

## Finance: Systemically Important Financial Institutions (SIFIs) [151]

### Commitment [#151]:

*“We commit to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions.”*

Cannes Summit Final Declaration

### Assessment:

Country	Lack of Compliance	Work in Progress	Full Compliance
Argentina		0	
Australia			+1
Brazil			+1
Canada			+1
China			+1
France			+1
Germany			+1
India			+1
Indonesia			+1
Italy			+1
Japan			+1
Korea			+1
Mexico			+1
Russia		0	
Saudi Arabia		0	
South Africa			+1
Turkey			+1
United Kingdom			+1
United States			+1
European Union			+1
Average Score		+0.85	

### Background:

At the recent summits, the G20 leaders summoned the Financial Stability Board (FSB) to develop a policy framework to address the systemic and moral hazard risk associated with SIFIs.<sup>639</sup>

The FSB defines Systemically Important Financial Institutions (SIFIs) as “financial institutions whose disorderly failure, because of their size, complexity, and systemic interconnectedness, would cause significant disruption to the wise financial system and economic activity.”<sup>640</sup> In order to prevent such outcome, governments are often left with no choice but to bail out failed

<sup>639</sup> Policy Measures to Address Systemically Important Financial Institutions, Financial Stability Board (Basel) 4 November 2012. Date of Access: 7 February 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104bb.pdf](http://www.financialstabilityboard.org/publications/r_111104bb.pdf).

<sup>640</sup> G20 Leaders endorse Financial Stability Board policy framework for addressing systemically important financial institution, Financial Stability Board (Basel) 12 November 2010. Date of Access: 7 February 2012. [http://www.financialstabilityboard.org/press/pr\\_101111a.pdf](http://www.financialstabilityboard.org/press/pr_101111a.pdf).

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SIFIs using public funds.<sup>641</sup> In turn, G-SIFIs are described as “financial institutions that are globally systemic” and whose “failure poses [a great risk] to the global financial system.”<sup>642</sup>

At the 2010 Seoul G20 Summit, the G20 leaders endorsed the policy framework, work processes and timelines suggested by the FSB in the report “Reducing the moral hazard posed by systemically important financial institutions.”<sup>643</sup> Shortly after, the FSB established a Peer Review Council whose responsibilities are to conduct an initial assessment of the implementation of national G-SIFI policies by end-2012 and to report annually to the FSB on the adequacy and global consistency of national G-SIFI policies.<sup>644</sup> On 19 July 2011, the FSB and the Basel Committee on Banking Supervision (BCBS) launched a public consultation on a package of proposed policy measures to address SIFIs.<sup>645</sup> After taking into consideration the comments and suggestions that were submitted by various national authorities during the consultation process launched on 3 October 2011, the FSB approved the package of policy measures, “Key Attributes of Effective Resolution Regimes of Financial Institutions” and presented it at the Cannes G20 Summit held on 3-4 November 2011.<sup>646</sup>

At the Cannes Summit on 4 November 2011, the G20 Leaders endorsed the Financial Stability

Board (FSB)’s policy framework on systemically important financial institutions (G-SIFIs), comprising a new international standard for resolution regimes, more intensive and effective supervision, and requirements for cross-border cooperation and recovery and resolution planning as well as, from 2016, additional loss absorbency for those banks determined as global systemically important financial institutions (G-SIFIs).<sup>647</sup>

More specifically, the policy framework comprised Key Attributes of effective resolution regimes, Global Systemically Important Banks: Assessment Methodology and the Additional Loss Absorbency Requirement; and Intensity and Effectiveness of SIFI Supervision. Specific measures focus on global SIFIs (G-SIFIs) to reflect the greater risks that these institutions pose to the global financial system. To this end, the FSB identified the initial group of 29 G-SIFIs for which the resolution-related requirements will need to be met by end-2012, and additional loss

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<sup>641</sup> Policy Measures to Address Systemically Important Financial Institutions, Financial Stability Board (Basel) 4 November 2012. Date of Access: 7 February 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104bb.pdf](http://www.financialstabilityboard.org/publications/r_111104bb.pdf).

<sup>642</sup> Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability, Financial Stability Board (Basel) 15 February 2011. Date of Access: 7 February 2012.

[http://www.financialstabilityboard.org/publications/r\\_110219.pdf](http://www.financialstabilityboard.org/publications/r_110219.pdf).

<sup>643</sup> Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability, Financial Stability Board (Basel) 15 February 2011. Date of Access: 7 February 2012.

[http://www.financialstabilityboard.org/publications/r\\_110219.pdf](http://www.financialstabilityboard.org/publications/r_110219.pdf).

<sup>644</sup> FSB releases consultation documents on measures to address systemically important financial institutions, Financial Stability Board (Basel) 19 July 2011. Date of Access: 7 February 2012.

[http://www.financialstabilityboard.org/press/pr\\_110719.pdf](http://www.financialstabilityboard.org/press/pr_110719.pdf).

<sup>645</sup> FSB releases consultation documents on measures to address systemically important financial institutions, Financial Stability Board (Basel) 19 July 2011. Date of Access: 7 February 2012.

[http://www.financialstabilityboard.org/press/pr\\_110719.pdf](http://www.financialstabilityboard.org/press/pr_110719.pdf).

<sup>646</sup> Meeting of Financial Stability Board, Financial Stability Board (Basel) 3 October 2011. Date of Access: 7 February 2012. [http://www.financialstabilityboard.org/press/pr\\_111003.pdf](http://www.financialstabilityboard.org/press/pr_111003.pdf).

<sup>647</sup> Extending the G-SIFI Framework to domestic systemically important banks, Progress Report to the G20 Ministers and Governors, Financial Stability Boards (Basel) 16 April 2012. Date of Access: 17 May 2012.

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absorbency requirements to be met from 2016.<sup>648</sup> The FSB also published an initial list of G-SIBs, to be updated each year in November.<sup>649</sup> G20 nations will implement the FSB standards and recommendations within the agreed timelines and commit to undertake the necessary legislative changes, step up cooperation amongst authorities and strengthen supervisory mandates and powers.<sup>650</sup>

To extend expeditiously this framework to all systemically important financial institutions, the FSB in consultation with the BCBS, is working assessment methodology for Key Attributes (first draft expected by mid-2012); thematic peer review to assess implementation of the Key Attributes (second half 2012); G-SIFI resolvability assessments, recovery & resolution plans and cross-border cooperation agreements (by end-2012); and work on extension to domestic banks (report to G20 Ministers and Governors in April 2012), global insurance companies (methodology by June 2012), and global non-banks (methodology by end-2012).<sup>651</sup>

**Commitment Features:**

On 4 November 2011, the FSB announced that the development of the critical policy measures, as part of the endorsed framework, had been completed.<sup>652</sup> In accordance with “Key Attributes of Effective Resolution Regimes of Financial Institutions,”<sup>653</sup> the comprised policy measures include:

(1) A new international standard to serve as a point of reference for reform of national resolution regimes that would outline “the responsibilities, instruments and powers that all national resolution regimes should have to enable authorities to resolve failing financial firms in an orderly manner and without exposing the taxpayer to the risk of loss”;

(2) Requirements for resolvability assessment as well as for recovery and resolution planning for G-SIFIs, as well as the development of institution-specific cross-border cooperation agreements that would allow the institution’s home and host authorities to be better prepared for and have a plan of cooperation in case of a crisis. Resolution-related requirements include: (1) recovery and resolution planning for G-SIFIs, (2) institution-specific cross-border cooperation agreements.

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<sup>648</sup> Benchmarking Indian Regulatory Practices to the G20 Financial Reforms Agenda, Reserve Bank of India (Mumbai) 27 March 2012. Date of Access: 16 May 2012.

<http://www.rbi.org.in/scripts/PublicationsView.aspx?id=14020>

<sup>649</sup> Benchmarking Indian Regulatory Practices to the G20 Financial Reforms Agenda, Reserve Bank of India (Mumbai) 27 March 2012. Date of Access: 16 May 2012.

<http://www.rbi.org.in/scripts/PublicationsView.aspx?id=14020>

<sup>650</sup> Benchmarking Indian Regulatory Practices to the G20 Financial Reforms Agenda, Reserve Bank of India (Mumbai) 27 March 2012. Date of Access: 16 May 2012.

<http://www.rbi.org.in/scripts/PublicationsView.aspx?id=14020>

<sup>651</sup> Benchmarking Indian Regulatory Practices to the G20 Financial Reforms Agenda, Reserve Bank of India (Mumbai) 27 March 2012. Date of Access: 16 May 2012.

