A brief look at the region’s regulatory and supervisory framework would denote the adoption of Basel I and the basic or standardized approaches of Basel II, with some exceptions which include the countries that are part of the Basel Committee. Thus, the reader may be tempted to conclude the region has outdated frameworks; however, the fact is that these have proven effective as most financial markets in the region remain stable with adequate capital levels.

Even though the market is currently experiencing stability and capital sufficiency, the low return and volatility environment, the increasing role of financial technology’s companies, and the implementation of the latest regulatory standards are pressing on profit margins; thus, on their capacity to grow and develop. This environment could lead to the consolidation of the market in search of leveraging the benefits of economies of scale. Although a move towards consolidation is an acceptable response in many markets, its unintended consequences need more analysis in emerging and developing economies.

Indeed, a higher concentration of the market may have as its consequences the reversal of the financial inclusion process, greater opacity in the market through the incursion of new players with insufficient experience and oversight, and lesser opportunities for small and medium enterprises. Each of these consequences could be analyzed independently; however, for this note, they are scenarios that need to be considered at the time of developing or revising the regulatory framework.

To deal with the consequences mentioned in the preceding paragraph, which may be brought about by higher market concentration, this note argues for the purposeful adoption of proportional approaches to regulation and supervision. These are regulatory frameworks based on the proper understanding of the financial markets segmented by size, risk profile, business model, complexity, among others. Their adoption reduces the regulatory burden and increases the efficiency of supervisory efforts by developing more in-depth approaches for those segments that may increase the risk of financial stability.

The region has historically used proportional approaches by mostly adapting and not adopting the international standards in most cases. Some countries have done so through the adoption of legal bodies segmenting their markets by type of entity (e.g., cooperatives), others have done so by using a less stringent

(Continued on page 15)
Effective Cooperation for Resolution of Financial Institutions in the Americas

https://goo.gl/urGPrN

The extended effects of the financial crisis eased the way for regulatory bodies to agree on elements that should be present in orderly resolution processes for institutions of all sizes, in conjunction with effective protection schemes for depositors and other clients or customers. The relationship between supervision, resolution, and deposit insurance is intricate and requires a safety net with well-aligned public policy objectives, mandates, and powers. Rigorous prudential supervision is essential for deposit insurance and resolution mechanisms to be effective. The adequacy of deposit insurance and resolution regimes depends on the coordination among the stakeholders. This document introduces guidelines for effective cooperation, including: (i) Coordination agreements; (ii) legal gateways; (iii) coordination mechanisms and information-sharing frameworks; (iv) collaborative environment.

Frameworks for Early Supervisory Intervention

https://goo.gl/AuDc3J

One of the lessons learned from the financial crisis was the critical role of an effective supervisory framework to complement financial regulation. Furthermore, for supervision to operate effectively, identification and early intervention are critical to prevent problems from escalating. This paper presents a range-of-practice study on how supervisors around the world have adopted frameworks, processes, and tools to support early supervisory intervention. In general, supervisory authorities have adopted more forward-looking approaches, incorporating both quantitative and qualitative elements into their risk-based supervisory assessments. In addition to institution-specific supervision, supervisors are also adopting benchmarking exercises and thematic reviews as part of their toolkit. This document finds that early supervisory intervention is challenging as it involves the supervisory review process, supervisory frameworks and methods, decision-making structures and processes, and, importantly, skilled supervisors that have the “ability” and “will” to act early and effectively.
Early Intervention Regimes for Weak Banks

https://goo.gl/shqVPX

Supervisors conduct early interventions with the aim of prompting banks to address their weaknesses. Interventions are usually based on discretionary powers and supervisory judgment. However, some jurisdictions have introduced more formal intervention regimes to address weaknesses and conduct effective actions when conditions are met. Formal regimes vary significantly across jurisdictions, with differences arising from the indicators used to trigger early intervention, the steps or actions taken as part of the intervention, as well as the powers and degree of discretion allowed to supervisors in deciding on whether, when and how to initiate an early intervention. Formal regimes can generally provide useful backstops to discretionary regimes, as their existence can constitute a credible inducement to institutions in need of remedial action.

Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors

https://goo.gl/fYedX5

Market misconduct creates significant trust problems. Mitigating misconduct risk requires a multifaceted approach. The toolkit identifies 19 tools that firms and supervisors can use to address three key issues identified by the FSB as relevant to misconduct, namely: i) Mitigating cultural drivers of misconduct - including tools to effectively develop and communicate strategies for reducing misconduct in firms and for authorities to effectively supervise such approaches. ii) Strengthening individual responsibility and accountability - including tools that seek to identify key responsibilities and functions in a firm and assign them to individuals to promote accountability and increase transparency. iii) Addressing the “rolling bad apples” phenomenon - including tools to improve interview processes and onboarding of new employees and for regular updates to background checks to avoid hiring individuals with a history of misconduct.
Stress Testing Corporate Governance

https://goo.gl/5mq3JY

Following the financial crisis of 2008, there has been much speculation about the factors that caused it, and what can keep it from happening again. IFC has focused on the role that poor governance played in creating an environment where such an event could occur—and how good governance practices can contribute to a healthier economy that can withstand the forces that led to the crisis. Although governance failure was not the primary cause of the financial crisis, weak governance left the financial system less able to resist the pressures that brought it about, including global payments imbalances, surplus liquidity, weak regulation and prudential supervision, and market-pressure short-termism. This compendium looks at the development of corporate governance since the financial crisis and asks whether governance rules and practices have developed in a way that positions companies better to address systemic risk.

The Identification and Measurement of Non-Performing Assets: A Cross-Country Comparison

https://goo.gl/PqfVZY

The prompt identification and accurate measurement of non-performing assets (NPAs) provide confidence to market participants and supervisors in banks’ reported asset quality metrics, earnings performance and regulatory capital ratios. The authors find considerable differences across jurisdictions in applicable accounting standards, which are exacerbated by divergent prudential frameworks that govern NPA identification and measurement. These differences make it difficult to make meaningful comparisons both within and across jurisdictions on key asset quality metrics. This paper outlines the major differences across key jurisdictions and provides a range of prudential policy options to enhance the identification and measurement of NPAs.
Towards a Sectoral Application of the Countercyclical Capital Buffer: A Literature Review

https://goo.gl/LCLuFn

The objective of this paper is to conduct a literature review on the sectoral countercyclical capital buffer (CCyB). Overall, literature shows that there is a justified need for sectoral macroprudential tools, and that a sectoral CCyB may be a useful complement to both the Basel III CCyB and existing targeted instruments in the macroprudential toolkit. In particular, a sectoral CCyB may have more direct impact on the area of concern, stronger signaling power, and smaller effects on the wider economy. However, countercyclical capital buffers, both broad-based and sectoral, remain largely untested and more work is needed to assess their ability to achieve the different objectives that are expected of them. Furthermore, a sectoral application of the CCyB entails various operational challenges, such as defining modalities on when to activate a sectoral CCyB, and on its interactions with the Basel III CCyB as well as with other instruments.

Capital Treatment for Simple, Transparent and Comparable Short-Term Securitizations

https://goo.gl/BViDKq

The standard sets out additional guidance and requirements for the purpose of applying preferential regulatory capital treatment for banks acting as investors in or as sponsors of simple, transparent and comparable (STC) short-term securitizations, typically in asset-backed commercial paper (ABCP) structures. Provided that the set of STC short-term criteria are met, STC short-term securitizations will receive the same modest reduction in capital requirements as other STC term securitizations. Changes made include setting the minimum performance history for non-retail and retail exposures at five years and three years, respectively, and clarifying that the provision of credit and liquidity support to the ABCP structure can be performed by more than one entity, subject to certain conditions. The short-term STC framework takes effect immediately.
World Economic Outlook: Cyclical Upswing, Structural Change

https://goo.gl/hJFmqB

“Global growth is expected to reach 3.9 percent in 2018 and 2019, mainly supported by strong momentum, favorable market sentiment, accommodative financial conditions, and the effects of expansionary fiscal policy in the United States. This new report projects that advanced economies will continue to expand above their potential growth rates this year and next year before decelerating, while growth in emerging market and developing economies will rise before leveling off. However, for most countries current favorable growth rates will not last. Downside concerns include a potential tightening of financial conditions, waning popular support for global economic integration, growing trade tensions and risks of a shift toward protectionist policies, and geopolitical strains. Thus, policymakers should seize this opportunity to bolster growth, make it more durable, and equip their governments better to counter the next downturn.”

