

BANK FOR INTERNATIONAL SETTLEMENTS

# Financial regulatory reforms – latest developments and future work

87th Annual General Meeting



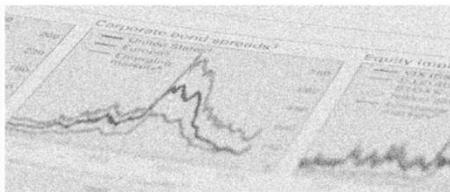


BANK FOR INTERNATIONAL SETTLEMENTS

# Financial Stability Institute

Fernando Restoy  
Chairman

## 87th Annual General Meeting



FSB

FINANCIAL  
STABILITY  
BOARD

# Update on FSB Activities

Svein Andresen, FSB  
BIS AGM 24 June 2017

## Implementation progress and effects of reform

- **Framework for evaluation of effects of reforms**
- **Review of OTC Derivatives Reforms**
- **Assessment of evolution of shadow banking risks**
- **Progress and priorities of resolution reforms**

## Addressing emerging vulnerabilities

- **Misconduct risk**
- **Correspondent** banking and remittances
- **Climate**-related financial disclosures
- **Fintech** and **Cyber Resilience**

## **The benefits of reforms are beginning to be realized**

- Large banks are considerably stronger, more liquid, less complex.
- Sources of finance are increasingly diversified.
- The infrastructure underpinning markets is more robust
- The system is demonstrating an ability to dampen shocks rather than amplify them.
- Credit is growing in all major economies, while the cost of financing has remained low.

## **Areas meriting ongoing attention**

- Market liquidity
- Effects on EMDEs
- Fragmentation risks

- To guide post-implementation analysis of whether reforms are achieving intended outcomes, working together as intended, and if there are any material unintended consequences
- Developed in close collaboration with standard- setting bodies and other stakeholders.
- Provides guidance on empirical methods and clarity on the allocation of responsibilities between relevant SSBs and the FSB.
- Outlines processes to facilitate consultation and collaboration across all parties, including external stakeholders where appropriate.
- Will expect incremental adjustments and improvements over time as experience and data improve.
- **By the Hamburg Summit**, FSB will publish the framework for post-implementation policy evaluation of the effects of the reforms

- Effectiveness and broad effects of the reforms
  - Significant shift to central clearing of standardized trades and margining of non-cleared trades are reducing systemic risk.
  - Platform trading is expanding, increasing transparency and processing efficiency.
  - Trade repositories gather large amounts of data but legal barriers and lack of data harmonisation hamper full use of data.
  - To be reviewed: how interactions of reforms have affected incentives to centrally clear
- CCP resilience, recovery and resolvability
  - CPMI-IOSCO and FSB guidance documents near final
  - Next: Assessing need for additional financial resources, including CCP equity, for resolution
- **By the Hamburg Summit**, FSB will publish i) Review of OTC derivatives markets reforms, ii) Final guidance documents on CCP resilience, recovery (CPMI-IOSCO) and on resolution (FSB), and (ii) findings of CCP interdependencies study.

- Reforms have significantly reduced most toxic shadow banking activity.
- But credit intermediation via asset management entities has grown very rapidly post crisis.
- FSB Asset Management recommendations target vulnerabilities here.
  - IOSCO to complete work on liquidity mismatches in open-ended funds by end-2017 and on consistent leverage measures by end-2018.
- One area of policy remains to be completed:
  - BCBS recommendations to address bank “step-in risk” for unconsolidated entities
- FSB has not identified new SB risks requiring policies at global level.
- But implementation of agreed policies and more granular monitoring is needed at national and global level.
- **By the Hamburg Summit**, FSB will publish i) assessment on shadow banking activities, and ii) recommendations to address vulnerabilities in asset management activities.