<http://www.rbi.org.in/scripts/PublicationsView.aspx?id=14020>

<sup>652</sup> Policy Measures to Address Systemically Important Financial Institutions, Financial Stability Board (Basel) 4 November 2012. Date of Access: 7 February 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104bb.pdf](http://www.financialstabilityboard.org/publications/r_111104bb.pdf)

<sup>653</sup> Policy Measures to Address Systemically Important Financial Institutions, Financial Stability Board (Basel) 4 November 2012. Date of Access: 7 February 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104bb.pdf](http://www.financialstabilityboard.org/publications/r_111104bb.pdf)

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(3) Requirements of banks identified as G-SIFIs to have additional loss absorption capacity rising from 1% to 2.5% of risk-weighted assets to be met with common equity;

(4) More rigorous supervision of SIFIs through stronger supervisory mandates, increased resources and powers as well as higher expectations for risk management functions, data aggregation capacities, risk governance, and internal controls. Supervision-related requirements are defined as: (1) stronger government's supervisory mandate over banks, (2) increased resources and powers for regulatory agencies/governments/new bodies, (3) better risk management functions, data aggregation capacities, risk governance and internal controls.

Implementations of the developed policy measures are set to begin in early 2012, with a target of full implementation by 2019.<sup>654</sup>

The initial list of G-SIFIs published by the FSB and to be updated each year in November now includes the following banks: Bank of America, Bank of China, Bank of New York Mellon, Banque Populaire CdE, Barclays, BNP Paribas, Citigroup, Commerzbank, Credit Suisse, Deutsche Bank, Dexia, Goldman Sachs, Group Credit Agricole, HSBC, ING Bank, JP Morgan Chase, Lloyds Banking Group, Mitsubishi UFJ FG, Mizuho FG, Morgan Stanley, Nordea, Royal Bank of Scotland, Santander, Société Générale, State Street, Sumitomo Mitsui FG, UBS, Unicredit Group, Wells Fargo.

**Scoring Guidelines:**

-1	The member country does not take any action in compliance with the FSB policy measures to meet the resolution-related requirements AND the strengthened supervision requirement.
0	The member country takes actions in compliance with the FSB policy measures to meet the resolution-related requirements OR the strengthened supervision requirement.
+1	The member country takes actions in compliance with the FSB policy measures to meet the resolution-related requirements AND the strengthened supervision requirement.

*Lead Analyst: Vera Gavrilova  
Co-Director of Compliance: Krystel Montpetit*

**Argentina: 0**

Argentina has partially complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. Argentina has taken action in compliance with the FSB policy measures to meet the requirements for strengthened supervision, but not the resolution-related requirements.

Argentina is not home to any systematically important financial institution. Argentine authorities have nevertheless signed Memorandums of Understanding (MoUs) with many other financial

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<sup>654</sup> Policy Measures to Address Systemically Important Financial Institutions, Financial Stability Board (Basel) 4 November 2012. Date of Access: 7 February 2012.  
[http://www.financialstabilityboard.org/publications/r\\_111104bb.pdf](http://www.financialstabilityboard.org/publications/r_111104bb.pdf).

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institutions supervisors, for consolidated supervision and information sharing and those MoUs have been put into practice.<sup>655</sup>

Hence Argentina has taken action in compliance with the FSB policy measures to meet the requirements for strengthened supervision, but not the resolution-related requirements. Thus Argentina is awarded a score of 0.

*Analysts: Ian Barnard and Krystal Montpetit*

**Australia: +1**

Australia has fully complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed upon through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. Australia has taken actions in compliance with the FSB policy measures to meet both (1) the resolution-related requirements and (2) the requirements for strengthened supervision.

On 21 February 2012, Governor of the Reserve Bank of Australia Glenn Stevens urged Australian regulators and policy makers to ensure the implementation of new regulations stemming from the global financial crisis are handled carefully to avoid unintended consequences.<sup>656</sup>

On 22 December 2011, the Australian Prudential Regulation Authority (APRA) published a Prudential Standard APS 910 Financial Claims Scheme (APS 910) that implements some of the operational requirements of the Financial Claims Scheme (FCS) for authorized deposit-taking institutions (ADIs). It is designed to protect depositors (up to a defined amount) and to provide them with timely access to their deposits in the event that their ADI becomes insolvent and is declared to be subject to the FCS. APS 910 came in effect on 1 January 2012. Allowing for the two-year transition period, ADIs will need to comply with the standard not later than 31 December 2013 unless granted an extended transition.<sup>657</sup>

On 26 September 2011, the Financial Stability Board published a peer review of Australia, which provided an overview of the Australian financial system structure and regulatory framework as well as assessed its banking supervision, securities regulation and insurance regulation and supervision. Before the onset of the 2011 Cannes Summit where Australia committed to abide by the banking supervisory and resolution-related requirements prescribed by the FSB, the FSB peer review had already established that “the Australian authorities [already] have a supervisory framework in place to address the risks posed by regulated entities (including SIFIs) through a graduated supervisory response. Any additional measures undertaken by the authorities in this

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<sup>655</sup> FSB-G20-Monitoring Progress – Argentina September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104e.pdf](http://www.financialstabilityboard.org/publications/r_111104e.pdf)

<sup>656</sup> Post-GFC rules must be handled carefully says Glenn Stevens, *The Australian (Surry Hills)* 21 February 2012. Date of Access: 5 March 2012. <http://www.theaustralian.com.au/business/post-gfc-rules-must-be-handled-carefully-says-glenn-stevens/story-e6frg8zx-1226277336758>.

<sup>657</sup> APRA releases new prudential standard for Financial Claims Scheme, Australian Prudential Regulation Authority (Sydney) 22 December 2011. Date of Access: 5 March 2012. [http://www.apra.gov.au/MediaReleases/Pages/11\\_30.aspx](http://www.apra.gov.au/MediaReleases/Pages/11_30.aspx)

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area will depend on, and will need to be consistent with, the policy work on SIFIs that is underway at the international level by the FSB and BCBS.”<sup>658</sup>

On 27 March 2012, the Reserve Bank of Australia (RBA) published its semi-annual “Financial Stability Review,” which provided an update on the Australian financial system.<sup>659</sup> On the topic of “International Regulatory Agenda and Australia,” the RBA reports that APRA has commenced preliminary work on living wills in Australia, focusing initially on recovery planning in the ADI industry. Currently, APRA is reviewing the draft plans that the ADIs submitted in the end of 2011. The finalised plans are to be signed off by the ADIs’ boards by mid-2012.<sup>660</sup> Also, the RBA reports that the Australian government agreed to undergo an IMF Financial Sector Assessment Program (FASP) in 2012, which will be a follow-up from Australia’s first FSAP conducted in 2005-2006 and is consistent with a recent commitment of FSB members to undergo an FSAP every five years.<sup>661</sup>

Hence Australia has taken actions in compliance with the FSB policy measures to meet both (1) the resolution-related requirements and (2) the requirements for strengthened supervision. Thus Australia is awarded a score of +1.

*Analyst: Sayed Majeed Alaali*

#### **Brazil: +1**

Brazil has complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. Brazil has taken actions in compliance with the FSB policy measures to meet the resolution-related requirements and the requirements for strengthened supervision.

On 8 February 2012, in its Peer Review Report on Deposit Insurance Systems, the FSB reported that “Brazil’s temporary guarantee of special time deposits issued by banks is being phased out by 1 January 2016”<sup>662</sup>. In the same report, regarding the establishment of formalised arrangements for effective information sharing regarding a payout or a resolution situation, it is reported that Brazil “is in the process of mandating members of the governing board of the private deposit insurance agencies (DIAs) to be subject to a confidentiality commitment.”<sup>663</sup>

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<sup>658</sup> Peer Review of Australia, Review Report, Financial Stability Board (Basel) 26 September 2011. Date of Access: 20 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_110926b.pdf](http://www.financialstabilityboard.org/publications/r_110926b.pdf)

<sup>659</sup> Financial Stability Review March 2012, Reserve Bank of Australia (Sydney) 27 March 2012. Date of Access: 1 May 2012. <http://www.rba.gov.au/publications/fsr/index.html>.

<sup>660</sup> Financial Stability Review March 2012, Reserve Bank of Australia (Sydney) 27 March 2012. Date of Access: 28 April 2012. <http://www.rba.gov.au/publications/fsr/2012/mar/html/dev-fin-sys-arch.html>

<sup>661</sup> Financial Stability Review, Reserve Bank of Australia (Sydney) 27 March 2012. Date of Access: 28 April 2012. <http://www.rba.gov.au/publications/fsr/2012/mar/html/dev-fin-sys-arch.html>

<sup>662</sup> Thematic Review on Deposit Insurance Systems: Peer Review Report, Financial Stability Board (Basel) 8 February 2012. Date of Access: 2 March 2012. [http://www.financialstabilityboard.org/publications/r\\_120208.pdf](http://www.financialstabilityboard.org/publications/r_120208.pdf).

<sup>663</sup> Thematic Review on Deposit Insurance Systems: Peer Review Report, Financial Stability Board (Basel) 8 February 2012. Date of Access: 2 March 2012. [http://www.financialstabilityboard.org/publications/r\\_120208.pdf](http://www.financialstabilityboard.org/publications/r_120208.pdf).

