

# Supervisory Challenges



***Courtney Christie Veitch***  
***CARTAC***

# Interconnectedness Calls for Harmonization of Capital Standards

1

- Harmonization will help reduce opportunities for supervisory arbitrage across jurisdictions
  - Capital adequacy benchmark broadly similar (8-10%) but not fully risk sensitive; regulations outdated in some jurisdictions
  - Variations and weaknesses in the definition of capital across the region
- Implementation of Basel II and Solvency II in region will address inconsistency concerns
- Technical working group to assess inconsistencies in banking capital standards activated in November 2011.

# Upgrading the Framework of Prudential Standards

2

- **Strengthen Micro Prudential Standards**
  - Asset classification and provisioning requirements not consistent across the region; insufficient coverage of off-balance sheet items, investment securities and public sector exposures
  - Region still largely exposed to the real estate sector / no defined measure for concentration risks
- **Strengthen and harmonize triggers and benchmarks on prudential requirements/guidelines**
- **Revise/strengthen legal framework to enhance corrective action and enforcement framework**

# Introduction of Consolidated Supervision and Enhancing Information Sharing

3

- **Introduce consolidated supervision framework to deal with large conglomerates and interconnectedness**
  - Enhance prudential reporting at the consolidated / parent company level
  - Improve monitoring of intergroup/large exposures
  - Empower Lead Supervisors to monitor and share information on conglomerates and interconnectedness
  - Provide explicit legal basis for effective consolidated supervision with provisions for enforcement action for non-compliance
- **Regional “buy-in” required for consolidated supervision project completed by CGBS.**

# Addressing Financial Stability Issues and SIFIs

4

- **Increased focus required on financial stability issues**
  - No formal mechanism or framework to assess and monitor financial stability issues including interconnectedness in several countries
  - Improvements required in data transparency and disclosure in some published reports
  - Absence of regional early warning systems makes it hard to identify and monitor Systemically Important Financial Institutions (SIFIs)
- **Gaps in safety nets in the region - Deposit Insurance Schemes and Crisis Resolution Framework**

# Conclusions

5

- High degree of financial interconnectedness in the region
- Interconnectedness has benefits, but also builds systemic risk and increases contagion risks
- Build on current momentum of reforms to improve financial sector supervision
  - Harmonization of regulations: definition of NPLs, provisioning guidelines, and measurement of capital, etc
  - Consolidated supervision of financial conglomerates
  - Stronger crisis resolution and safety net framework
  - More cooperation and information sharing between supervisory authorities

Thank you