April - June, 2017

Journal of the Banking Supervisor 49
Promoting Best Practices for Banking Supervision

Catching up with Fintech

Juan Pedro Cantera

Hardly a day goes by without some information about new financial technologies and their potential for not only disrupting the current state of matters but, most importantly, to be one of the most significant drivers of the financial ecosystem's reshaping. Even though there is great dynamism in this field, there is a sense that the regulatory role of the State is not moving at the same pace; thus, exposing the financial sector's customers and investors to unforeseen risks as well as limiting the supervised entities' gains in efficiency. This note intends to shed some light on this matter to rebut the idea that the State is not fulfilling its regulatory and monitoring role.

Indeed, recent publications speak of new startups, services already in the market, and further developments in various areas of the global regulated financial sector. These activities are concentrated on intermediation, raising capital, payments, investments, and insurance products. Furthermore, new technologies support the financial sector through data management, analysis of large quantities of information, and security services. In each of these classifications, an array of activities co-exist, each with differentiating characteristics, and under potentially limited legal and regulatory framework.

The changes commented above are taking place at speeds that are unmatched by the regulatory framework's update capacity. There are various reasons behind this lag, but suffice to comment on the legal, infrastructure, reputation, information security issues and institutional knowledge of the latest technologies. These matters need proper analysis before issuing some regulation, which must provide sufficient protections to the inherent operational risks, particularly business continuity and information security. Therefore, it is important to accept that the technological incursion is irreversible, which begs for a change in approach for all parties involved.

Indeed, the legal framework in the region may be insufficient to support the digital era. For example, there is a need to legally recognize digital or biometric information, which is not yet present in various legislations. Furthermore, there may be delays in the adoption of new rules due to the legislative approval processes. Also, there are infrastructure limitations for the system to reach an adequate level of operational coverage, interconnectivity, stability, and speed. Although these challenges are not

Regulatory and Banking Supervision Expectations in the Americas

Read more: https://goo.gl/85Edae

Association of Supervisors of Banks of the Americas

May, 2017

This document is based on a survey distributed by ASBA among its Associate Members on their banking regulatory and supervisory expectations for 2017. This survey addresses topics such as events that may have repercussions in the region, the change in the main variables of the financial systems, business lines affected and types of risks that could impact the markets in the region. Also, questions regarding the degree of compliance with international standards, the scope of financial inclusion processes and knowledge of new technologies are included. Finally, the survey identifies topics of interest to be discussed within the institution during 2017.

Some of the survey findings show that this year the global financial market continues to be in a stage of uncertainty, highlighted by political and economic events. The new administration of the United States of America has generated uncertainty in some members of the region due to the possible political changes that could be implemented. As a closing remark, regarding the development of the financial sector, the region should take a more proactive role instead of a reactive one. In this matter, the role of the regulator and the supervisor as the main source of information and direction is key.

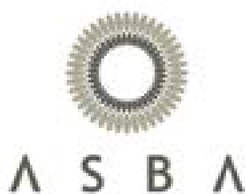
Regulatory Treatment of Accounting Provisions – Interim Approach and Transitional Arrangements

Read more: https://goo.gl/h5YL9P

Bank for International Settlements

March, 2017

The timely recognition of, and provision for, credit losses promotes safe and sound banking systems and plays an important role in bank regulation and supervision. The measures introduced in this paper represent a response to the forthcoming international accounting standards on expected credit loss provisioning, which have been changed to incorporate forward-looking assessments in the estimation of credit losses. Given the limited time until the effective date of IFRS 9 (which will take effect on 1 January 2018) the Committee will retain the current regulatory treatment of provisions under the Basel framework for an interim period. This will allow the Committee to consider more thoroughly the longer-term regulatory treatment of provisions. Jurisdictions may adopt transitional arrangements to smooth any potential significant negative impact on regulatory capital arising from the introduction of ECL accounting.