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Furthermore, in relation to strong robustness standards for core financial infrastructure, the Central Bank of Brazil is conducting regular scenario planning and simulations to assess the capability of the system to respond to crises.<sup>664</sup> The latest was completed in February 2012.<sup>665</sup>

On 21 March 2012, the CBC released its biannual Financial Stability Report. According to the report, the results of the stress tests conducted in 2011 confirmed the robustness of the banking system.<sup>666</sup> Thus, in all analysed scenarios — even the most extreme ones — the capital requirements remained well above the levels currently regulated by the National Monetary Council (NMC).<sup>667</sup> The report also states that, despite the latest expansion of the banking system and the consequent increased exposure to risks, the capital base remains strong and consistently exceeds the minimum national prudential requirement of 11%, peaking at 16.3% in December 2011.

On 21 March 2012, the International Monetary Fund (IMF) and the World Bank (WB) completed the assessment of the Brazilian financial system under the IMF and WB Financial Sector Assessment Program (FASP).<sup>668</sup> The FSAP mission claimed the Brazilian financial system “stable, with low levels of systemic risk and sizable buffers.” The FSAP assessment also remarked on the strength of Brazil’s financial markets infrastructure and regulation and supervision. Furthermore, the FSAP suggested that reforms in the resolution and liquidity regimes could ensure the country’s legislative framework is aligned with the latest international developments and standards.

Hence Brazil has taken actions in compliance with the FSB policy measures to meet both the resolution-related requirements and the requirements for strengthened supervision. Thus Brazil is awarded a score of +1.

*Analyst: Eleni Tsaliki*

#### **Canada: +1**

Canada has fully complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. Canada has taken actions in compliance with the FSB policy measures to meet both (1) the resolution-related requirements and (2) the requirements for strengthened supervision.

On 3 November 2011, Government of Canada introduced the Financial System Review Act — a product of its five-year review of legislation governing federally regulated financial institutions

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<sup>664</sup> Working Paper Series, Banco Central do Brasil (Brasilia) 2012. Date of Access: 2 March 2012. <http://www.bcb.gov.br/?red-workingpapers>.

<sup>665</sup> Working Paper 267: Sudden Floods, Macroprudention Regulation and Stability in an Open Economy, Banco Central do Brasil (Brasilia) 5 February 2012. Date of Access: 8 March 2012. <http://www.bcb.gov.br/pec/wps/ingl/wps267.pdf>.

<sup>666</sup> Financial Stability Report, Banco Central do Brasil (Brasilia) 21 March 2012. Date of Access: 22 April 2012. <http://www.bcb.gov.br/?RELESTAB201203>.

<sup>667</sup> Financial Stability Report, Banco Central do Brasil (Brasilia) 21 March 2012. Date of Access: 22 April 2012. <http://www.bcb.gov.br/?RELESTAB201203>

<sup>668</sup> Statement at the Conclusion of the IMF and World Bank Financial Sector Assessment Program Mission to Brazil, International Monetary Fund (Washington) 21 March 2012. Date of Access: 3 May 2012. <http://www.imf.org/external/np/sec/pr/2012/pr1297.htm>.

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launched on September 20, 2010.<sup>669</sup> The aim of the Act is to maintain the stability of the financial sector and to ensure the growth of the financial institutions on a sound basis. The Act will come in effect by 30 April 2012. Some of its key legislative measures of the Act include: (1) regulators' ability to share information efficiently with international counterparts; (2) expanding the finance minister's mandate into approving substantial foreign acquisitions<sup>670</sup>; (3) providing federal financial institutions with enhanced flexibility to issue shares to foreign banks owned by foreign governments; and (4) allowing foreign operations to engage only in permitted activities in the country.<sup>671</sup>

In addition, some measures are aiming at improving the efficiency of Canada's financial system. Thus the Act will enable the Superintendent of Financial Institutions (SFI) to issue a certificate to assist financial institutions in documenting incorporation information. The Canada Deposit Insurance and Corporation Act will be fine-tuned to enhance the Corporation's ability to protect insured depositors and manage the resolution of a member institution. Additionally, "limited testimonial immunity will be provided to the Office of the Superintendent of Financial Institutions (OSFI) and the Commissioner of the Financial Consumer Agency of Canada (FCAC), as well as their employees and agents, to enhance operational efficiencies and protect the confidentiality of information."<sup>672</sup>

The Financial System Review Act will also work to enhance the supervisory powers of the government of Canada, and specifically, the FCAC. Thus, in accordance with the Act, the maximum penalty for a violation of a consumer provision will be increased, consistent with penalties for other violations under financial institutions statutes.<sup>673</sup>

According to the FSB Peer Review of Canada, Canadian authorities "are also working on a number of other regulatory initiatives, notably Basel III implementation, the strengthening of resolution regimes, the introduction of a national securities regulator, and the development of central counterparties (CCPs)":<sup>674</sup>

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<sup>669</sup> Backgrounder: Financial System Review Act, Department of Finance Canada (Ottawa) 23 November 2011. Date of Access: 8 March 2012. [http://www.fin.gc.ca/n11/data/11-120\\_1-eng.asp](http://www.fin.gc.ca/n11/data/11-120_1-eng.asp).

<sup>670</sup> Canadian Government Introduces Amendments to Bank Act, Osler, Hoskin & Harcourt LLP (Ottawa) 30 November 2011. Date of Access: 1 March 2012. <http://www.osler.com/NewsResources/Details.aspx?id=4005>.

<sup>671</sup> Backgrounder: Financial System Review Act, Department of Finance Canada (Ottawa) 23 November 2011. Date of Access: 1 March 2012. [http://www.fin.gc.ca/n11/data/11-120\\_1-eng.asp](http://www.fin.gc.ca/n11/data/11-120_1-eng.asp).

<sup>672</sup> Backgrounder: Financial System Review Act, Department of Finance Canada (Ottawa) 23 November 2011. Date of Access: 1 March 2012. [http://www.fin.gc.ca/n11/data/11-120\\_1-eng.asp](http://www.fin.gc.ca/n11/data/11-120_1-eng.asp).

<sup>673</sup> Backgrounder: Financial System Review Act, Department of Finance Canada (Ottawa) 23 November 2011. Date of Access: 1 March 2012. [http://www.fin.gc.ca/n11/data/11-120\\_1-eng.asp](http://www.fin.gc.ca/n11/data/11-120_1-eng.asp).

<sup>674</sup> Peer Review of Canada, Financial Stability Board (Basel) 30 January 2012. Date of Access: 1 March 2012. [http://www.financialstabilityboard.org/publications/r\\_120130.pdf](http://www.financialstabilityboard.org/publications/r_120130.pdf).

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- 1) Resolution regimes: The OSFI is presently undertaking a living will/recovery planning exercise with the country's large banks.<sup>675</sup> As part of the exercise, the banks are required to develop a reverse liquidity stress test to assess their point of non-viability. First drafts of recovery plans were submitted in early 2011, with a further recovery plan submission expected by February 2012, in order to initiate the process of review by national authorities and international regulatory counterparts.<sup>676</sup>
  - 2) Basel III: Bank of Canada has commenced discussions on the implementation of the countercyclical capital buffer.<sup>677</sup> In December 2012, Bank of Canada published a working paper examining the extent to which bank leverage regulation should be countercyclical.<sup>678</sup>
  - 3) Central Counterparties (CCPs): On 21 February 2012, the Canadian Derivatives Clearing Corporation (CDCC) launched its fixed income CCP services.<sup>679</sup>

Regarding security issues, although no single national regulator model is yet in place, institution-specific cross-border cooperation agreements have been being arranged. On 10 February 2012, the Ontario Securities Commission (OSC), Quebec Autorité des marchés financiers (AMF), Ontario Securities Commission, Alberta Securities Commission (ASC), and British Columbia Securities Commission Sign Regulatory Cooperation (BSCS) along with Australian Securities and Investments Commission (ASIC) announced a "comprehensive" arrangement that is meant to "facilitate their supervision of regulated entities that operate both in Australia and Canada."<sup>680</sup>

On 28 February 2012, the OSFI published the "Revised Guideline B-6 Liquidity Principles," complying with the updated BCBS principles.<sup>681</sup> Furthermore, the Canadian Development Consultants International (CDIC) in its Quarterly Financial Report on 16 November 2011 stated the formation of Complex Resolution Division which will be responsible for "resolution planning and preparedness for complex member institutions. New international best practice requires that

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<sup>675</sup> Guideline: Liquidity Principles, B-6, Office of the Superintendent of Financial Institutions Canada (Ottawa), February 2012. Date of Access: 9 March 2012. [http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/guidelines/prudential/guidelines/b6\\_e.pdf](http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/guidelines/prudential/guidelines/b6_e.pdf).

<sup>676</sup> Peer Review of Canada, Financial Stability Board (Basel) 30 January 2012. Date of Access: 1 March 2012. [http://www.financialstabilityboard.org/publications/r\\_120130.pdf](http://www.financialstabilityboard.org/publications/r_120130.pdf).

