Basel Committee on Banking Supervision

BANK FOR INTERNATIONAL SETTLEMENTS

Implementation and Supervisory Challenges in an Evolving Industry

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18th Annual International Conference on Policy Challenges for the Financial Sector
June 6, 2018

The finalization of Basel III

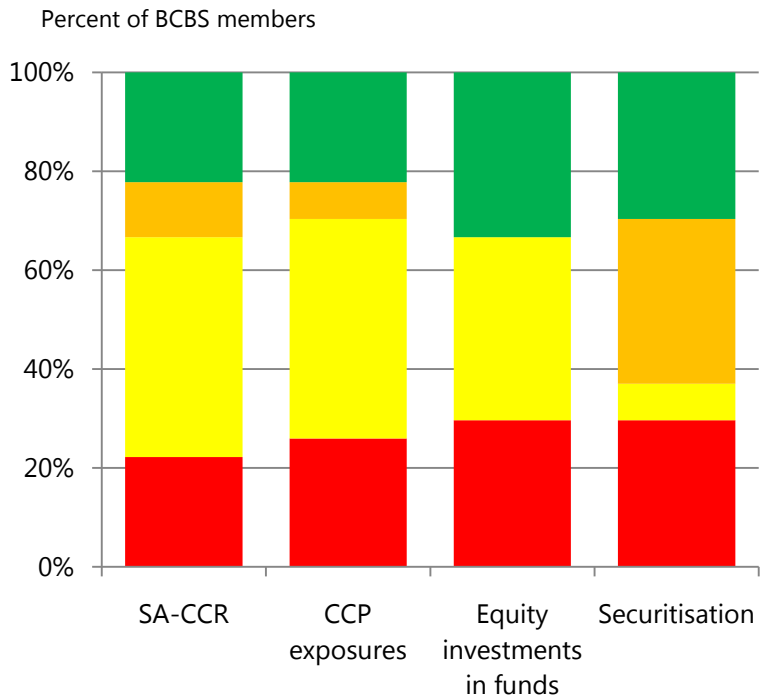
- On December 7, 2017, the Governors and Heads of Supervision announced their endorsement for the revised Basel capital standards
  - *"Governors and Heads of Supervision finalize Basel III reforms"* – BIS news release, December 7, 2017
- GHOS members also reaffirmed their expectation of full, timely and consistent implementation of all elements of this package

Implementation of Basel standards

- All 27 Basel jurisdictions have risk-based capital rules in force, as well as,
  - Liquidity coverage ratio (LCR) regulations,
  - Capital conservation buffers, and
  - G-SIB requirements
- Most countries have final rules in place for
  - Countercyclical capital buffers,
  - D-SIB requirements, and
  - Leverage Ratio

Implementation has lagged for a number of standards

Delayed implementation



Colours linked numbers used in RCAP monitoring reports. Green = final rule in force. Orange = final rule published but not yet implemented by banks. Yellow = draft regulation published. Red = draft regulation not published.

The near term implementation agenda

- The supervisory framework for measuring and controlling large exposures (by Jan 2019);
- The standard for interest rate risk in the banking book (IRRBB) (by 2018);
- Requirements for total loss-absorbing capacity (TLAC) (by Jan 2019)

Implementation challenges

- Level playing field concerns
- Complexity of standards
- Operational challenges for banks(e.g. IT issues)
- Delays / Complexities of domestic rule-making processes

The importance of effective supervision

- Lessons from the crisis have highlighted the important role of supervision
- The supervisor's challenge is to identify weaknesses before they become irreparable. Examples include:
  - Poor lending practices
  - Excessive concentrations
  - Structural imbalances in a bank's liquidity position
  - Excessive risk taking
  - Weaknesses in risk culture and governance
  - Breaches or overrides of existing policies and procedures
  - Excessive balance sheet growth
  - Fraud/criminal activities
  - External factors such as negative macroeconomic shocks
- Supervisors will need to deal with these issues before regulatory thresholds are breached.

Supervisory challenges in a changing landscape

- Cyber security
- Risk management
- Business models
- Regulatory changes
- Fintech
- Supervisory resources
- Regulatory arbitrage
- Housing and debt
- Conduct and culture

SIG ‘s strategy for promoting strong bank supervision

- Identify emerging risks and supervisory challenges
- Develop and implement supervisory policies
- Improve supervisory tools and techniques
- Promote supervisory cooperation and coordination
- Facilitate the development of supervisory resources
- Facilitate the assessment of supervisory effectiveness

The challenges ahead

- Commitment by G20 leaders: timely and consistent implementation of Basel III
- New financial stability risks are emerging
  - Cyber risk and IT security
  - Search for yield and business models
  - Emerging asset bubbles and loosening underwriting standards
- Much work remains with strengthening bank supervision: Strong supervision need to be forward looking and adaptive in a complex and changing environment
  - Supervisory resources: skilled and experienced staff
  - Systems and approaches to identify systemic risks
  - Structures and processes to enable early and effective supervision
  - Effective supervisory collaboration and coordination

Thank you!