## **Resolution reforms are progressing, but unevenly**

- Resolution regimes coming into place in most major economies
- Most G-SIBs are on course to meet the Phase I TLAC requirements to take effect as of January 2019.
- But significant work remains on cross-border resolution issues
  - G-SIB specific home-host co-operation agreements not in place for nine G-SIBs
  - Some countries/region have yet to support broad adoption of the ISDA protocol

## **By the Hamburg Summit, FSB will publish:**

- Guiding Principles on Internal TLAC
- Guidance on Continuity of Access to Financial Market Infrastructures for a firm in resolution

## Reducing misconduct risks

- **By the Hamburg Summit**, FSB will report on actions taken and recommendations made on the 2015 action plan:
- Measures to directed financial institution governance and compensation policies
- Actions to enhance the robustness of market structures and conduct standards
- Actions directed at authorities' capacity to address misconduct risk

## Correspondent banking

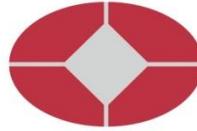
- Progress is being made on the 4-point Action Plan to assess and address the decline in correspondent banking.
- In response to a G20 request, FSB will also be addressing issues relating to remittance providers' access to banking services, working with FATF and the GPFI.
- **By the Hamburg Summit**, FSB will report on further progress and next steps under the correspondent banking Action Plan, including proposed work further work on remittances.

## Implications of FinTech and Cyber resilience

- FinTech: FIG has developed framework to assess financial stability implications and is drawing out the supervisory and regulatory issues meriting authorities' attention.
- FIN/CGFS just published case study on FinTech Credit: Market Structure, Business Models and Financial stability implications
- **By the Hamburg Summit**, the FSB will report on **Fintech**: Supervisory and regulatory issues meriting authorities' attention from a financial stability perspective
- Cyber resilience: FSB is undertaking stock-take of regulatory guidance and supervisory practices related to cybersecurity; report to G20 by October-2017.

## Task Force on climate-related financial disclosures (TCFD)

- TCFD is finalizing recommendations for voluntary disclosure by companies of their climate-related financial risk exposures, following public consultation.
- **By the Hamburg Summit**, the FSB will deliver the TCFD's final report.
- FSB has asked the TCFD to help promote and monitor companies' adoption of the recommendations.



Basel Committee on Banking Supervision

BANK FOR INTERNATIONAL SETTLEMENTS

*Regulatory reforms – latest developments and future work of the Basel Committee*

87<sup>th</sup> Annual General Meeting

Bill Coen

Secretary General

Basel Committee on Banking Supervision



## What's been completed in the past year?

- Revised securitisation framework
- Regulatory treatment of accounting provisions
- Total loss absorbing capacity (TLAC) holdings for global systemically important banks (G-SIBs)
- Frequently Asked Questions (FAQs) on Basel standards

# Finalising Basel III

- Discussions continue
- Regulatory framework has been transformed...
- ...but work remains to finalise revisions
  - ☑ Risk weights under standardised approach for credit risk
  - ☑ Treatment of some portfolios under the internal ratings-based (IRB) approaches
  - ☑ Standardised approach for operational risk
  - ☑ Leverage ratio surcharge for G-SIBs
  - ☑ Output floor - design
  - ☐ Output floor - calibration

# Output floor

- Why a floor?
- Would replace the existing 80% floor
- A range of views (but convergence?)
- Design: Based on an “aggregate” output floor
- Calibration: Consulted on range of 60% - 90%
- Next steps
  - Endorsement by BCBS’s governing body
  - How have (major) issues been solved in the past?
    - Implementation date
    - Transitional arrangements
    - Review clauses

## Looking ahead – policy initiatives

- Treatment of sovereign exposures
- Simplifying the market risk rules
- Corporate governance/culture
- Fintech and cyber risk

## Looking ahead – supervision and implementation

- Monitoring impact of the new standards
  - Unintended consequences?
  - ie Regulatory arbitrage, bank behavioural changes
- Assessing implementation of the post-crisis reforms
  - Regulatory Consistency Assessment Programme (RCAP)
- Monitoring emerging risks and exploring appropriate responses
- Clear shift in focus: from standards (regulation) to effective supervision



# IAIS

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS

## Global Insurance Regulatory Reform

**Yoshihiro Kawai**

Secretary General, IAIS

24 June 2017



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Global Insurance Capital Standards

Global Systemically Important Insurers (G-SII) policy framework

# Global Insurance Capital Standards

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Insurance Capital Standard (ICS) for internationally active insurance groups (IAIGs)

Version 1.0 for extended field testing (2017)

Version 2.0 for implementation (2019)

# Insurance Capital Standard (ICS)

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ICS Version 1.0 for extended field testing July 2017