<sup>677</sup> Peer Review of Canada, Financial Stability Board (Basel) 30 January 2012. Date of Access: 1 March 2012. [http://www.financialstabilityboard.org/publications/r\\_120130.pdf](http://www.financialstabilityboard.org/publications/r_120130.pdf).

<sup>678</sup> Working Paper 2011-32: Bank Leverage Regulation and Macroeconomic Dynamics, Bank of Canada (Ottawa) December 2011. Date of Access: 9 March 2012. <http://www.bankofcanada.ca/wp-content/uploads/2011/12/wp2011-32.pdf>.

<sup>679</sup> Clearing and Settlement Systems, Bank of Canada (Ottawa) 21 February 2012. Date of Access: 9 March 2012. <http://www.bankofcanada.ca/financial-system/payments/other-clearing-and-settlement-systems/#corporation>.

<sup>680</sup> Ontario Securities Commission, Australian Securities and Investments Commission, Quebec Autorité des marchés financiers, Ontario Securities Commission, Alberta Securities Commission and British Columbia Securities Commission Sign Regulatory Cooperation Arrangement, Ontario Securities Commission (Toronto) 10 February 2012. Date of Access: 1 March 2012. [http://www.osc.gov.on.ca/en/NewsEvents\\_nr\\_20120210\\_osc-asic-mou.htm](http://www.osc.gov.on.ca/en/NewsEvents_nr_20120210_osc-asic-mou.htm).

<sup>681</sup> Guideline B-6: Liquidity Principles, Office of the Superintendent of Financial Institutions Canada (Ottawa) 28 February 2012. Date of Access: 1 March 2012. [http://www.osfi-bsif.gc.ca/osfi/index\\_e.aspx?ArticleID=4803](http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?ArticleID=4803).

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resolution plans be developed to address the potential failure of even the largest financial institutions.<sup>682</sup>

On 3 April 2012, the OSFI published its “Plan and Priorities for 2012-2015” with “Priority A” being the “Response to Risks Emanating from the Economy” through:

- 1) identifying, monitoring, and reporting on emerging risks that have an impact on Federally Regulated Financial Institutions (FRFIs), through, among others, liquidity reviews, assessment of shadow banking, and business models and strategies;
- 2) developing and promoting improved risk management practices and strong governance standards for FRFIs through continuous cross-system reviews and regular macro-economic stress-tests; and
- 3) participating and achieving strong results in the International Monetary Fund’s (IMF) Financial Sector Assessment Program (FSAP), as well as ongoing peer reviews by the FSB and the Basel Committee.<sup>683</sup>

Regarding banking reforms, the OSFI identifies its primary objectives as to make domestic adjustments on the regulatory framework as required by global regulations and establish a credible resolution framework for major banks in Canada.<sup>684</sup> Moreover, the OSFI confirms that it will continue “to perform accurate risk assessments of financial institutions and [...] to adjust the regulatory capital framework as required” and to monitor and participate in domestic and international efforts in increase financial stability.<sup>685</sup>

On 5 April 2012, Julie Dickson, Superintendent of the OSFI, spoke of the role of board of directors in management and risk governance of financial institutions.<sup>686</sup> Ms. Dickson touched on the areas where the OSFI expects to focus: (1) updating key areas of the Corporate Governance Guideline; (2) adding in boards financial industry experience; (3) implementing third-party reviews; (4) separating risk and audit committees in complex institutions; (5) adding the concept of Risk Appetite to complex organisations in order to identify risks, accept them, manage them, discuss them and elevate scenarios that would cause material losses; and (6) updating and establishing real estate underwriting policies in compliance with the OSFI’s guideline as well as

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<sup>682</sup> Quarterly Narrative Discussion, Canada Deposit Insurance Corporation (Ottawa) 16 November 2011. Date of Access: 1 March 2012.

[http://www.cdic.ca/multimedia/Website/Documents/QFR/QFR\\_2011Q2\\_narrative.pdf](http://www.cdic.ca/multimedia/Website/Documents/QFR/QFR_2011Q2_narrative.pdf).

<sup>683</sup> Plan and Priorities for 2012-2015, Office of the Superintendent of Financial Institutions Canada (Ottawa) 3 April 2012. Date of Access: 24 April 2012. [http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/reports/osfi/PP\\_2012\\_2015\\_e.pdf](http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/reports/osfi/PP_2012_2015_e.pdf).

<sup>684</sup> Plan and Priorities for 2012-2015, Office of the Superintendent of Financial Institutions Canada (Ottawa) 3 April 2012. Date of Access: 24 April 2012. [http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/reports/osfi/PP\\_2012\\_2015\\_e.pdf](http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/reports/osfi/PP_2012_2015_e.pdf)

<sup>685</sup> Plan and Priorities for 2012-2015, Office of the Superintendent of Financial Institutions Canada (Ottawa) 3 April 2012. Date of Access: 24 April 2012. [http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/reports/osfi/PP\\_2012\\_2015\\_e.pdf](http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/reports/osfi/PP_2012_2015_e.pdf)

<sup>686</sup> Remarks by Julie Dickson Superintendent of the Office of the Superintendent of Financial Institutions Canada (OSFI) to the Toronto Board of Trade (Toronto) 5 April 2012. Date of Access: 24 April 2012. [http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/speeches/jd20120405\\_e.pdf](http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/speeches/jd20120405_e.pdf).

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the FSB's draft international Principles for Sound Residential Mortgage Underwriting Practices as real estate is directly related to Canada's financial stability.<sup>687</sup>

Hence Canada has taken actions in compliance with the FSB policy measures to meet both (1) the resolution-related requirements and (2) the requirements for strengthened supervision. Thus Canada is awarded a score of +1.

*Analyst: Eleni Tsaliki*

**China: +1**

China has fully complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed upon through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. China has taken actions in compliance with the FSB policy measures to meet both (1) the resolution-related requirements and (2) the requirements for strengthened supervision.

In August 2011, the agency released draft regulations that would require all banks to maintain a minimum capital adequacy ratio of 10.5%, with systemically important banks subject to 11.5%. The new capital requirements were originally scheduled to take effect in January 2012, but were delayed in order to avoid the exacerbation of already-tight credit conditions.<sup>688</sup>

On 17-18 November 2011, China Banking Regulatory Commission (CBRC) convened the Supervisory College of China Construction Bank (CCB) in line with requirements laid by the G20 to enhance cross-border supervisory cooperation on large financial groups. During the supervisory college, the CBRC briefed its supervisory framework, methodologies, and overall supervisory assessment of CCB.<sup>689</sup>

On 14 December 2011, Chairman of CBRC, Shang Fulin delivered a speech following the Central Economic Work Conference in which he emphasized "that departments and local offices of the CBRC at all levels should enhance the effectiveness of financial supervision, defend bottom line firmly."<sup>690</sup> He stressed that it's a priority to "improve risk control system, strengthen external supervision and internal control and raise risk management capability."<sup>691</sup>

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<sup>687</sup> Remarks by Julie Dickson Superintendent of the Office of the Superintendent of Financial Institutions Canada (OSFI) to the Toronto Board of Trade (Toronto) 5 April 2012. Date of Access: 24 April 2012. [http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/speeches/jd20120405\\_e.pdf](http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/speeches/jd20120405_e.pdf).

<sup>688</sup> China may soften new bank capital requirements, Reuters (Shanghai) 13 February 2012. Date of Access: 4 March 2012. <http://www.reuters.com/article/2012/02/14/china-banks-capitalratio-idUSL4E8DE05020120214>.

<sup>689</sup> CCB Supervisory College, China Banking Regulatory Commission (Beijing) 18 November 2011. Date of Access: 4 March 2012. <http://www.cbrc.gov.cn/EngdocView.do?docID=EEF864BEDBF64643BA2E9CDF455D4238>.

<sup>690</sup> Remarks by Shang Fulin following the Central Economic Work Conference, China Banking Regulatory Commission (Beijing) 14 December 2011. Date of Access: 4 March 2012. <http://www.cbrc.gov.cn/chinese/home/docView/2C2CFADDBDB844DF97E544E0386362D4.html>.

<sup>691</sup> Remarks by Shang Fulin following the Central Economic Work Conference, China Banking Regulatory Commission (Beijing) 14 December 2011. Date of Access: 4 March 2012. <http://www.cbrc.gov.cn/chinese/home/docView/2C2CFADDBDB844DF97E544E0386362D4.html>.