Pillar 3 Disclosure Requirements – Consolidated and Enhanced Framework

Read more: https://goo.gl/gn8BNy

Bank for International Settlements

March, 2017

The Pillar 3 disclosure framework seeks to promote market discipline through regulatory disclosure requirements. The enhancements in the standard contain three main elements: (i) consolidation of all existing Basel Committee disclosure requirements into the Pillar 3 framework, covering the composition of capital, the leverage ratio, the liquidity ratios, the indicators for determining globally systemically important banks, the countercyclical capital buffer, interest rate risk in the banking book and remuneration; (ii) introduction of a "dashboard" of banks' key prudential metrics which will provide users of Pillar 3 data with an overview of a bank's prudential position and a new disclosure requirement for banks which record prudent valuation adjustments; and, (iii) updates to reflect ongoing reforms to the regulatory framework. In general, the implementation date for existing disclosure requirements consolidated under the standard will be end-2017.

Guidelines Prudential Treatment of Problem Assets – Definitions of Non-performing Exposures and Forbearance

Read more: https://goo.gl/4HvNT9

Bank for International Settlements

April, 2017

The global financial crisis revealed significant differences on how banks identify and report their assets' quality. This document introduces definitions that promote harmonization in the measurement and application of two important measures for asset quality, non-performing exposures and forbearance, thereby fostering consistency in supervisory reporting. These guidelines complement the existing accounting and regulatory framework for assets' categorization. They harmonize the scope, recognition criteria and level of application of both terms, promoting a better understanding of them, improving identification and monitoring, and promoting consistency in supervisory reporting and disclosures by banks.

ASBA

Thematic Review on Corporate Governance

Read more: https://goo.gl/5rzZJe

Financial Stability Board

April, 2017

One of the main lessons from the global financial crisis is the need to strengthen corporate governance, both in terms of the frameworks and related rules, and in terms of the practices of financial institutions. The peer review found that, while all FSB member jurisdictions have a comprehensive corporate governance framework, its effectiveness can be impacted if the division of responsibility among financial sector authorities is unclear or if the various requirements overlap, leave unwarranted gaps, or are otherwise not well aligned with each other. The peer review also found that although corporate governance frameworks generally provide some degree of proportionality – typically requiring financial institutions to have risk management systems that are commensurate with their size, complexity and risk profile – other factors such as ownership and control structure, geographical presence and stage of development should also be considered. The document offers 12 recommendations covering the following areas: (i) ensuring the basis for an effective corporate governance framework; (ii) disclosure and transparency; (iii) responsibilities of the Board; (iv) rights and equitable treatment of shareholders and key ownership functions; (v) the role of stakeholders in corporate governance; among others.

Stocktake of Efforts to Strengthen Governance Frameworks to Mitigate Misconduct Risks

Read more: https://goo.gl/VHro4z

Financial Stability Board

May, 2017

In the aftermath of the financial crisis, authorities and firms sought to strengthen financial institutions' governance. Ethical conduct, and compliance with both the letter and spirit of applicable laws and regulations, is critical to public trust and confidence in the financial system. Misconduct is also relevant to prudential oversight as it can potentially affect the safety and soundness of an individual financial institution and in turn, the financial system on a broader basis. The report sets out three areas, with a view towards preparing a toolkit for supervisors and firms on: (i) rolling 'bad apples'. This problem arises when employees are dismissed due to misconduct at one firm (or leave under suspicion of misconduct) and then re-surface at another firm; (ii) responsibility mapping. While many policies set out supervisory expectations for the role and responsibilities of the board and senior management, some authorities have extended this concept to require institutions to identify the responsibility of specific senior individuals; (iii) culture. The culture of an institution can be a major influence on its governance framework. This work will explore how governance mechanisms, such as escalation processes, training and non-financial incentives, may mitigate misconduct risks posed by the culture of a firm.