Substantially the same outcomes across jurisdictions

Valuation convergence

Gradual implementation from 2020

# G-SII POLICY FRAMEWORK

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# G-SII Policy framework

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Global Systemically Important Insurers (G-SIIs) policy framework

G-SII assessment methodology and designation

G-SII policy measures

Activities Based Assessment (ABA)

# IAIS timeframe of key projects

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Date	Activity
May/June 2017	<ul style="list-style-type: none"><li>• Adoption of ICS Version 1.0 for extended field testing</li><li>• Launch of 2017 field testing process</li></ul>
2017 – 2019	<ul style="list-style-type: none"><li>• Develop an activities-based approach (ABA)</li></ul>
2019	<ul style="list-style-type: none"><li>• Finalise policy measures to address systemically risky activities &amp; revised G-SII methodology</li></ul>
2019 AGM	<ul style="list-style-type: none"><li>• Adoption of ICS Version 2.0 with ComFrame</li></ul>
From 2020	<ul style="list-style-type: none"><li>• Commencement of implementation of ICS Version 2.0 by jurisdictions</li><li>• G-SIIs from revised G-SII methodology</li></ul>
From 2022	<ul style="list-style-type: none"><li>• Implementation of Higher Loss Absorbency (HLA) requirement in addition to ICS Version 2.0 for G-SIIs</li></ul>



# IAIS

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BANK FOR INTERNATIONAL SETTLEMENTS

# Resilience, safety and efficiency of FMIs: *Regulatory focus of the CPMI*

Morten Bech  
Head of Secretariat  
Committee on Payments and Market Infrastructures

87<sup>th</sup> Annual General Meeting



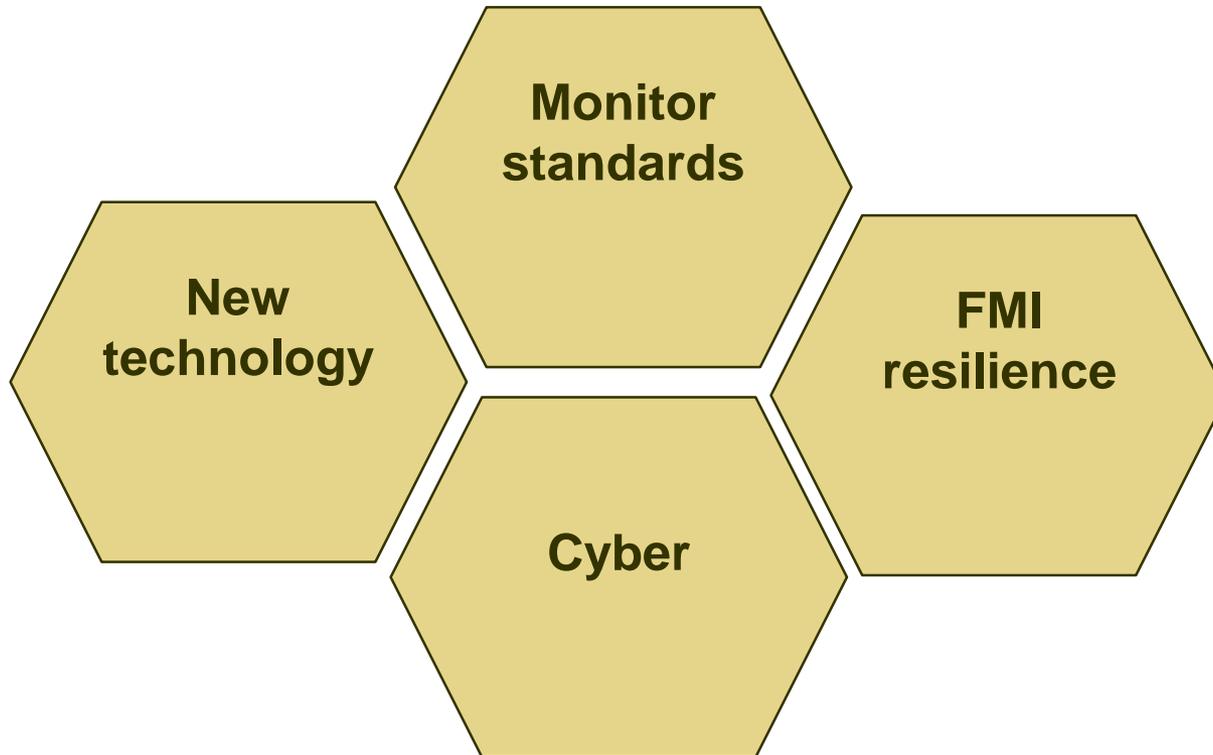
# About the CPMI

- “Plumbers in suits”:<sup>1</sup>
  - CPMI is a global standard setter for financial market infrastructures (FMIs)
  - promotes safety efficiency of FMIs, thereby supporting financial stability and the wider economy
  - International standards (PFMI)
    - 24 principles for FMIs
    - 5 responsibilities for authorities

