degree of unification in the financial supervisory regime cannot be defined *a priori*; rather it is an expected variable, calculated by the policymakers that maintains or reform the financial architectures. Therefore in Section three the adopted approach is to consider the supervisory structure with one or more authorities as an *endogenous* variable, determined in turn by the dynamics of other structural variables, economic and institutional, that can summarize and explain the political delegation process. In order to construct an endogenous variable, in Section four it is introduced a Financial Authorities' Concentration Index (FAC Index), to have an indicator of the degree of unification of powers. Then in Section five it is considered the nature of the institutions involved in the control responsibilities. In particular, we must ask what role the central bank plays in the various national institutional settings. It is introduced an index of the central bank's involvement in financial supervision, the Central Bank as Financial Authority Index (CBFA Index). Using both the FAC Index and the CBFA Index we shed light on the current trends in the financial supervision architecture. In Section six, to empirically gauge the possible determinants of the degree of concentration of powers, it is performed an econometric analysis of the Probit and Logit types. Section eight put forward some conclusions.

2. Financial Supervision Architectures: The Traditional Approach

From the conceptual point of view, our starting point is obviously the *blurring effect*[6] that current developments in the banking and financial industry are having on supervisory issues[7]. Increasing integration has taken place between the banking, securities and insurance markets, as well as among the corresponding products and instruments. The blurring effect produces in particular two intertwined phenomena: the emergence of *financial conglomerates*[8], that is likely to produce important changes in nature and dimensions of the single intermediaries, as well as in the degree of consolidation of the banking and financial industry; the growth of the *securitisation* of traditional forms of banking activities and the proliferation of sophisticated ways of bundling, repackaging and trading risks, that weakened the classic distinction between equity, debt and loans[9], leading changes in nature and dimensions of the financial markets.

The financial blurring process poses at least three questions in the debate on financial supervision structure[10]: sectoral (institutional) approach versus functional approach; single supervisor model versus multi-authorities model; and, particularly in the European Union, centralized setting versus decentralized setting[11].

It is a fact that, in the perspective of increasing financial integration, the relevance of the first question has been rapidly declining. Theoretically, the sectoral approach is based on the possibility of separating the banking, securities and insurance markets. The progressive erosion of market separation is likely to cause the "default" of the institutional approach[12]. Institutionally, the above

[6] See the "classic" Corrigan (1987).
[7] See Dale (1997) and White (1997).
[8] See European Commission (2002) and de Luna Martinez and Rose (2003).
[9] de Luna Martinez and Rose (2003).
[10] See Di Giorgio and Di Noia (2002).
[11] The range of possible models for the structure of financial supervision at a national and a European level is identified by Kremers, Schoenmaker and Wierts (2001).
[12] For a deeper analysis see Masciandaro and Porta (2004). See also Di Giorgio and Di Noia (2002) and Schoenmaker (2003).

hypothesis that the financial blurring trend favours the alternative functional supervisory approach is confirmed by the fact that various models ("pure" or "mixed") of such a supervisory approach have been adopted recently or is currently under discussion in several countries[13].

From the other standpoint, particularly in the European context[14], the centralized versus decentralized question seems to be 1) a second-stage problem, given that alternative solutions are likely to be strictly dependent on the various European national answers or positions on the optimal design of the financial supervisory framework, notwithstanding it has been rightly noted that the choice at the European level does not necessarily have to co-incide with the choices at the national level[15], 2) closely linked to the answer to the single supervisor approach versus multi-authorities approach dilemma, 3) less urgent respect to the national dilemmas, given that while the blurring effect urges countries to choose their supervisory model, at the European level it can possible to wait for comparative data[16] and experiences.

Today, therefore, given the dominance of the functional approach and the "deferred" nature of the centralized-decentralized questions, the alternative between the financial single authority (integrated or unified) model and the financial multi - authorities model seem to be the more relevant one.

Identifying the optimal supervisory regime between the two models is a truly interesting problem. *Prima facie*, from the theoretical point of view, the single supervisor model seems to be the "natural" and best answer to the challenges posed by the market-blurring and financial conglomerates phenomena[17]. If, in the long run, the expected financial structure is a perfect integrated and unique market, the best design for the supervisory architecture would seem to be the single authority[18]. Furthermore, also considering the institutional point of view, the success of the single supervisor model seems to be growing, particularly in the European area: the UK[19], Austria, Denmark, Germany, Norway and Sweden[20] have chosen to delegate financial supervision to a single authority[21], as well as Estonia, Latvia, Malta and Hungary. But the answer is not so simple.

A strand of recent literature[22] pointed out that, given different institutional settings, it is possible to highlight the corresponding gains and losses[23], and then to perform a rational cost-benefit analysis to choose between alternative models[24].