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On 28 December 2011, the People's Bank of China (PBC) held a meeting to deliberate on and make plans for implementing the spirit of the recently held Central Economic Work Conference. Central Bank Governor, Zhou Xiaochuan presided over the meeting and required PBC to "analyze and take stock lessons from the global financial crisis, pace and priority of macroeconomic management, and properly handle the relationship among maintaining stable and relatively fast economic growth."<sup>692</sup> He also stated that "PBC will vigorously guide the optimization of the credit structure, step up financial support to key areas and weak links in the economy, and keep all-system financing aggregates at reasonable volumes; continue to deepen the financial system reform, steadily promote the financial market development."<sup>693</sup>

On 8 January 2012, the CBRC held the 2012 supervision working conference. Chairman Shang Fulin attended the meeting and delivered a speech stressing that year 2012 is of strategic importance to the reforms and development of China's banking industry. He laid out specific requirements on the supervisory work of CBRC: (1) guarding against major risks and defending the bottom risk lines; (2) improving financial services and boosting scientific development of the real economy; (3) deepening institutional reform and accelerating the transformation of development mode; (4) enhancing regulatory capability and raising the effectiveness of supervisory work; (5) enhancing team building and improving internal management.<sup>694</sup>

On 11-12 January 2012, the CBRC held the 2012 large bank supervisory work conference which reviewed the developments and supervisory progress of large banks in 2011, analyzed the latest situation and challenges facing large banks' reform, development and supervision, and outlined the supervisory focuses in 2012. The conference acknowledged the following developments and progress: (1) the offsite surveillance system featuring CARPLES risk indicators framework was fully implemented; (2) corrective work was further promoted to sort out lending to Local Government Funding Platforms (LGFP), with both dynamic monitoring and on-site examination undertaken to cross-check the bottom line and mitigate risks; (3) broad examinations on compliance of credit extension were carried out, with a series of problematic loans being resolved and violations of rules being addressed; (4) the licensing work was further improved, including the optimization in licensing procedures and other services; (5) banks' sound operations were further emphasized. The corporate governance was further enhanced by the intensification of the supervision of directors' performance while banks' risk management capabilities were further strengthened by conducting an assessment on banks to implement Basel II. Also, the conference outlined the concrete supervisory work of large banks in 2012: (1) give full play to on-site examination to identify and mitigate major risks, including credit, market and operational risks,

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<sup>692</sup>PBC Will Continue to Implement Prudent Monetary Policy and Promote Stable and Healthy Economic Development, The People's Bank of China (Beijing) 28 December 2011. Date of Access: 4 March 2012.

[http://www.pbc.gov.cn/publish/english/955/2012/20120106163202059869012/20120106163202059869012\\_.html](http://www.pbc.gov.cn/publish/english/955/2012/20120106163202059869012/20120106163202059869012_.html).

<sup>693</sup>PBC Will Continue to Implement Prudent Monetary Policy and Promote Stable and Healthy Economic Development, The People's Bank of China (Beijing) 28 December 2011. Date of Access: 4 March 2012.

[http://www.pbc.gov.cn/publish/english/955/2012/20120106163202059869012/20120106163202059869012\\_.html](http://www.pbc.gov.cn/publish/english/955/2012/20120106163202059869012/20120106163202059869012_.html).

<sup>694</sup>Chairman Shang Fulin emphasized scientific supervision at the 2012 supervision working conference, China Banking Regulatory Commission (Beijing) 8 January 2012. Date of Access: 4 March 2012.

<http://www.cbrc.gov.cn/chinese/home/docView/E9C7CE6167524D6A9015A6BC03BA3705.html>.

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while at the same time to guide banks to perform dynamic stress tests; (2) take advantage of implementing new international regulatory rules to enhance the supervision on systemically important banks (SIBs). CARPLES framework should be integrated into the supervision of SIBs so as to improve the consolidated supervisory capability and improve crisis management contingency planning; (3) urge banks to establish risk review compliance planning and capital replenishment measures in the process of implementing Basel II; (4) accelerate the issuance of guidelines on banks performance assessment, call banks to establish sound annual operational planning and improve performance assessment mechanism.<sup>695</sup>

On 6 April 2012, the International Monetary Fund (IMF) and the World Bank released five detailed assessment reports as part of the 2011 Financial Sector Assessment Program. The reports encompassed the topics of: (1) systemically important payments system, (2) securities settlements systems and central counterparties, (3) securities regulation, (4) insurance principles, and (5) effective banking supervision.<sup>696</sup> The Basel Core Principles for Effective Banking Supervision report asserted that “[regulation] and supervision of China’s banking system has made impressive progress in the past few years, led by an activist, forward-looking regulator [CBRC], with a clear safety and soundness mandate that has been supported by banks and by the State. Significant improvements in risk measurement and risk management have occurred. These improvements are backed up by a regulatory system that demands high-quality capital and liquidity, often through simple and basic regulatory requirements.”<sup>697</sup> However, the report warns that although “CBRC itself is performing excellently,” “[implementation of CBRC guidance] by banks needs to be improved, in some cases materially.”<sup>698</sup>

In regards to the resolution-related requirements, the China Banking Regulatory Commission (CBRC) has signed supervisory Memorandums of Understanding (MOUs) with international and regional supervisory authorities. Furthermore, it has established regular meeting mechanism with its counterparts in the United States, the United Kingdom, Japan, Singapore, Canada and Hong Kong to exchange information. The Supervisory MOUs have also incorporated information sharing during crises since 2010.<sup>699</sup>

What is more, the People’s Bank of China (PBC) is showing progress in “implementing a clearly-layered risk resolution and payment arrangement for SIFIs, strengthening responsibilities of institutions, shareholders and creditors, quickening the establishment of deposit insurance

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<sup>695</sup> The CBRC held 2012 Large Bank Supervisory Work Conference, China Banking Regulatory Commission (Beijing) 1 March 2012. Date of Access: 4 March 2012.

<http://www.cbrc.gov.cn/chinese/home/docView/42FB68DEDF5549AB87680962F862E903.html>.

<sup>696</sup> IMF Releases Background Material for its Assessment of China under the Financial Sector Assessment Program, International Monetary Fund (Washington) 5 April 2012. Date of Access: 1 May 2012. <http://www.imf.org/external/np/sec/pr/2012/pr12123.htm>.

<sup>697</sup> People’s Republic of China: Detailed Assessment Report: Basel Core Principles for Effective Banking Supervision, International Monetary Fund (Washington) 5 April 2012. Date of Access: 1 May 2012. <http://www.imf.org/external/pubs/ft/scr/2012/cr1278.pdf>.

<sup>698</sup> People’s Republic of China: Detailed Assessment Report: Basel Core Principles for Effective Banking Supervision, International Monetary Fund (Washington) 5 April 2012. Date of Access: 1 May 2012. <http://www.imf.org/external/pubs/ft/scr/2012/cr1278.pdf>.

<sup>699</sup> FSB-G20-Monitoring Progress – China September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012. [http://www.financialstabilityboard.org/publications/r\\_111104e.pdf](http://www.financialstabilityboard.org/publications/r_111104e.pdf)

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mechanism, and giving full play of its supportive role as the central bank.”<sup>700</sup> PBC is also negotiating with foreign authorities to set up a cooperative mechanism of cross-border bank resolution, and the CBRC is goading large domestic commercial banks into devising contingency plans.<sup>701</sup>

Finally, in China, the Law of the People’s Republic of China on Enterprise Bankruptcy applies to the bankruptcy of financial institutions. Regarding different sectors, Risk Resolution Regulations of Securities Companies regulates bankruptcy of securities companies while the Administrative Measures of Insurance Protection Fund regulates that of insurance companies.<sup>702</sup>

Hence China has taken actions in compliance with the FSB policy measures to meet both (1) the resolution-related requirements and (2) the requirements for strengthened supervision. Thus China is awarded a score of +1.

*Analyst: Sayed Majeed Alaali*

**France: +1**

France has fully complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. France has taken actions in compliance with the FSB policy measures to meet both (1) the resolution-related requirements and (2) the requirements for strengthened supervision.

On 14 February 2012, the French Prudential Supervisory Authority (APC) released a methodological guidance which outlines the procedures to report solvency ratios for credit and business institutions.<sup>703</sup> This document is a follow-up to an earlier published guide for calculation of minimum solvency ratios. The two documents compounded aim to facilitate the implementation of regulations on minimum solvency requirements as a way to regulate minimum capital requirements.

On 9 February 2012, the European Banking Authority’s (EBA) Board of Supervisors released a preliminary assessment of banks’ capital plans as part of an exercise to assess possible capital shortfalls of the banks. The participating banks submitted their capital plans in response to the EBA’s Recommendation on Recapitalization on 20 January 2012. Four French banks were involved in the exercise: BNP Paribas, Banque Populaire et Caisse d’Epargne (BPCE), Crédit Agricole and Société Générale. The four banks submitted their capital plans to the ACP on 13 January 2012, demonstrating their ability to meet the Core Tier 1 target ratio of 9% by 30 June

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<sup>700</sup> FSB-G20-Monitoring Progress – China September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104e.pdf](http://www.financialstabilityboard.org/publications/r_111104e.pdf)

<sup>701</sup> FSB-G20-Monitoring Progress – China September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104e.pdf](http://www.financialstabilityboard.org/publications/r_111104e.pdf)

<sup>702</sup> FSB-G20-Monitoring Progress – China September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104e.pdf](http://www.financialstabilityboard.org/publications/r_111104e.pdf)

<sup>703</sup> Guide Méthodologique Relatif Aux Modalités De Déclaration De Ration De Solvabilité (COREP) 2012, Autorité de contrôle prudentiel (Paris) 14 February 2012. Date of Access: 8 March 2012. [http://www.acp.banque-france.fr/fileadmin/user\\_upload/acp/International/Les\\_grands\\_enjeux/2012-guide-methodologique-modalites-de-declaration-du-ratio-de-solvabilite.pdf](http://www.acp.banque-france.fr/fileadmin/user_upload/acp/International/Les_grands_enjeux/2012-guide-methodologique-modalites-de-declaration-du-ratio-de-solvabilite.pdf).