Higher Capital is Not a Substitute for Stress Testing

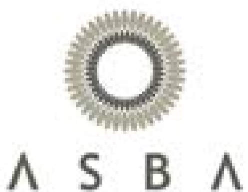
Read more: https://goo.gl/5cvEET

Nellie Liang

The Brookings Institution

April, 2017

One of the key innovations in financial regulation following the financial crisis was stress testing of large banks, which required them to estimate the losses they would face in an extreme adverse scenario of a deep recession and renewed financial crisis. Banks are required to take steps to ensure there would be enough capital to continue lending even in that scenario. Banks frequently complain about stress tests because they are expensive to implement, and they could represent another capital requirement. One proposal is to eliminate stress tests for banks that are required to meet higher capital requirements. However, higher capital requirements would not provide many of the benefits of current stress testing practices. Stress tests enforce important risk management practices that banks might not invest on their own. In addition, these are significant macroprudential tools to ensure banks can support the financial system as a whole in extreme scenarios.



Regional Economic Outlook- Tale of Two Adjustments

Read more: https://goo.gl/RL5skr

International Monetary Fund

May, 2017

Given the reorientation of US policies, market confidence has strengthened along with the improvement in equity markets, the strengthening of the US dollar, and the increase in interest rates in that country. Meanwhile, growth prospects marginally worsened for emerging market and developing economies compared to those presented last October. However, financial conditions have also improved for this group, although financial risks and market volatility remain at high levels. In this global context, the economies of Latin America and the Caribbean are recovering from a recession that took place on a regional scale in 2016. In the midst of a history of two adjustments, growth has been slowed by domestic internal demand. However, the regional recession hides divergent results across countries, with vigorous economic growth in Central America, deep contractions in a few countries, such as Argentina, Brazil, Ecuador and Venezuela, and generally moderate growth in the rest of the region. The projection for medium-term growth remains moderate and stands at approximately 2.6 percent. The outlook responds to fundamental changes in the global economic and policy landscapes, including a spike in commodity prices and external demand from trading partners, as well as an increased global uncertainty around certain policies implemented.

Shadow Banking in the Americas

Read more: https://goo.gl/i1GB6o

Financial Stability Board

May, 2017

This report presents the results of the third Shadow Banking monitoring exercise in the Americas. The report finds that the Monitoring Universe of Non-Bank Financial Intermediation (MUNFI) reached just over USD 60 trillion in the Americas at end-2015; while the Narrow Measure represents 29% of MUNFI. These totals do not include offshore assets of international financial centers. When measured in local currencies, all other financial intermediaries (OFIs) grew on average across participating jurisdictions. Larger economies, such as the United States, Canada, Brazil, and Mexico, have the largest OFI sectors. Investment funds are the largest driver in OFIs. In particular, Money Market Funds account for a relatively larger share of OFIs in the Americas.

FinTech: Innovations You Did Not Know Were From Latin America and the Caribbean

Read more: https://goo.gl/rNQMhb

Inter-American Development Bank and Finnovista

May, 2017

In recent years, a digitalization of the financial sector has been observed, opening the door for entrepreneurial companies to accelerate innovation and change the way in which the public interacts with financial services. For Latin America, it offers the opportunity to provide more effective financial services, as well as to target the currently unattended population, thus in turn improving the levels of financial inclusion. The paper identifies the following types/share of different FinTech activities in the region: (i) alternative financing platforms (25.6%); (ii) payment solutions (25.2%); (iii) business finance management (13.2%); (iv) personal finance management (9.8%); (v) technology companies for financial institutions (8%); (vi) equity management (4.8%); (vii) financial assets trading (5.5%); (viii) alternative scoring (1%). The countries providing the majority of Fintechs in the region include: Brazil, Mexico, Colombia, Argentina, and Chile.

Financial Regulation: The Way Forward

Read more: https://goo.gl/HcNjof

Speech by
Mr. Ravi Menon,
Managing Director

Monetary Authority
of Singapore

April, 2017

The author considers there are two key priorities in the next phase of financial regulation. First, to take stock of the reforms to-date and evaluate their effects, consolidate what needs to be preserved, and fine-tune what needs to be improved. In taking stock of the reforms, it is important to consider why we embarked on them. The reforms were meant to address three key issues: (i) strengthening of the banks; (ii) making derivatives markets safer; and, (iii) tackling the too-big-to-fail problem. As for the effects of the reforms, there are no definite answers yet. But some authors suggest effects on market liquidity, bank profitability, and balanced economic growth. As a consequence, the unintended effects of reforms may be reduced by fine-tuning some reforms considering two principles: The first one, by addressing isk proportionality and global consistency. The second one, to position regulation for the technological changes sweeping the financial industry by harnessing the opportunities they present while properly managing their risks.