1. *Economist*. 6 July 2013



# Current regulatory objectives of the CPMI



# Opportunities and challenges of new technologies

- ✓ *Distributed ledger technology in payment, clearing and settlement - an analytical framework* (February 2017)
- ✓ *The quest for speed in payments - BIS Quarterly Review* (March 2017)
- Implication of central bank issued digital currencies



# Cyber resilience of FMIs and security of wholesale payments

- ✓ *Guidance on cyber resilience for financial market infrastructures (June 2016)*



# Cyber resilience guidance



Not a box ticking exercise



# Cyber resilience of FMIs and security of wholesale payments

- ✓ *Guidance on cyber resilience for financial market infrastructures* (June 2016)
- Timely implementation of cyber guidance
- "Recent incidents of cyber fraud are of significant concern for the central banking community, and we are working to make sure there are adequate checks and balances in place at each stage of the payments process," CPMI Chairman Benoît Cœuré



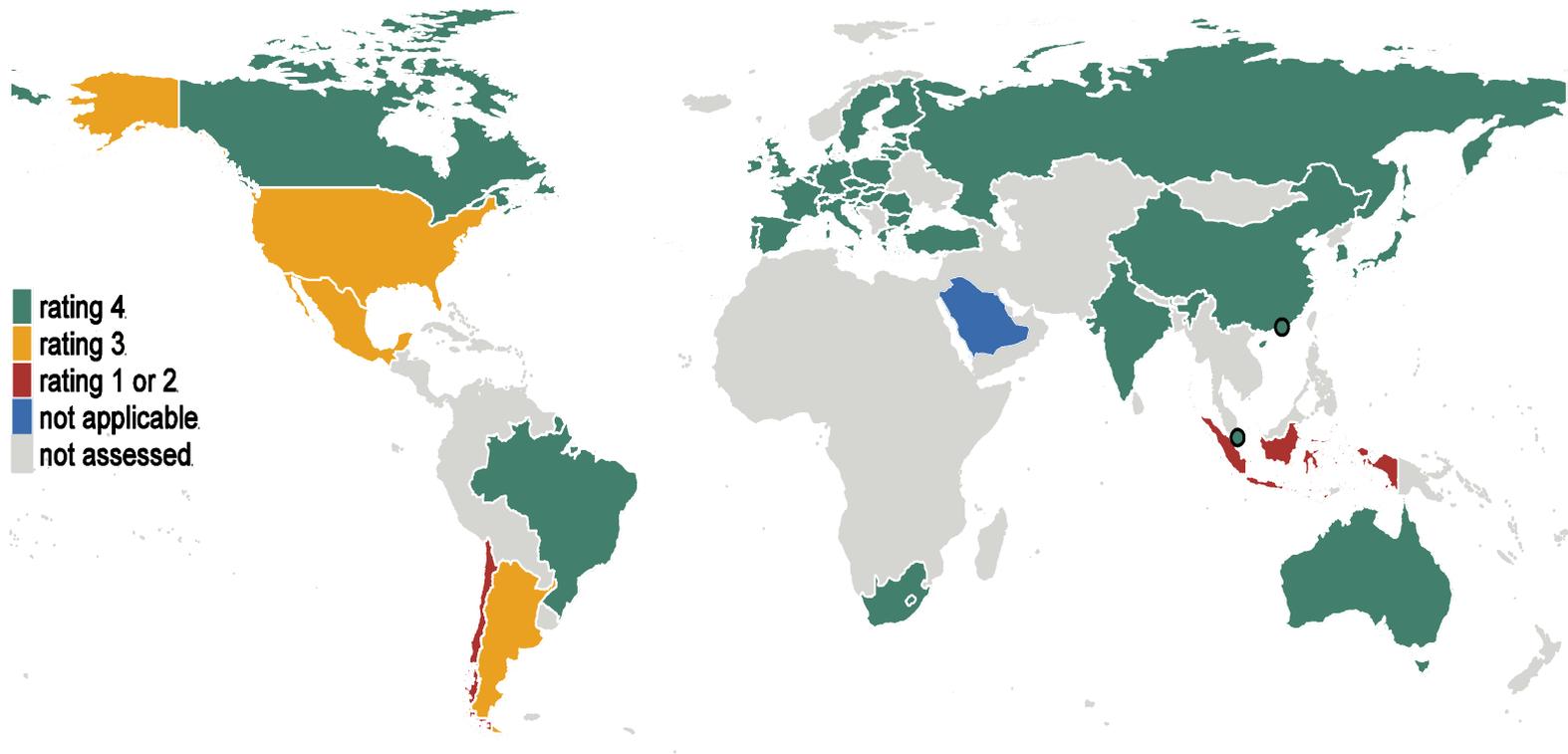
# Strengthening CCP resilience, recovery and resolution

