Overview of Key Global Regulatory Initiatives

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Overview

- Overview of key global regulatory initiatives, their timelines and impact on the Asia-Pacific
  - Objectives
  - Themes and challenges
- Our research project
- Suggested questions for discussion
Liquidity risk management

- Liquidity coverage ratio (LCR)
- Net Stable Funding Ratio (NSFR)
- Timelines:
  - LCR in place on 1 January 2015 but starts at 60% and reaches 100% on 1 January 2019
  - NSFR to be introduced by 2018
- Impact – is it suitable for emerging markets in Asia?

Basel III leverage ratio framework and disclosure requirements

- Leverage ratio:
  - measures the ratio of capital to debt
  - deals with the problem of excessive leveraging
- Disclosure requirement came into place on 1 January 2015
- Impact in terms of cost of credit
- Some markets are over-complying
Global systemically important banks (G-SIBs)

- G-SIBs
- Total loss-absorbing capacity (TLAC)
  - Measure to address the "too big to fail" risk
- To come into effect on 1 January 2019
- G-SIBs that are headquartered in emerging markets not initially subject to the Common Pillar 1 TLAC requirement
- Asian banks:
  - reliance on deposit funding

Global systemically important insurers

- Risk-based global insurance capital standard (IAIS)
- Also, absorbency requirements similar to TLAC for G-SIBs
- By 2016
- Intention is to create a level playing field and reduce regulatory arbitrage – is it appropriate in Asia, particularly in emerging markets?
Bank resolution

- Together with TLAC, an important measure to reduce the “too big to fail” problem
- Deals with the responsibilities, instruments and powers that national resolutions regimes should have
- Mixed take-up to date in Asia
- Challenges for cross-border regulatory cooperation

Benchmark reforms

- Involves both foreign exchange benchmarks and interest rate benchmarks
- Intention is to reduce the incentives for manipulation and market malpractice
- Expected implementation in 2016
- Will the new reforms be sufficient or will regulatory change be necessary?
OTC derivatives market reforms

- Introduced to improve transparency, mitigate systemic risk and protect against market abuse
- Different jurisdictions at different stages of implementation
  - Implementation stretches into 2015 and beyond
- Challenges brought about by knowhow and resource constraints
  - Cross-border challenges

Shadow banking

- FSB definition: ‘credit intermediation involving entities and activities outside the regular banking system’
- Two-pronged approach:
  - Monitoring
  - Strengthened oversight
- Regional challenges in terms of how shadow banking is defined and regulated – is it Asia’s problem?
• IOSCO Report on Cross-Border Regulation
  – Identifies different tools to regulate cross-border securities market activities
• Regional coordination in the area of funds passport initiatives
  – Can they serve as an effective model for regional coordination generally?

• UoM Project team:
  – Kevin Davis, Andrew Walter, Jikon Lai, Andrew Mitchell, Ian Ramsay, Andrew Godwin
• Focus is regional coordination
• Areas include Basel compliance, funds passport initiatives, shadow banking and bank resolution regimes
• Questions:
  – Is the existing architecture appropriate?
  – Should the existing bodies and mechanisms be strengthened or reformed in any way and, if so, how?
Suggested questions for discussion

• Are the global standards appropriate or suitable?
  – does a “one size fits all” approach make sense?
• How should Asian regulators achieve an appropriate balance between regulation and economic growth/financial stability?
• What are the challenges for regional coordination and how might more effective coordination be achieved?