Basel Should Rethink Proportionality in Banking Regulation

Read more: https://goo.gl/CUiYgZ

Andreas Dombret
Bundesbank

March, 2017

Lately, bank supervisors regularly listen to two concerns from their supervised institutions: (i) that the post-crisis regulatory reforms have become far too burdensome for banks to be profitable and; (ii) that the pending Basel III reforms will make inherent regulatory loads even heavier. Complaints become particularly loud when coming from smaller banks. The author believes the European Union should take a closer look at what can be done to enhance proportionality in supervision and regulation for banks with low-risk profiles. Moreover, he recommends that the Basel Committee should devote a systematic thinking process over these concerns.

Financial Soundness Indicators – Looking Beyond the Lessons Learned From the Crisis

Read more: https://goo.gl/g5qHbi

Speech by
Mr. Fernando Restoy, Chairman, Financial Stability Institute

Bank for International Settlements

April, 2017

The financial system is undergoing rapid technological changes in the way financial products and services are delivered. These changes are likely to disrupt the structures of the financial markets and may have implications for the allocation of risks and vulnerabilities in the financial system as well as for the effectiveness of the Financial Soundness Indicators (FSI). The latest FSIs' revision made them more effective in assessing financial sector risks as well as in pointing out issues that are of concern to financial sector supervisors. However, new technologies and players could lead to new operational and market conduct risks. Thus, the FSIs may need to be updated to incorporate the industry's use of new technologies in the supervisory process.

Will FinTech Create Shared Values?

Read more: https://goo.gl/vFEJR7

Speech by
Nobuchika Mori, Commissioner

Financial Services Agency

May, 2017

The author looks at FinTech mainly due to the anticipation that non-linear, disruptive innovation could occur to create new business and service models which had never been imagined before, and to become a game changer in the whole industry worldwide. Advance in new technologies, unbundling and rebundling of services, the emergence of new business models and new entries into the financial sectors will have the potential to enhance competition, facilitate innovation and create shared value with customers. If the financial business is to proceed with the unbundling and rebundling of functions further, there may be increased need for regulations to shift from entity-based to a function-based one, aiming to impose the right degree of requirements on functions which deserve regulatory protection. Regulators should be guided by their ultimate goal of best promoting national welfare by contributing to the sustainable growth of the national economy and wealth.

What's New with Regulation in the Mobile Payment and Fintech Space?

Read more: https://goo.gl/x9ukRW

Susan Pandy and Marianne Crowe

Federal Reserve Bank of Boston

May, 2017

The exponential increase in technological innovation, including the rapid proliferation of smartphones, artificial intelligence, and big data analytics, has drastically impacted the way the financial services industry operates. Government organizations should view their role as helpers to create a thriving, sustainable financial services environment that supports innovation and furthers other policy objectives, while working collaboratively with FinTech innovators to mitigate potential risks. This document reports on how stakeholders can work collaboratively to achieve the common goal of responsible innovation and provides interesting elements for FinTechs, their partners (including financial institutions) and regulators, being the latter those ultimately responsible for ensuring that all parties comply with the relevant regulations.

Prospects for Blockchain-based Settlement Frameworks as a Resolution to the Threat of De-risking to Caribbean Financial Systems

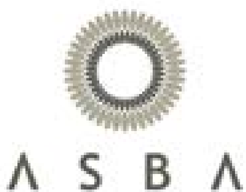
Read more: https://goo.gl/ng4WAe

Robert Crane Williams

Economic Commission for Latin America and the Caribbean

May, 2017

Caribbean countries have been seriously impacted by the trend toward "de-risking" in the global financial system, and this is damaging their economic security and the ability of Caribbean businesses to innovate. The emergence of decentralized ledger systems that use cryptographically secured "blockchain" technology has been touted as a potential alternative means for financial service institutions to support cross-border transactions. This technology appears to have the potential to address the problem of de-risking on two fronts. First, an appropriately designed blockchain-based settlement network would offer tools to improve surveillance of transactions, enabling the detection of illicit financial transfers and decreasing both risk and compliance costs. Second, a blockchain-based network would offer Caribbean banks the opportunity to bypass correspondent banks altogether. This would reduce transaction costs and increase efficiency, although the need to prevent money laundering and terrorist financing is a burden that will remain upon the region's financial institutions.