[13] See Section four.
[14] On the European financial regulation architecture debate see Schoenmaker (2003), Schuler (2003); see also Prati and Schinasi (1999), Padoa Schioppa (1999), Vives (1999), European Commission (2000), Favero et al.(2000), European Central Bank (2001), Wise Men (2001), OECD (2001) and (2002), Di Giorgio and Di Noia (2002). In particular, for the European Financial Services Authority solution see Eijffinger (2001) and Vives (2001).
[15] Schoenmaker (2003).
[16] Schoenmaker (2003).
[17] See De Luna Martinez and Rose (2001). The importance of financial conglomerates in explaining the current regulators architecture reforms is claimed in Abrams and Taylor (2001), Whalen (2001), Grunbichler and Darlap (2003), Schoenmaker (2003).
[18] See Lanoo (2000) and Briault (1999).
[19] See Briault and Gelter (1995), Norgren (1998), Briault (1999)
[20] See Taylor and Fleming (1999).
[21] See Lannoo (2000).
[22] See explicitly Hawkesby (2000), but most of the quoted studies seem to be consistent with the cost-benefit approach.
[23] For a complete analysis on the arguments in favor of and against integrated supervision see De Luna Martinez and Rose (2001).
[24] In the specific banking regulation area, Kahn and Santos (2001), provide a theoretical analysis of several alternative institutional allocations of regulations.

We agree with the initial intuition—the importance of the cost-benefit analysis[25]—but the relative conclusion on the possibility to find an optimal supervisory regime seem to be rather unsatisfactory and inconclusive. First, one can say that, given a single authority, it is possible to increase the efficiency in the relationship between supervisor and regulated firms, because the cost of supervision and the possibility of supervisory arbitrage decrease[26]. But one can also say that, given the single supervisor model, efficiency in the supervisor-regulated firm relationships decreases because, with a single authority, the capture risks could increase[27] as well as the innovations incentive in the regulated industry could decrease[28] (Table 1). Therefore, the sign and the magnitude of the single supervisor model effects, with respect to the regulated firm relationship issues, seem rather vague and ambiguous.

One can reach the same kind of conclusion by analyzing the relationship between the single authority and the political system (independence and accountability[29], discretionality [30] or capture[31]?), the effects in terms of supervisory organization and resource allocation (economies[32] or diseconomies of scale[33], benefits or costs of goal conflicts' internalization[34]?), and the consequences on the financial services costumers behaviour (confidence[35] or over-confidence[36]?).

Therefore it has been correctly claimed that there no exist a "superior" model of supervision[37]. In reality, the gains and losses of a supervisory model are *expected* variables, calculated by the agents (i.e. the policymakers) that maintains or reform the supervisory regime. But the expectations of policymakers, given their own specific goals, are likely to be influenced by structural economic and institutional variables, which may vary from country to country. Therefore the supervisory regime is *not* a given. On the contrary, given the national economic and institutional endowment, these variables can determine, *ceteris paribus*, the policymakers' expected gains or losses of a specific supervisory regime. The supervisory regime becomes the endogenous variable. In other words, the optimal supervisory regime is a sort of path-dependent variable.

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[25] The prons and cons of the integrated model are analysed in Barth, Nolle, Phumiwasana and Yago (2002), Kremers, Schoenmaker and Wierts (2003),

[26] Briault (1999), Llewellyn (1999b), Goodhart (2002).

[27] Taylor (1995).

[28] Barth, Nolle, Phumiwasana and Yago (2002).

[29] Briault (1999), Llewellyn (1999b), Lannoo (2000), Abrams and Taylor (2001). On the meaning of regulatory and supervisory independence see Quintyn and Taylor (2002). Beck, Demirguc-Kunt and Levine (2003) examine the impact of bank supervision independence on the corporate financing obstacles.

[30] Goodhart et al. (1998). See also Laslett and Taylor (1998), Quintyn and Taylor (2002). On the risks of excessive power of a single regulator see also Taylor (1995), Briault (1999), Llewellyn (1999b).

[31] Fender and Von Hagen (1998).

[32] Briault (1999) and (2002), Llewellyn (1999b), Lannoo (2000). Abrams and Taylor (2001) and Goodhart (2002) claim that the economies of scale argument is most applicable in small countries or those with small financial systems. Abrams and Taylor (2001) argue that the shortage of supervisory resources is a serious problem particularly in emerging market economies.

[33] Goodhart et al. (1998).

[34] Briault (1999), Llewellyn (1999b), Lannoo (2000), Wall and Eisenbeis (2000).

[35] Llewellyn (1999b).

[36] Lannoo (2000).

[37] Briault (2002), Lumpkin (2002), Schoenmaker (2003).

TAB. 1 SINGLE AUTHORITY: TRADITIONAL COST BENEFIT ANALYSIS

	EXPECTED BENEFITS	EXPECTED COSTS
AUTHORITY-REGULATED FIRMS RELATIONSHIPS	⇩ SUPERVISION COSTS + SUPERVISION ARBITRAGE	⇧ CAPTURE RISKS + INNOVATIONS DISINCENTIVES
AUTHORITY-POLITICAL SYSTEM RELATIONSHIPS	⇧ INDEPENDENCE GAINS	⇧ CAPTURE RISKS
AUTHORITY INTERNAL ORGANIZATION	⇧ ECONOMIES OF SCALE	⇧ DISECONOMIES OF SCALE
	⇧ GOAL CONFLICTS INTERNALIZATION BENEFITS	⇧ GOAL CONFLICTS INTERNALIZATION COSTS
FINANCIAL SERVICES COSTUMERS	⇧ CONFIDENCE BENEFITS	⇧ OVERCONFIDENCE COSTS

Having defined the theoretical framework of the endogenous supervisory regime, the following question is empirical: are there common cross-border economic and/or institutional structural variables that explain why a country chooses or rejects a given supervisory model?

It is evident that, if a given supervisory regime is characterized by common economic and institutional endowments, the probability that this model will be adopted in a specific country, or in a specific area, will depend on the presence of these endowments.