

Regulation Flash

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Economic Analysis

Regulation & Public Policies
and Recovery & Resolution
Policy Units

FSB determined to complete core regulatory reform in 2014

In a [letter](#) sent to the G20 Finance Ministers and Central Bank Governors (who met in Sydney in 22-23 February), the Chairman of the Financial Stability Board (FSB) outlined the roadmap to complete the core elements of the G-20 regulatory reform in 2014 and identified the main lines that should guide the next G20 Summit in Brisbane regarding the strategy to maximise the benefits of the regulatory reform.

Ahead of Brisbane's G-20 Summit: deliverables by global standard setters

The standard setters will deliver on the following issues before the next Summit (Brisbane, 15-16 November):

Building more resilient financial institutions

- The **Basel Committee (BCBS)** will set out its plan to **address the excessive variability in the calculation methods for risk-weighted assets (RWAs)**.

Our assessment: undue disparities in RWAs are at the root of the lack of consistency and comparability between capital ratios (and potentially other regulatory measures). Even if progress on this front should ideally have come earlier, a commitment to deliver in November is positive.

- The BCBS will finalise the Net Stable Funding Ratio (NSFR), which is an essential component of the Basel III reforms to promote a more resilient banking sector.

Our assessment: it represents a decisive in building a final liquidity regulatory framework. Nevertheless, some technical details are still under discussion.

Addressing the too big to fail (TBTF) issue

- G-SIFIs will be subject to resolution planning and resolvability assessments, higher capital and more intensive supervision.
- The FSB will propose (i) a **global standard for a minimum level of GLAC for SIFIs** (*Gone-concern loss-absorbing capacity*), and (ii) cross-border recognition of resolution actions (including bail-in and temporary stays) will also be proposed.

Our assessment: an adequate amount of GLAC will help in the implementation of the bail-in tool but the minimum level should be established on a case-by-case basis (to reflect the size, business model, funding model and risk profile of each institution). Moreover, GLAC requirements should not be limited to SIFIs as any type of financial institution can be the origin of a systemic crisis (as has been demonstrated in recent years).

- The **IAIS** (International Association of Insurance Supervisors) will **finalise the regulatory framework** that will be applied to **systemic insurers** (G-SIFIs).

Our assessment: transposition of the regulatory framework for systemic banks (G-SIBs) to the other segments of the financial sector is necessary to ensure a level playing field.

Increasing transparency on shadow banking

- The objective is transforming shadow banking into a transparent and resilient **market-based financing**.
- The FSB will complete recommendations to reduce risks and increase transparency in **repo and securities lending markets**. It will also develop and introduce an information-sharing process to foster oversight and regulation of shadow banking firms.
- The BCBS will complete **recommendations to address banks' interactions with shadow banks**.
- IOSCO will report on the **implementation of reforms to MMFs** and the **alignment of incentives in securitisation**.

Our assessment: completing shadow banking regulation is key to improving financial stability.

Making derivatives markets safer

- Despite overdue implementation by several countries of the G-20 objectives, significant progress is being made. Critical cross-border issues between the US and the EU have been resolved.
- The OTC Derivatives Regulators Group will issue a report on the remaining cross-border issues by April 2014 and a proposal on their solution ahead of Brisbane.
- The FSB will issue a report on cross-border equivalence by September 2014.
- The FSB will report on how data from trade repositories can be aggregated.
- Standard setters will finalise (i) capital standards for banks' central counterparty exposures; and (ii) guidance on the recovery and resolution of market infrastructures.

Our assessment: cross-border conflicts in derivatives regulation end up having a very negative impact on the real economy. The EU-US must find a way to ensure cooperation and mutual recognition.

Beyond Brisbane: a G-20 strategy to foster consistency and cooperation

Once these core elements of the regulatory reform are in place, the objective should be to **define a strategy** that helps maximise the benefits associated with the new regulatory setup in a globalised world, and the FSB Chairman invite G20 leaders to agree on an approach beyond Brisbane (Turkey will assume the G-20 Presidency in 2015), characterised by: (i) **global standards to resolve G-SIFIS**, (ii) **mutual recognition based on equivalent outcomes**; (iii) monitoring and **ensuring an implementation of global standards** through peer reviews and impact assessments (and refinement of those global standards that prove to be wrong); and (iv) promoting **cooperation to avoid protectionist stances** that end up fragmenting global markets.

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