Crowdfunding and Financial Inclusion

Read more: https://goo.gl/YPn4wC

Ivo Jenik, Timothy Lyman, and Alessandro Nava

Consultative Group to Assist the Poor

March, 2017

While definitions of crowdfunding vary, they often include the following key components: (i) raising funds in small amounts; (ii) funding from many to many; and (iii) use digital technologies. The competition created between Fintechs and incumbents could foster economic growth and entrepreneurship, especially in countries with less developed financial systems. However, this new technology creates a peculiar regulatory challenge that requires a framework to be in place to protect funders and fundraisers. This paper argues that crowdfunding can play an important role in financial inclusion if an enabling and safe environment is in place. The paper explains the main characteristics and modalities within the framework of financial inclusion, and highlights the areas that require further attention from policy makers.

Digital Financial Inclusion: Emerging Policy Approaches

Read more: https://goo.gl/VoUA82

G20, Global Partnership for Financial Inclusion, World Bank Group

April, 2017

Digital financial services, together with effective oversight and supervision, can expand the scale, scope and reach of financial services, and are essential to closing the remaining gaps in financial inclusion. This report provides examples of how countries are implementing measures in line with the High Level Principles for Digital Financial Inclusion. These principles include: (i) promoting digital financial services as a priority to drive development of inclusive financial systems, including the use of coordinated national strategies and action plans; (ii) identifying and effectively addressing new risks - both individual and systemic - in a timely manner; (iii) developing a legal and regulatory framework that is predictable, risk-based and fair; and, (iv) policymakers and industry working together to achieve a robust, open and efficient digital infrastructure. Finally, the authors present a number of insights to guide the steps forward.

Interconnections of the Ecuadorian Private Banking
Superintendencia de Bancos del Ecuador. Ecuador.
Read more: https://goo.gl/ZkK5gF

FinTech and RegTech: Challenges for Supervision in the Field of AML/TF
Superintendencia del Sistema Financiero. El Salvador.
Read more: https://goo.gl/HaaRnw

De-Risking: Risk Elimination/ Reduction and Effects on Correspondent Banking Relationships
Superintendencia de Bancos. Guatemala.
Read more: https://goo.gl/1mMyPU

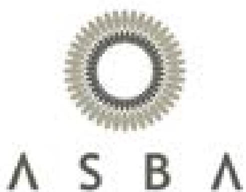
News from Honduras
Comisión Nacional de Bancos y Seguros. Honduras.
Read more: https://goo.gl/tpRDbe

Technical Contribution of the CNBV
Comisión Nacional Bancaria y de Valores. Mexico
Read more: https://goo.gl/SEDmSP

Inspection Activities of Condusef
Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros.
Read more: https://goo.gl/Uyymwd

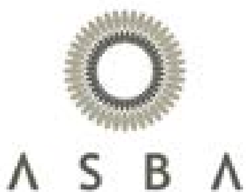
A Market-Based Proposal for Regulatory Relief and Accountability
Federal Deposit Insurance Corporation.
United States of America.
Read more: https://goo.gl/jXBosh

Financial Markets and Accountability: A Better Way Forward
Federal Deposit Insurance Corporation.
United States of America.
Read more: https://goo.gl/GDQoP5



FDIC Quarterly Banking Profile
Federal Deposit Insurance Corporation.
United States of America.
Read more: https://goo.gl/SCBd4g

Statement of FDIC Vice Chairman Hoenig On The Global Capital Index Semi-Annual Update
Federal Deposit Insurance Corporation.
United States of America.
Read more: https://goo.gl/bRx6Dd



Institutional Events

ASBA: III High Level Technical Meeting (hltm) on Innovation and Financial Stability: Regulation and Supervision of a New Ecosystem
August 8-9, 2017.
Miami, Fl., United States of America.