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2012.<sup>704</sup> Throughout February 2012 and beyond, the Board of Supervisors will cooperate with the ACP to evaluate the viability of the submitted plans. Banks are expected to receive finalized evaluation and guidelines from the ACP in early March.<sup>705</sup>

On 22 February 2012, France's largest bank, BNP Paribas announced it had sold its North American energy business to Wells Fargo & Co. as part of the bank's plan to reduce its dollar funding needs by USD65 billion before the end of 2012. The sale is in compliance with the bank's restructuring plan to increase its capital buffers to meet the new EBA capital regulations. To comply with the new EBA capital and liquidity rules, BNP Paribas announced in September 2011 that it would decrease risk-weighted assets by EUR70 billion and eliminate nearly 1,400 jobs at its corporate and investment bank.<sup>706</sup> In March 2012, BNP Paribas announced that it was already more than two-thirds along in its restructuring program.<sup>707</sup> Furthermore, BNP Paribas confirmed that the bank had reached its capital-ratio target six month ahead of the EBA's June 2012 deadline. The bank stated that its current core Tier 1 capital ratio stood at 9.6% as of the end of December 2011. The bank assured that it would have its core Tier 1 capital ratio of 9% by 1 January 2013 under Basel III regulations without raising fresh capital.<sup>708</sup>

The core Tier 1 capital ratio of France's second largest bank, Société Générale, stood at 9.9% as of December 2012. Such numbers put the bank six months ahead of schedule in complying with the EBA capital regulations. Frederic Oudéa, Chief Executive of Société Générale, explained: "The group accelerated its transformation in order to adapt to the new capital and liquidity constraints [...]."<sup>709</sup>

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<sup>704</sup> European Banking Authority test on European banks' capital requirements: Results for French banks, Autorité de contrôle prudentiel (Paris) 8 December 2011. Date of Access: 8 March 2012. [http://www.acp.banque-france.fr/fileadmin/user\\_upload/acp/International/Les\\_grands\\_enjeux/201112-EBA-test-on-european-banks-capital-requirements-results.pdf](http://www.acp.banque-france.fr/fileadmin/user_upload/acp/International/Les_grands_enjeux/201112-EBA-test-on-european-banks-capital-requirements-results.pdf).

<sup>705</sup> The European Banking Authority's Board of Supervisors makes its first aggregate assessment of banks' capital plans, European Banking Authority (London) 9 February 2012. Date of Access: 8 March 2012. <http://www.eba.europa.eu/News--Communications/Year/2012/The-EBAs-Board-of-Supervisors-makes-its-first-agg.aspx>.

<sup>706</sup> Update: BNP Paribas Cuts Dollar Needs With Energy Business Sale, The Wall Street Journal (New York) 22 February 2012. Date of Access: 4 March 2012. <http://online.wsj.com/article/BT-CO-20120222-705264.html>.

<sup>707</sup> French Election Gives Country's Banks a Fresh Headache, The Wall Street Journal (New York) 1 May 2012. Date of Access: 1 May 2012. [http://blogs.wsj.com/eurocrisis/2012/05/01/french-election-gives-countrys-banks-a-fresh-headache/?mod=google\\_news\\_blog](http://blogs.wsj.com/eurocrisis/2012/05/01/french-election-gives-countrys-banks-a-fresh-headache/?mod=google_news_blog).

<sup>708</sup> BNP Paribas Profit Hit by Greece, The Wall Street Journal (New York) 15 February 2012. Date of Access: 4 March 2012. [http://online.wsj.com/article/SB10001424052970204795304577224270191082822.html?mod=googlenews\\_wsj](http://online.wsj.com/article/SB10001424052970204795304577224270191082822.html?mod=googlenews_wsj).

<sup>709</sup> Société Générale Profit Fell 89% in 4<sup>th</sup> Quarter, The New York Times (New York) February 16, 2012. Date of Access: 4 March 2012. <http://dealbook.nytimes.com/2012/02/16/societe-generale-profit-drops-89/>.

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Similarly, François Pérol, Chief of BPCE, assured that “[June] 2012 will not be a problem for [BPCE]; we will meet the requirement without any difficulty.”<sup>710</sup>

Finally, Crédit Agricole confirmed its intention to comply with Basel III regulations and achieve core Tier 1 capital ratio of 10% by the end of 2013.<sup>711</sup> As of 10 November 2011, the bank’s core Tier 1 capital ratio stood at 8.9%.<sup>712</sup> In mid-March 2012, the bank announced that it had cut its financing needs by EUR31 billion of the planned EUR50 billion, as part of its restructuring program.<sup>713</sup>

On 29 March 2012, the FSB disclosed public comments received on the FSB consultation on a Common Template for Global Systemically Important Banks.<sup>714</sup> The French Banking Federation (FBF) submitted comments on the behalf of France.<sup>715</sup> Further consultative actions at national and international levels are planned to take place throughout 2012.

In regards to resolution-related requirements, the European Commission has worked on entrusting the European Banking Authority (EBA) with considerable emergency powers and additional resolution tools over SIFIs in order to not only intervene at an early stage but also to resolve or restructure financial institutions without relying on taxpayer funds since 6 January 2011.<sup>716</sup> Such resolution tools include: sale of business tool, bridge bank tool, asset separation tool, and debt write down or conversion tool, all of which would strengthen the supervisory regime and its regulatory oversight over financial institutions under the Capital Requirements Directive

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<sup>710</sup> Les dépréciations d'actifs plombent le bénéfice de BPCE, Le Tribune (Paris) 23 February 2012. Date of Access: 4 March 2012. <http://www.latribune.fr/entreprises-finance/banques-finance/industrie-financiere/20120223trib000684544/les-depreciations-d-actifs-plombent-le-benefice-de-bpce.html>.

<sup>711</sup> Crédit Agricole: meeting the challenge, Crédit Agricole Group (Paris) 14 December 2011. Date of Access: 4 March 2012. <http://www.credit-agricole.com/en/News/Press-releases/Financial-press-releases/Credit-Agricole-meeting-the-challenge>.

<sup>712</sup> Third quarter and first nine months of 2011: Good results and strong capacity at Group level to weather the sovereign debt crisis, Crédit Agricole Group (Paris) 10 November 2011. Date of Access: 4 March 2012. <http://www.credit-agricole.com/en/News/Press-releases/Financial-press-releases/Third-quarter-and-first-nine-months-of-2011-Good-results-and-strong-capacity-at-Group-level-to-weather-the-sovereign-debt-crisis>.

<sup>713</sup> Fitch Says French Bank Restructuring Eases Rating Pressure, The Wall Street Journal (New York) 10 April 2012. Date of Access: 1 May 2012. <http://online.wsj.com/article/BT-CO-20120410-711010.html>.

<sup>714</sup> Comments received on the FSB consultative document on a Common Template for Global Systemically Important Banks, Financial Stability Board (Basel) 29 March 2012. Date of Access: 1 May 2012. [http://www.financialstabilityboard.org/publications/r\\_120328k.pdf](http://www.financialstabilityboard.org/publications/r_120328k.pdf).

<sup>715</sup> FSB Response – FSB Consultation Paper on a Common Data template for Global Systemically Important Banks, Federation Bancaire Francaise (Paris) 8 November 2011. Date of Access: 1 May 2012. [http://www.financialstabilityboard.org/publications/r\\_120328c.pdf](http://www.financialstabilityboard.org/publications/r_120328c.pdf).

<sup>716</sup> European Resolution and Recovery Framework for Financial Institutions, JDSupra, 17 February 2011. Date of Access: 7 April 2011 <http://www.jdsupra.com/post/documentViewer.aspx?fid=f0ec7db0-1c95-4613-9600-92fbf33c0f88>

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(CRD).<sup>717</sup> Furthermore, the Commission has worked on establishing resolution colleges of supervisors to supervise cross-border SIFIs and to require its members to set up a bank resolution fund to cover the costs of resolution tools.<sup>718</sup> The Banque de France and French Prudential Supervisory Authority strongly support and participate to the building of an EU framework for cross-border crisis management in the banking sector.<sup>719</sup>

What is more, the French Prudential Supervisory Authority and Banque de France organized supervisory colleges meetings for all French banks where “supervisors exchanged on the various legal frameworks and agreed to investigate further all potential impediments to a coordinated solution.”<sup>720</sup> The French Prudential Supervisory Authority and Banque de France asserted that information sharing among supervisors will be continued, and that it will be discussed annually at the core supervisory colleges. Said discussions have taken place throughout 2011 and 2012 with banking institutions concerned by the resolution plans in the context of Crisis Management Group meetings.<sup>721</sup>

Hence France has taken actions in compliance with the FSB policy measures to meet both (1) the resolution-related requirements and (2) the requirements for strengthened supervision. Thus France is awarded a score of +1.