Global Economic Prospects: The Turning of the Tide?

https://goo.gl/zWbEi7

Global growth is expected to reach 3.1 percent in 2018, but will decelerate over the next two years as global slack dissipates, trade and investment moderate, major central banks remove policy accommodation, and financing conditions tighten. Amid moderating international trade and tightening global financing conditions, growth in emerging market and developing economies (EMDEs) is projected to level off, reaching 4.7 percent in 2019 and 2020, up from 4.5 percent in 2018. EMDE policymakers should rebuild monetary and fiscal policy buffers and be prepared for rising global interest rates and possible episodes of financial market turbulence. As for Latin America and the Caribbean, regional growth is expected to reach 1.7 in 2018 and 2.4 percent in 2019-20. The region is particularly vulnerable to downside risks related to an abrupt tightening of financing conditions or a shift in investor sentiment, a breakdown in NAFTA negotiations or a rise in protectionism trade policies, and the escalation of domestic policy uncertainty.
Regional Economic Outlook: Seizing the Momentum

https://goo.gl/hCMYAc

The broad-based upswing of global growth in 2017 is reflected in the solid gains posted by the economies of the United States and Canada, both of which are expected to grow above potential in the near term. In particular, growth in both advanced and emerging market and developing economies is expected to gain further momentum in 2018 and 2019, reflecting the effects of expansionary US fiscal policy, favorable global financial conditions, and improved prospects for external demand. Despite the improved near-term outlook, however, medium-term prospects are tilted downward. These potential risks include the possibility of a sharp tightening of financial conditions, escalating trade tensions and risks of a further shift toward protectionist policies, and geopolitical strains.

Latin American Economic Outlook 2018: Rethinking Institutions for Development

https://goo.gl/HsUqeM

The report presents an overview of the main macroeconomic challenges in Latin America and the Caribbean and explores policy options that can promote potential growth, with particular emphasis on trade. The report also analyzes the link between the low level of trust and the disconnection and dissatisfaction of society with institutions and with a series of structural challenges. In this sense, the report analyzes how the social contract in Latin America and the Caribbean can be reinforced mainly through a government that is able to respond to the demands of citizens, as well as through the design of policies and institutions that provide society equal socio-economic opportunities in a rapidly changing global context.

The Caribbean Outlook 2018

https://goo.gl/mtmZNr

This first issue of The Caribbean Outlook not only offers perspective on the threats and challenges faced by the Caribbean, but also proposes a rich body of innovative solutions to issues which must be confronted resolutely if the sub region is to achieve sustainable development. Over the past five decades, Caribbean small island developing States have made significant progress in both deepening and entrenching democratic traditions and norms, and in advancing human development. Despite such progress, long-standing problems are now being aggravated by climate change. In this context, the main challenge facing the Caribbean is to identify paths to development that emphasize macroeconomic stability with growth, equity and environmental sustainability.
Financial Stability

Financial Supervisory Architecture: What has Changed After the Crisis?

https://goo.gl/u29NFw

The post-crisis regulatory reforms have led to changes in the institutional design for financial sector oversight, mainly in search for additional synergies and better coordination. Jurisdictions have assigned financial sector responsibilities to various authorities following a variety of models, which can be grouped in one of the flowing categories: sectoral, integrated and partially integrated. In addition, regulators have added two new relevant functions to their repertoire, namely macroprudential policy and bank resolution. Regulators have also strengthened consumer protection and taken a more comprehensive view of financial stability. As a result, some supervisory functions have become more integrated, while central banks have taken on a more prominent role, acquiring more responsibility for microprudential, macroprudential, and resolution policies.

Monitoring Banking System Connectedness with Big Data

https://goo.gl/LRNvkR

The financial crisis has made clear the need to monitor aggregate financial stability, and, of course, the need to monitor individual financial firms from a microprudential standpoint remains. However, linkages between financial firms cannot be observed or measured easily. In this paper, the authors propose a procedure that generates measures of connectedness between individual firms, and for the system as a whole based on information observed only at the firm level. The authors show how bank outcome variables of interest can be decomposed for how network analysis to measure connectedness across firms. The paper introduces two such measures: one based on a decomposition of bank stock returns, the other based on a decomposition of bank quarterly return on assets. Network analysis of these decompositions produces measures that could be of use in financial stability monitoring, as well as the analysis of individual firms’ linkages.
Anti-Money Laundering and Correspondent Banking


https://goo.gl/gpyBKk

The authors outline the current state of cross-border payments and the challenges it poses for financial access and effective anti-money laundering efforts. The authors then suggest a number of ways to update global financial standards to support innovation as a means to enhance financial inclusion, improve transparency, and financial deepening in support of economic growth. These suggestions include: (i) the need to require settlement for cross-border payments in a specified, short timeframe; (ii) to require pre-confirmation of the recipient account; (iii) to require interoperability of payment systems; and (iv) to require portability of identity.