ASBA: LXXXII Meeting of the Board
August 10-11, 2017.
Miami, Fl., United States of America.

International Participation

CGBS: Annual Conference - Caribbean Group of Banking Supervisors
July 6-8, 2017.
Antigua and Barbuda.

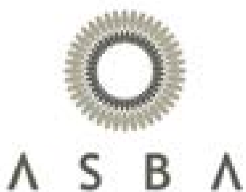
ASO Bancaria: 17th Pan-American Congress on Risk for AL/TF
July 13-14, 2017.
Cartagena, Colombia.

ASBA-FELABAN: II Latin American Congress on Financial Risks
August 16-18, 2017.
Lima, Peru.

FFIEC: International Banking Conference
August 29-31, 2017.
Washington, DC, United States of America.

CEMLA: VII Meeting on Financial Stability
September 7-8, 2017.
Viña del Mar, Chile.

FELABAN: V Congress on Banking and Economics of Latin America - CLEC Panama
September 8, 2017.
Panama City, Panama.



Training

Seminario sobre Estabilidad Financiera (Only in Spanish)
July 3 - 7, 2017.
Madrid, Spain
Read more: https://goo.gl/pTJJ7c

Risk-Focused Supervision and Risk Assessment Seminar
July 10 - 14, 2017.
Mexico City, Mexico.
Read more: https://goo.gl/5YUCtG

Contabilidad de Instrumentos Financieros y Normas Internacionales de Información Financiera (Only in Spanish)
August 7 - 9, 2017.
San Jose, Costa Rica.
Read more: https://goo.gl/p9rSRb

Advanced Credit Risk Measurement and Management Seminar
August 7 - 11, 2017.
Sao Paulo, Brazil.
Read more: https://goo.gl/egDwxm

Balance Sheet Management and Liquidity Risk Management
August 28 - September 1, 2017.
La Paz, Bolivia.

Capital Planning and Stress Testing Seminar
September 11 - 15, 2017.
Bogota, Colombia.

Policy implementation meeting on proportionality in bank regulation and supervision and Non-Performing Loans
September 13 - 14, 2017.
Brasilia, Brazil.

Bank Information Technology
September 18 - 22, 2017.
Panama City, Panama.

Prácticas Supervisoras y Pilar II (Only in Spanish)
September 25 - 28, 2017.
Santiago de Chile, Chile.

within the authority or scope of financial sector regulators, they affect their actions, their coordination, and their capacity to respond promptly to the regulation needs of the market.

The regulator’s ability to influence the market relates to capital, risk, governance, and market conduct management in financial entities. Risk management in a digital era interrelates issues around the protection of the privacy of the data and information transmitted and the use of such data by criminals. Thus, cyber security and confidentiality management are inherent to the digital age, requiring their inclusion in the assessment of an institution’s risk management. It is at this juncture that difficulties may arise to secure a seamless operation since the protection of the system from criminal activities or the administration of third party vendors, handling essential information, need clear rules about the protection of the data’s integrity, timeliness of access, and availability.

Moreover, provided that digitally offered products and services have no visible “intermediary,” clients may run the risk of acquiring services or products with insufficient information or, even worse, with misleading information. Thus, rules of transparency, proper disclosure of information, and due recourse for clients cannot be overlooked.

Finally, the adoption of the new technology-based era poses a challenge to everyone not adopting it and to those who believe that this is a temporary disruption. Although some of it may be true, due to the experimental stage in which many activities are in, the new financial technologies are and will change the financial sector’s landscape. Thus, all parties involved would be in a better place accepting this fact and preparing for it. The latter applies in particular to the State, which shall move from an analog to a digital world.

Therefore, the financial sector regulators and supervisors are immersed in a careful review of a complex set of regulations to incorporate the new technologies in their markets in a safe, competitive, transparent, and consumer-centered manner; while making sure that their actions will not put financial stability in harm’s way neither its development. However, this is a time-consuming process, which may explain the lag in the regulation of new technologies.

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