*Analyst: Vera Gavrilova*

#### **Germany:+1**

Germany has fully complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. Germany has taken actions in compliance with the FSB policy measures to meet both (1) the resolution-related requirements and (2) the requirements for strengthened supervision.

On 23 January 2012, German Finance Minister Wolfgang Schäuble stated that Germany actively sought to implement Basel III requirements on bank capitalization, thus rejecting media rumours that Germany was to seek the relaxation of the regulation.<sup>722</sup>

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<sup>717</sup> European Resolution and Recovery Framework for Financial Institutions, JDSupra, 17 February 2011. Date of Access: 7 April 2011  
<http://www.jdsupra.com/post/documentViewer.aspx?fid=f0ec7db0-1c95-4613-9600-92fbf33c0f88>

<sup>718</sup> European Resolution and Recovery Framework for Financial Institutions, JDSupra, 17 February 2011. Date of Access: 7 April 2011  
<http://www.jdsupra.com/post/documentViewer.aspx?fid=f0ec7db0-1c95-4613-9600-92fbf33c0f88>

<sup>719</sup> FSB-G20 Monitoring Progress – France September 2010 [For Publication in March 2011], FinancialStability Board (Basel) 12 November 2010. Date of Access: 10 April 2011.  
[http://www.financialstabilityboard.org/publications/r\\_111104f.pdf](http://www.financialstabilityboard.org/publications/r_111104f.pdf)

<sup>720</sup> FSB-G20 Monitoring Progress – France September 2010 [For Publication in March 2011], FinancialStability Board (Basel) 12 November 2010. Date of Access: 10 April 2011.  
[http://www.financialstabilityboard.org/publications/r\\_111104f.pdf](http://www.financialstabilityboard.org/publications/r_111104f.pdf)

<sup>721</sup> FSB-G20 Monitoring Progress – France September 2010 [For Publication in March 2011], FinancialStability Board (Basel) 12 November 2010. Date of Access: 10 April 2011.  
[http://www.financialstabilityboard.org/publications/r\\_111104f.pdf](http://www.financialstabilityboard.org/publications/r_111104f.pdf)

<sup>722</sup> France, Germany to implement Basel III rules: Schaeuble, Reuters (Paris) 23 January 2012. Date of Access: 15 March 2012. <http://www.reuters.com/article/2012/01/23/eurozone-schaeuble-idUSL5E8CN15X20120123>.

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On 8 December 2011, the Deutsche Bundesbank reported Germany's results as part of the EU-wide survey on bank recapitalisation. According to the report, six of the 13 surveyed German banks experienced a capital shortfall. The combined value of the German banks' capital shortfall amounted to EUR13.1 billion, with approximately 65% of the shortfall accounted for by two institutions: Commerzbank, with a capital requirement of EUR5.3 billion, and Deutsche Bank, with a required funding of EUR3.2 billion. Both banks were identified as G-SIFIs by the FSB in November 2011.<sup>723</sup> Additionally, notable capital shortfalls were reported for the following banks: the Norddeutsche Landesbank, the Landesbank Hessen-Thüringen, the DZ Bank, and the WestLB. Raimund Röseler, the Head of Banking Supervision at the Federal Financial and Supervisory Authority (BaFin), explained: "The current recapitalisation survey does not pre-empt Basel III, nor does it prejudice a waiver of the zero weighting of EEA countries' sovereign bonds."<sup>724</sup> Finally, the credit institutions were asked to develop plans outlining the strategy to achieve the required capital buffer and present them to the BaFin by 20 January 2012 for evaluation by the European Banking Authority (EBA).

On 11 November 2011, the Bundesbank released its "Financial Stability Review," in which Germany's Central Bank assessed the state of the national financial system.<sup>725</sup> The Bundesbank reported an improvement in both the quantity and the quality of Germany banks' capital. Thus the Tier 1 capital ratio currently averages 13.1% for 13 major German banks, while leverage — measure as total assets to Tier 1 capital — presently stands at 33%. Additionally, risk-weighted assets have declined, reducing capital requirements by nearly 30%. Moreover, the Bundesbank welcomed the European initiative to recapitalise large banks. Finally, the Bundesbank emphasised that financial market participants must be held responsible for their operations on the market: "That also means that systemically important financial institutions must be able to exit the market without the financial system collapsing," explained Member of the Bundesbank's Executive Board Andreas Dombert.<sup>726</sup>

On 8 December 2011, the Association of German Banks responded to the stress test results released by the EBA. "The stress test has not helped to stabilise the markets. The opposite is the case. The arbitrarily set requirement to hold 9 per cent core Tier 1 capital while at the same time taking account of the risks arising from European government bonds is very difficult to understand," — said Michael Kemmer, the General Manager of the Association. Mr. Kemmer also said that over the past years, German banks had built up "massive amounts" of capital and were "anything by undercapitalized." The Association has pointed at the fact that calculation

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<sup>723</sup> Policy Measures to Address Systemically Important Financial Institutions, Financial Stability Board (Basel) 4 November 2012. Date of Access: 7 February 2012.  
[http://www.financialstabilityboard.org/publications/r\\_111104bb.pdf](http://www.financialstabilityboard.org/publications/r_111104bb.pdf).

<sup>724</sup> Joint Press Release: Results for Germany of the EU-wide survey on bank recapitalisation, Deutsche Bundesbank (Frankfurt am Main) 8 December 2011. Date of Access: 15 March 2012.  
[http://www.bundesbank.de/download/presse/publikationen/eba\\_bankenumfrage/20110812.eba\\_bankenumfrage\\_pn.en.pdf](http://www.bundesbank.de/download/presse/publikationen/eba_bankenumfrage/20110812.eba_bankenumfrage_pn.en.pdf).

<sup>725</sup> Financial Stability Review 2011, Deutsche Bundesbank (Frankfurt am Main) 11 November 2011. Date of Access: 15 March 2012.  
<http://www.bundesbank.de/download/volkswirtschaft/finanzstabilitaetsberichte/finanzstabilitaetsbericht2011.en.pdf>.

<sup>726</sup> Press release: Financial Stability Review 2011, Deutsche Bundesbank (Frankfurt am Main) 10 November 2011. Date of Access: 15 March 2012.  
<http://www.bundesbank.de/download/presse/presenotizen/2011/20111110.finanzstabilitaetsbericht.en.php>.

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methods and evaluation criteria had repeatedly been changed, thus undermining the credibility of the EBA.<sup>727</sup>

Since the adoption of the Draft Restructuring Act (Restrukturierungsgesetz) by the German government on 25 August 2010, Germany has efficiently strengthened its resolution regime.<sup>728</sup> Since the act came into force on 1 January 2011, Germany has benefited from the establishment of a framework for resolving banks in distress that encompass:<sup>729</sup> (1) the establishment of rules and mechanisms for the reorganization of banks; (2) the introduction of instruments to resolve crises at systemically important banks, including the possibility for the Bundesbank and BaFin to transfer systemically relevant assets to public or private ‘bridge-banks; (3) the establishment of a restructuring fund for credit institutions; and (4) the extension of the limitation periods for management and supervisory board members’ liability towards stock corporations and banks.<sup>730</sup>

On 19 January 2012, Commerzbank announced that it had successfully recouped 57% of the EUR5.3 billion capital shortfall identified by the EBA. Commerzbank intends to cover the remainder by the end of June 2012, achieving a total core Tier 1 capital ratio of 11%. Commerzbank also said that its capitalization measures will not force the bank to request support from the government, will not limit the bank’s loan business and will not impair its domestic customer-oriented business.<sup>731</sup>

On 8 December 2011, Deutsche Bank confirmed its intentions to meet the required Tier 1 capital ratio of 9% by June 2012.<sup>732</sup>

Hence Germany has taken actions in compliance with the FSB policy measures to meet both (1) the resolution-related requirements and (2) the requirements for strengthened supervision. Thus Germany is awarded a score of +1.

*Analyst: Vera Gavrilova*

### **India: +1**

India has fully complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed upon through Seoul, including a comprehensive framework

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<sup>727</sup> Association of German Banks: Results of the stress test are arbitrary, Association of German Banks (Berlin) 8 December 2011. Date of Access: 15 March 2012.  
<http://www.germanbanks.org/press-room/press-releases/association-of-german-banks-results-of-the-stress-test-are-arbitrary>.