- ✓ *Resilience and recovery of central counterparties: Further guidance on the PFMI - consultative report (August 2016)*
- ✓ *Framework for supervisory stress testing of central counterparties – Consultative report (June 2017)*
- Final guidance on CCP resilience and recovery in early July 2017



# Monitor implementation of international standards

PFMI implementation rating for central counterparties





International Association  
of Deposit Insurers

# **DEPOSIT INSURANCE REFORMS: LATEST DEVELOPMENTS AND FUTURE WORK OF IADI**

**BIS 87<sup>th</sup> ANNUAL GENERAL MEETING  
BASEL, 24 JUNE 2017**

David Walker  
Secretary General, IADI  
[David.Walker@iadi.org](mailto:David.Walker@iadi.org)

# I. IADI OVERVIEW

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## Mission

- To contribute to the enhancement of deposit insurance system effectiveness by promoting guidance and international cooperation

## History

- Established in Basel in 2002 with 25 Founding Members
- Membership in 2017 – 83 Members, 9 Associates and 14 Partners

## Key Advancements

- IADI *Core Principles for Effective Deposit Insurance Systems (CPs)* – issued in 2009 and revised in 2014
- CPs have been incorporated into IMF/WB FSAPs and FSB Peer Reviews
- New CP Handbook for Assessors published in 2016

