Banking Challenges and Opportunities in an Era of Global Crisis: Prospects for South Florida and Latin America

Regulatory Reforms in the Americas
Developments and Challenges

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The severe problems faced by the financial sector in several countries across the world, leading to and during the crisis, were not observed in the majority of the countries in the Americas.

The relative simplicity and insufficient depth of most of the region’s financial markets, in which complex products and services were either unknown or not authorized, contributed to containing the negative impacts of the crisis.

Regulatory capital - mostly common equity - and the prudential measures implemented, helped the region’s banking systems to be adequately protected from significant potential impacts.
Regional characteristics

Regulatory Capital to RWA - Selected Economies in LATAM

Source: Financial Soundness Indicators - International Monetary Fund
Regional characteristics

- Due to the crisis, access to liquidity was preemptively dealt with through the securing of credit lines, use of high reserve requirements and implementation of liquidity management rules in line with international standards.

- The authorities in most of the Americas developed work plans to implement the issued international standards with priority given to the implementation of the Basel Core Principles and the building of the framework to facilitate the transition from Basel I to Basel II.

- Data quality and sufficiency continue being a challenge to constructing adequate monitoring systems, to improve off-site surveillance and to implement and strengthen risk-based supervision approaches.
# International Standards Implementation

## Core Principles
- Supervisory Powers
- Consolidated supervision
- Home – host relationships
- Capital adequacy
- Problem assets, provisions and reserves
- Market, interest rate, liquidity and operational risk
- Financial reporting, disclosure and transparency

## Basel II
- **Pillar 1**
  - Credit risk
  - Standardized Approach
  - Market Risk
  - FX risk
  - Operational
    - Basic Indicator
- **Pillar 2**
  - Supervisory Powers
  - Supervisory discretion items
- **Pillar 3**
  - Insufficient market transparency

## Basel III
- **Capital**
  - Quality, Consistency and transparency
- **Risk coverage**
- **Leverage ratio**
- **Countercyclical buffers**
  - Dynamic provisioning
  - Buffers regulation
- **Liquidity**
  - LCR
  - NSFR
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Challenges

- Implementation of Basel III on a consolidated basis requires greater cross border cooperation and more effective information sharing between agencies.

- Even though capitalization levels are currently adequate, deductions of deferred tax assets may have a significant impact on its sufficiency.

- Lack of access to hedging instruments such as Credit Default Swaps (CDS), due to the underdevelopment of these markets in the region, limit risk management practices.

- Poor adherence to international standards and the sufficiency and quality of information impair market disclosures.
Challenges

- Sovereign risk treatment in relation with subsidiaries capital requirements may create unnecessary distortions

- Deleveraging management needs greater coordination

- The implementation of countercyclical buffers needs to be balanced to avoid price increases or limit credit availability

- Adequate conduct of higher level risk management techniques’ adoption.

- Insufficiency of HQLA and risk exposure
Opportunities

- Capacity building and strengthening
- Greater convergence of regulatory principles and consistency in their adoption
- Greater and most effective cross border cooperation
- Planning and progressive implementation
- Building up of domestic capital markets
- Reshaping of financial markets to support economic growth
Final comments

- Basel III shall be understood as good regulation; thus, desirable for implementation
- The road to Basel III requires addressing of Pillars 2 and 3 of Basel II to secure an adequate framework
- Maintaining the level playing field shall be a priority in the planning and implementation process of the new standards
- Impact and regulatory assessments shall become a regular practice for effective regulation and supervision as we move forward
- Need to understand the global market and respond with an adequate structuring of our markets
Thank you very much!

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