Risk Board (ESRB) started its mandate in Frankfurt to oversee the stability of the financial system as a whole. The ESRB must issue timely warnings for potential systemic risks and give, where it is deemed appropriate, recommendations to tackle them.

On 29 June 2012 the European Council decided to redesign the supervision on a European level, assigning the ECB a crucial role. The European Parliament gave the go-ahead on 12 September 2013. On 4 November 2014, the ECB assumed supervisory tasks on the 128 largest financial groups of the euro area. The national authorities (National Competent Authorities or NCA) will retain supervision on banks deemed less significant, for Belgium this is the National Bank of Belgium.

The ECB and the National Competent Authorities make out the SSM (Single Supervisory Mechanism). This is not a new institution, but a “mechanism” by which the banking supervision is divided between the ECB and the national supervisory authorities.

The Single Supervisory Mechanism is the first pillar of the European Banking Union to bolster a safe and sound banking system.

The two additional pillars of the Banking Union are the Single Resolution Mechanism (SRM), which will ensure a uniform resolution of institutions in crisis, and a harmonized European common deposit guarantee system (Deposit Guarantee Scheme). A deposit guarantee system will protect to a certain level the deposits at such time that a financial institution is no longer able to reimburse the depositors.

**Stricter rules: Basel III**

The Basel Committee on Banking Supervision, comprising international supervisors and representatives of the central banks of the G20, formulated a stricter regulation for the banks: the Basel III agreement. These stringent requirements for banks in the matter of quality and quantity of capital and bank liquidity, were approved in 2010 by the G20.

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**For more information:**

- Financial Stability review (FSR), NBB
- [http://www.nbb.be/pub/cm/fshome.htm](http://www.nbb.be/pub/cm/fshome.htm)?l=en