Cryptocurrencies Head in the Sand is Not an Option - Implications on Banks AML, Sanctions and KYC

https://goo.gl/DHdVYk

The objective of this publication is to explore the financial crime risks related to cryptocurrencies and provide concrete suggestions on how institutions can approach these. Some characteristics of cryptocurrencies, including anonymity and limited participant identification and verification, coupled with their global reach and the lack of a central oversight body, present many new Anti-Money Laundering (AML), Sanctions and Know Your Customer (KYC) risks. Banks need to consider how they may be exposed directly or indirectly, through their customers or third parties, and evolve their programs to identify and address these risks.
The Decline in Access to Correspondent Banking Services in Emerging Markets: Trends, Impacts and Solutions

https://goo.gl/NMQgpq

“Since the financial crisis, global banks have been reviewing and sometimes terminated or limited their correspondent banking relationships (i.e. de-risking) to different regions, jurisdictions, or categories of clients. In most cases, derisking is caused by compliance costs, mainly related to AML/CFT regulations, and lack of profitability. To address these situations, the document proposes the following ideas: (i) Gathering data on CBR closures, the industries, and types of activities affected by derisking; (ii) Encouraging at-risk respondent banks to include the issue of derisking in their own contingency planning; (iii) Establishing or maintaining open channels of communication between correspondent and respondent banks; (iv) Strengthening the AML/CFT regime by ensuring that resources are allocated and used according to risk; (v) Properly regulated, Fintechs have a great potential for lowering the cost of compliance, reducing the use of cash, increasing monitoring, and boosting confidence of correspondent banks in national systems.”

Financial Inclusion

The Global Findex Report 2017

https://goo.gl/2FVcTM

The Global Findex is the world’s most comprehensive set of data on how people make payments, save money, borrow, and manage risk. This third edition finds that 69 percent of adults have an account, up from 62 percent in 2014. Even as account ownership continues to grow, inequalities persist. While 72 percent of men have an account, only 65 percent of women do. Account ownership is also lower among young adults, the less educated, and those who are out of the labor force. Globally, about 1.7 billion adults remain unbanked, with virtually all of them living in the developing world. Mobile phones and the internet increasingly offer an alternative to traditional channels for making direct payments from an account. By moving routine cash payments into accounts, governments and businesses could help dramatically reduce the number of unbanked adults.
Financial Inclusion in the Digital Age

https://goo.gl/5E83h1

This report highlights some of the central frictions that prevent greater financial inclusion and financial well-being, and associated technological innovations that are fostering creative new approaches to mitigating these frictions for individuals and small businesses globally. Technological innovations have led to the emergence of ‘for-profit, mission-driven’ financial technology (Fintech) players focused on enabling greater financial inclusion. These Fintech companies are mitigating frictions by designing novel products or following innovative business strategies, with the common end goal of enhancing financial inclusion. The paper provides a list of 100 Fintech companies that are supporting ‘Financial Inclusion in the Digital Age’ across four main areas: payments, lending and related ecosystem, savings and financial planning, and insurance.

Green Microfinance in Latin America and the Caribbean

https://goo.gl/XojLeV

Climate change and environmental degradation threaten low-income households and microenterprises in LAC. The inclusion of environmental dimensions in microfinance practices and products (i.e., green microfinance) could transform these financial and environmental threats into market opportunities. The present study highlights how green microfinance is a dynamic and growing market in LAC. Among the main challenges for green microfinance we find low public support, lack of dedicated funds, and perceived low client demand. Better coordination and appropriate tools, products and strategies need to be developed and successful business models should be explored to overcome the present challenges and achieve the potential of a green microfinance sector in LAC.