## Research & Guidance

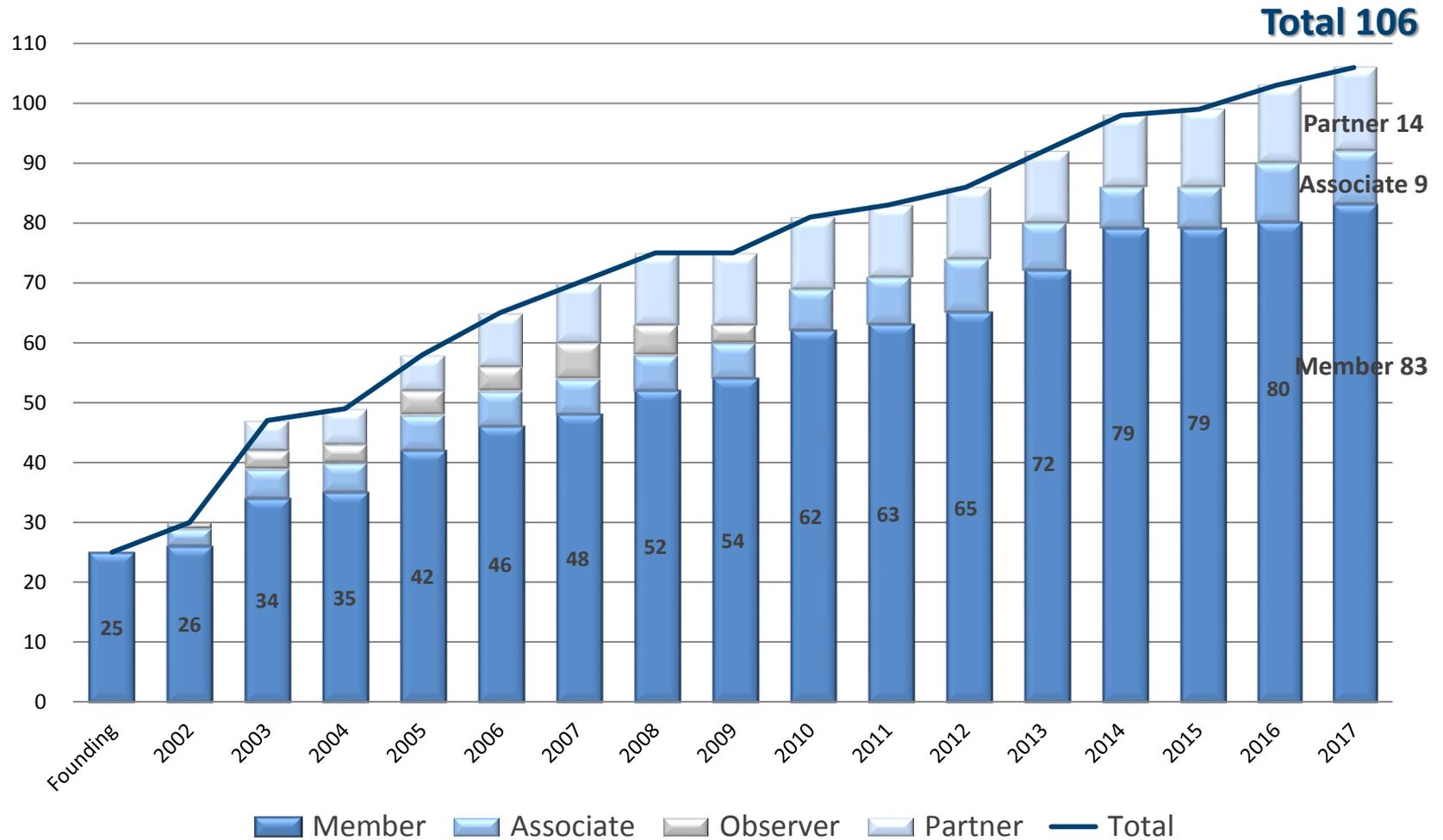
- Guidance under development in areas such as: funding; financial inclusion, crisis management and asset recoveries
- IADI Biennial Research Conference in Basel – June 2017
- IADI Annual survey and database

## Training & Capacity Building

- Global/Regional conferences, seminars and technical workshops
- Joint FSI-IADI conferences and policy implementation meetings
- Website and on-line tutorials



# GROWTH IN IADI MEMBERSHIP: 2002-17



# IADI CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS

- **CPs strengthened in 2014/16 to promote more credible deposit insurance systems and to better integrate with other reforms (e.g. FSB Key Attributes).**

**More Prescriptive**

- Mandatory ex-ante funding
- 7-working day payout target
- Sufficient coverage

**Strengthening Governance Frameworks**

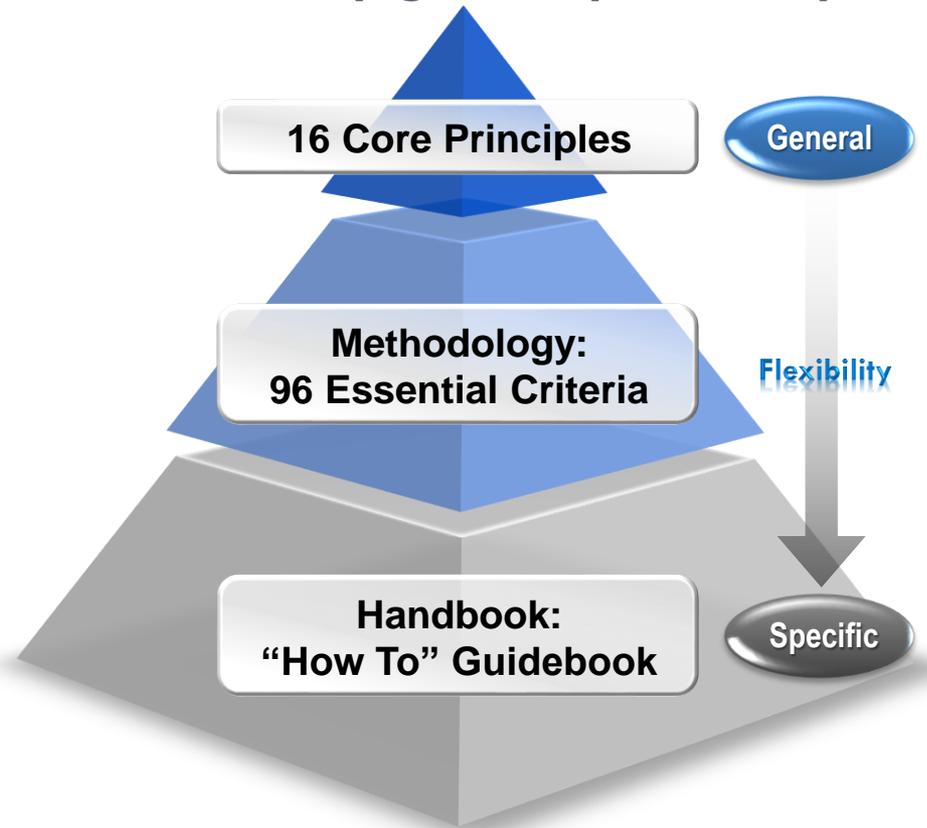
- Enhancing operational independence
- Improving accountability

