



Financial RIA Capacity Building Program in Bulgaria



Reference material discussion with participants

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Market failures

- Departures from a *perfectly efficient market*,
- Main characteristics of a “perfectly efficient market”:
 - No information asymmetry;
 - No externality;
 - No market power.

The case for regulatory action

- To explain the *economic* case for FSA intervention;
- FSA's objectives at risk.

Market failure relevance and risk to FSA objective

FSA objective to which RTO relates	Likely market failure
Market confidence	Negative externality, market power
Consumer protection	Information asymmetry, market power
Public awareness	Positive externality
Financial crime	Negative externality

Regulatory failure

- Also regulatory failure can be an economic justification for further regulatory intervention.

Material market failure	RTO due to
No	Regulation wrongly prescribed for the market
Yes	Regulation succeeded in addressing the failure;a different market failure (e.g side effect)
Yes	Regulation made it worse
Yes	Regulation so far has failed to work; maybe in due course

MFA objective

- To provide a rigorous analysis of whether or not there is an economic case for regulatory intervention.

Ways regulation can impact

- Direct costs;
- Compliance costs;
- Quantity of the good/service sold;
- Quality of the goods/services offered;
- Variety of products offered;
- Efficiency of competition.

Assessing the costs of financial regulation

- Qualitative analysis;
- Quantitative analysis.

Assessing the benefits of financial regulation

- Direct costs;
- Compliance costs;
- Indirect costs.

CBA contribution

- To provide the information needed to determine and demonstrate whether or not specific policy options are likely to be cost-effective.