Financial Inclusion of Women in Latin America - Current Situation and Policy Recommendations

https://goo.gl/TkhjBh

Financial inclusion is an important factor for the empowerment and economic autonomy of women, considering it allows them to expand their possibilities for productive, personal, and family development. However, there is evidence of gender gaps in terms of access, knowledge and use of products and services offered by the financial sector. This document recommends advancing policy measures that encourage innovation of financial products for women, financial education programs that consider gender and strengthen women capabilities, as well as the implementation of gender indicators to better characterize the supply and demand of this type of financial products.
Ending De-Risking in the Caribbean: Eliminating Risks for the World
Prime Minister of Antigua and Barbuda: Gaston Brown, Antigua and Barbuda.
https://goo.gl/ZzQU85

Panama on the Route to Basel III
Superintendente de Bancos de Panamá: Ricardo G. Fernández D. Panama.
https://goo.gl/TMqSyR

The Role of Macroprudential Supervision: Part II
Superintendencia de Bancos de Guatemala, Guatemala.
https://goo.gl/Bs7kVu

Implementation of the Operational Risk Information Center (CIRO)
Autoridad de Supervisión del Sistema Financiero, Bolivia.
https://goo.gl/3Lt3fj

Snapshot of the CONDUSEF’s Financial Education Program
Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros, Mexico.
https://goo.gl/4z4SHM

Regulation to Facilitate Financial Inclusion in El Salvador: Regulating New Digital Services
Banco Central de Reserva de El Salvador, El Salvador.
https://goo.gl/CW1mfY

Education and Financial Inclusion
Superintendencia del Sistema Financiero, El Salvador.
https://goo.gl/HmRt79

Relevant Facts
Comisión Nacional Bancaria y de Valores, Mexico.
https://goo.gl/tzby9z

News and Updates
Comisión Nacional de Bancos y Seguros, Honduras.
https://goo.gl/wE4UTY
Institutional Events

LXXXVI Board Meeting
To be confirmed
To be confirmed

International Participation
Seminar - Technology Risk Supervision
August 10, 2018.
Mexico City, Mexico.

53rd Banking Convention
Cartagena de Indias, Colombia.

Training

Liquidity Risk Management Seminar
Montevideo, Uruguay.
https://goo.gl/Cs8tHq

Bank Analysis and Examination School
August 6 - 9, 2018.
Gerogetown, Guyana.
https://goo.gl/uWnSxc

Technology Operations and Risk Management
August 6 - 10, 2018.
Mexico City, Mexico.
https://goo.gl/uWqYa4

Accountability on Financial Instruments and IFRS (Only in Spanish)
Quito, Ecuador.
https://goo.gl/DPVpHM

Problem Bank Supervision School
Asuncion, Paraguay.
https://goo.gl/m9Ms1s
Banking Crisis and Resolution  
Oranjestad, Aruba.  
https://goo.gl/oVvy4U

Regional Workshop on Basel III Monitoring  
September 4 - 6, 2018.  
Brasilia, Brazil.  
https://goo.gl/hqHqh9

Advanced Credit Risk Measurement and Management Seminar  
Lima, Peru.
supervisory approach, and recently some have implemented effective, proportional regulatory and supervisory frameworks. In all cases, the region was able to foster the development of business models that attended the needs of underserved or unserved clients by the traditional intermediaries and absorbed the positive effects of the incursion of international financial entities by gaining market share through price, differentiation strategies, and competition.

The adoption of a tailored approach to regulation and supervision could alleviate the challenges of reversing the financial inclusion process, creating greater opacity in the market, and increasing financing costs. In fact, a regulation that addresses risks in a differentiated manner and supervises them according to the threat they represent for financial stability will make better use of increasingly scarce supervisory resources. Also, a differentiated approach to regulation and supervision in different segments reduces the regulatory burden and may improve the cost efficiency of the market creating financing opportunities for small and medium-sized enterprises. Finally, depending on the business model or type of organizations non-prudential matters could have greater importance in the supervisory process to secure transparency and adequate attention to clients at different levels.

The adoption of proportional approaches to regulation and supervision, as noted above, would keep markets from consolidating in search of economies of scale; therefore, maintaining a structure that allows for access to financing in emerging and developing economies like the ones in the region. A structured proportionate approach would give room to international and regionally active banks, while it would also secure the continued development of national banks, microfinance institutions, cooperatives, financial technologies, and other variations in the region’s markets.

Although it is part of the way of doing things in the western hemisphere, the development of supervisory and regulatory approaches that reflect a proper understanding of the market under supervision and moves away from a one-size-fits-all model seems to have value in any regulatory development assessment. Indeed, it would be beneficial for the continued development of the region’s markets, and most importantly for the shaping of a financial sector with higher efficiency in serving the needs of its economies.