**New Crisis Management Principle**

- Emphasise contingency planning and coordinating framework

**More Safeguards**

- On use of DI funding in resolution
- Enhanced info. sharing/co-ordination

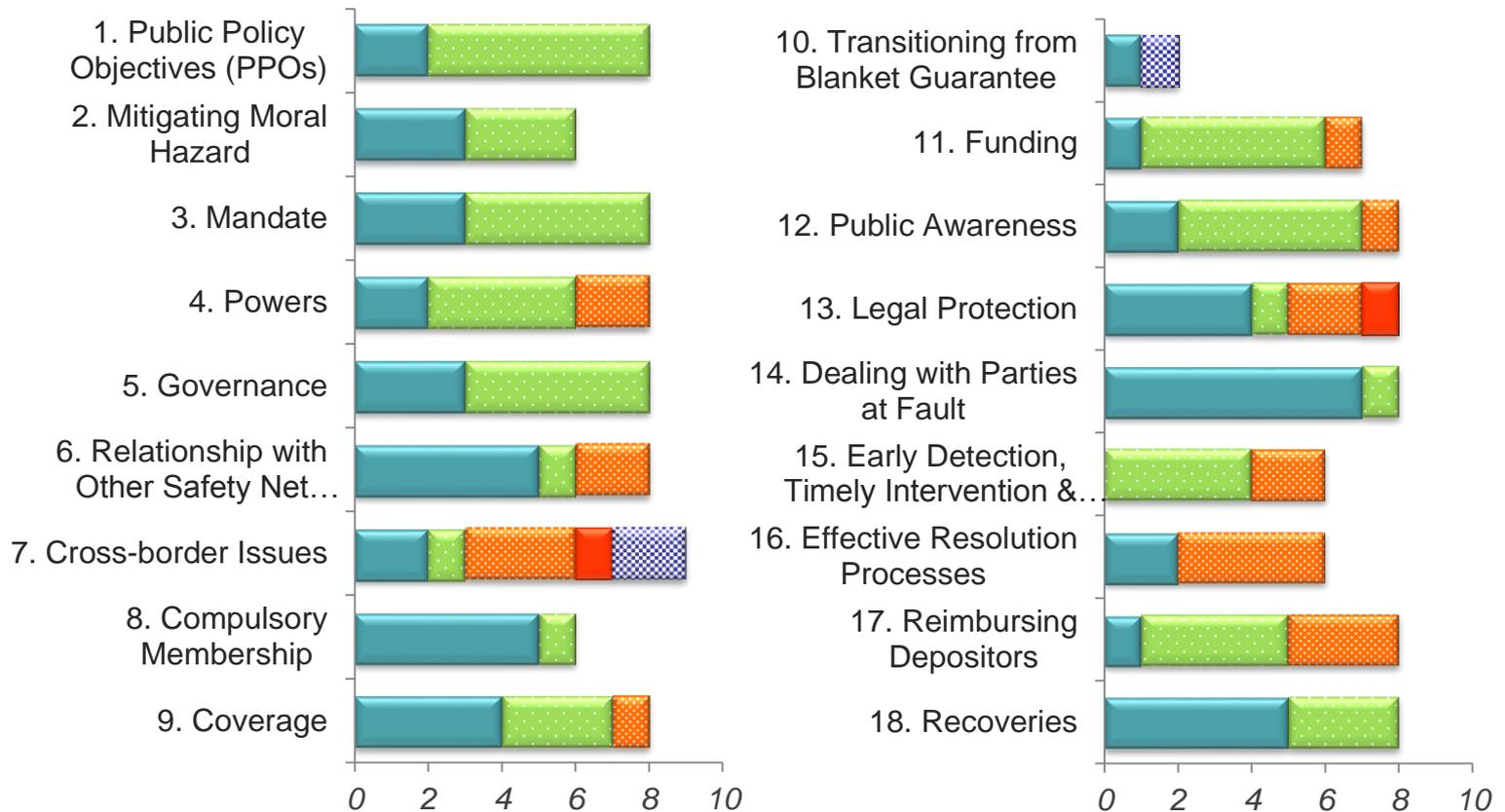


# CP COMPLIANCE ASSESSMENTS – KEY “GAPS”

- *Compliant*
- *Largely Compliant*
- *Materially Non-compliant*

(Number of jurisdictions with the assessment result)

\*Based on 2014/09 CPs



# IADI STRATEGIC PRIORITIES

- 1) Promoting deposit insurance compliance with the IADI Core Principles.**
  - E.g. by helping Members address compliance “gaps” in areas such as funding, payout speed, integration with resolution and crisis management frameworks.
- 2) Advancing deposit insurance research and policy development.**
- 3) Providing members with technical support to modernize and upgrade their systems.**
- 4) Implement IADI governance reforms.**

# I. Promoting deposit insurance compliance with the IADI Core Principles

- 1) Promote Self-Assessment Technical Assistance Program (SATAP) and knowledge of CPs through conferences, workshops and assessor training programs.
  - » Brazil, Korea, Vietnam...
- 2) Enhance collaboration with BIS, FSB, IMF and World Bank in promoting the CPs and financial stability.
  - » Upcoming FSAPs and Technical Assistance missions with the IMF/ WB
  - » FSB Resolution Steering Group participation and support for implementation monitoring on deposit insurance
  - » Joint FSI-IADI conferences and policy implementation meetings
- 4) Develop an improved compliance assessment program utilizing regular surveys of members to benchmark compliance and information from FSAPs, SATAPs and other sources.

## II. Advancing deposit insurance research and policy development

**Secretariat has established a Research Unit (RU) which in coordination with the IADI Council Committees is developing an enhanced capacity to:**

- 1) Ensure IADI is the key source of deposit insurance data by improving its database and making it more available for researchers.
- 2) Develop policy positions to support IADI's participation and dialogue with international financial institutions on deposit insurance issues.
  - Addition of a Senior Policy and Research Advisor and Database Administrator
- 3) Identify and conduct research on emerging issues in deposit insurance:
  - Interaction between the resolution framework and deposit insurance (e.g. bail-in, resolution & deposit insurance funds)
  - Determining optimal deposit insurance coverage and fund adequacy
  - Role of deposit insurance in crisis preparedness and management
  - Deposit insurance and cross-border banks
  - Financial inclusion and innovation (e.g. FINTECH, mobile deposits)

### III. Enhancing technical assistance

- 1) **Customise IADI technical assistance using regional workshops to address “gaps” in the design and implementation of deposit insurance reforms.**
  - Completed workshops in Africa, Europe, Latin America and the Middle East
  - Scheduled events in Asia and Eurasia in 2017/18
- 2) **Conduct workshops and seminars for new deposit insurers and jurisdictions considering the establishment of deposit insurance.**
- 3) **Developing learning opportunities through innovative events and programs.**
  - FSI-Connect on-line tutorials
  - Joint FSI-IADI Policy Implementation Meeting and Annual Conference

### IV. Governance Reforms

**2016 Governance Working Group recommended enhancements to improve organizational effectiveness. Implementation underway and progress includes:**

- Executive Council adopting a governance approach more similar to a “Board of Directors” model, providing/approving strategy – less focused on detailed operations
- 7 Standing Committees replaced with 4 Council Committees
- Secretary General tasked more with strategic planning, execution and implementation



**Thank You**



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