<sup>728</sup> FSB-G20 Monitoring Progress – Germany September 2010 [For Publication in March 2011], Financial Stability Board (Basel) 12 November 2010. Date of Access: 10 April 2011.  
[http://www.financialstabilityboard.org/publications/r\\_110401g.pdf](http://www.financialstabilityboard.org/publications/r_110401g.pdf)

<sup>729</sup> FSB-G20 Monitoring Progress – Germany September 2010 [For Publication in March 2011], Financial Stability Board (Basel) 12 November 2010. Date of Access: 10 April 2011.  
[http://www.financialstabilityboard.org/publications/r\\_110401g.pdf](http://www.financialstabilityboard.org/publications/r_110401g.pdf)

<sup>730</sup> FSB-G20 Monitoring Progress – Germany September 2010 [For Publication in March 2011], Financial Stability Board (Basel) 12 November 2010. Date of Access: 10 April 2011.  
[http://www.financialstabilityboard.org/publications/r\\_110401g.pdf](http://www.financialstabilityboard.org/publications/r_110401g.pdf)

<sup>731</sup> Commerzbank met 57% of capital shortfall by end of 2011, Dow Jones Newswires Financial News (New York) 19 January 2012. Date of Access: 15 March 2012.  
<http://www.efinancialnews.com/story/2012-01-19/commerzbank-met-capital-shortfall>.

<sup>732</sup> Deutsche Bank Update - EU Wide Capital Exercise, Deutsche Bank (Frankfurt am Main) 8 December 2011. Date of Access: 15 March 2012.  
[http://www.db.com/ir/en/content/ir\\_releases\\_2011\\_3711.htm](http://www.db.com/ir/en/content/ir_releases_2011_3711.htm).

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to address the risk posed by systemically important financial institutions. India has taken actions in compliance with the FSB policy measures to meet both the requirements for strengthened supervision and the resolution-related requirements.

On 21 February 2012, the Reserve Bank of India released draft Guidelines on Liquidity Risk Management and Basel III Framework for Liquidity Standards for comments and feedback. The draft Guidelines aim to provide India's banks with harmonizing guidance for the implementation of the Basel Committee's on Banking Supervision (BCBS) Principles for Sound Liquidity Risk Management and Supervision. Banks are asked to submit the liquidity returns under the Basel III regulation to the Reserve Bank by June 2012.<sup>733</sup>

On 16 January 2012, ING Vysya Bank, the only Indian bank identified as a G-SIFI by the FSB in November 2011<sup>734</sup>, reported a Tier 1 capital ratio of 10.99%, which is above the national requirement.<sup>735</sup>

In regards to resolution-related requirements, in March 2012, the Reserve Bank of India set up an internal Working Group on resolution as reported in its Monetary Policy Statement 2012-2013 published on 10 May 2012.<sup>736</sup> The mission of this Working Group chaired by Shri B. Mahapatra is to identify the current gaps in the Indian resolution regime for the banking system, based on the Financial Stability Board key attributes guidelines, as well as to suggest the nature and extent of the legislative and regulatory changes needed to address those gaps.<sup>737</sup>

Hence India has taken actions in compliance with the FSB policy measures to meet both the strengthened supervision requirements and the resolution-related requirements. Thus India is awarded a score of +1.

*Analysts: Vera Gavrilova and Krystel Montpetit*

### **Indonesia: +1**

Indonesia has fully complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. Indonesia has taken sufficient actions to meet both the requirements for strengthened supervision and resolution-related requirements.

In late November 2011, although the FSB has thus far not identified any Indonesian G-SIFI, the Central Bank of Indonesia (BI) carried out stress tests on domestic banks, reporting "minimal

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<sup>733</sup> RBI Releases Draft Guidelines on Liquidity Risk Management and Basel III Framework on Liquidity Standards, Reserve Bank of India (New Delhi) 21 February 2012.

[http://www.rbi.org.in/scripts/BS\\_PressReleaseDisplay.aspx?prid=25997](http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=25997).

<sup>734</sup> Financial Results: Third Quarter and Period ended 31 December 2011 Investor Presentation, ING Vysya Bank (Bangalore) 16 January 2012. Date of Access: 15 March 2012.

<http://www.ingvysyabank.com/pdfs/InvestorPresentationQ32012.pdf>.

<sup>735</sup> Financial Results: Third Quarter and Period ended 31 December 2011 Investor Presentation, ING Vysya Bank (Bangalore) 16 January 2012. Date of Access: 15 March 2012.

<http://www.ingvysyabank.com/pdfs/InvestorPresentationQ32012.pdf>.

<sup>736</sup> Monetary Policy Statement 2012-2013, Reserve Bank of India (Mumbai) 10 May 2012. Date of Access: 19 May 2012. <http://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/01MPSB100512.pdf>

<sup>737</sup> Monetary Policy Statement 2012-2013, Reserve Bank of India (Mumbai) 10 May 2012. Date of Access: 19 May 2012. <http://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/01MPSB100512.pdf>

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exposure” to possible euro zone downgrades.<sup>738</sup> In reaction to this result, Moody’s and Fitch Ratings upgraded Indonesia’s sovereign debt rating, citing the “presence of policy buffers and tools that address financial vulnerabilities,”<sup>739</sup> and the “prudent overall macro policy framework,”<sup>740</sup> deployed by the government. Moody’s Vice President Beatrice Woo noted that “the [Indonesian] banks are always aligned with the government,” and are much stronger because of it.<sup>741</sup>

Indonesia is committed to “enhancing effectiveness of information sharing both with domestic and foreign authorities” in the banking sector and “continuing to establish cross-border supervisory Memorandums of Understanding with other relevant authorities, especially with home supervisors of systemically relevant foreign financial institutions considering foreign banks have a large and growing share of the Indonesian market.”<sup>742</sup> Memorandums of Understanding with the Korean, the Australian and the Cayman Island authorities are currently being devised.<sup>743</sup>

Indonesia has completed the draft of the Financial Sector Safety Net law (FSN).<sup>744</sup> This law entrusts authorities — Bank Indonesia, the Indonesian Ministry of Finance and the Indonesian Deposit Insurance Corporation — with the power to promptly put into place measures which will prevent systemic risk including the exercise of resolutions of failing financial institutions (bank and non-bank).<sup>745</sup> The law FSN law whose main aims are to strengthen legal powers, to clarify the division of responsibilities of different national authorities for dealing with weak and failing banks and to prevent systemic crisis is currently being discussed in the Indonesian Parliament.<sup>746</sup>

Hence Indonesia has taken actions in compliance with the FSB policy measures to meet both the requirements for strengthened supervision and the resolution-related requirements. Thus Indonesia is awarded a score of +1.

*Analysts: Ian Barnard and Krystel Montpetit*

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<sup>738</sup> Stress tests show Indonesia’s banks are OK, Reuters (New York) 26 November 2011. Date of Access: 2 March 2012. <http://arabnews.com/economy/article538892.ece>.

<sup>739</sup> Press Release: Moody’s upgrades Indonesia sovereign rating, Bank Indonesia (Jakarta) 18 January 2012. Date of Access: 2 March 2012. [http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp\\_140212.htm](http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp_140212.htm).

<sup>740</sup> Press Release: Fitch rating upgraded Indonesia to investment grade, Bank Indonesia (Jakarta) 15 January 2012. Date of Access: 2 March 2012. [http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/SP\\_13452011.htm](http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/SP_13452011.htm).

<sup>741</sup> Global bank ratings down, Indonesia’s on the rise, The Jakarta Post (Jakarta) 4 March 2012. Date of Access: 2 March 2012. <http://www.thejakartapost.com/news/2012/02/27/global-bank-ratings-down-indonesia-s-rise.html>.

<sup>742</sup> FSB-G20-Monitoring Progress – Indonesia, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012. [http://www.financialstabilityboard.org/publications/r\\_111104j.pdf](http://www.financialstabilityboard.org/publications/r_111104j.pdf)

<sup>743</sup> FSB-G20-Monitoring Progress – Indonesia, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012. [http://www.financialstabilityboard.org/publications/r\\_111104j.pdf](http://www.financialstabilityboard.org/publications/r_111104j.pdf)

<sup>744</sup> FSB-G20-Monitoring Progress – Indonesia, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012. [http://www.financialstabilityboard.org/publications/r\\_111104j.pdf](http://www.financialstabilityboard.org/publications/r_111104j.pdf)

<sup>745</sup> FSB-G20-Monitoring Progress – Indonesia, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012. [http://www.financialstabilityboard.org/publications/r\\_111104j.pdf](http://www.financialstabilityboard.org/publications/r_111104j.pdf)

<sup>746</sup> FSB-G20-Monitoring Progress – Indonesia, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012. [http://www.financialstabilityboard.org/publications/r\\_111104j.pdf](http://www.financialstabilityboard.org/publications/r_111104j.pdf)

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## Italy: +1

Italy has fully complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. Italy has taken actions in compliance with the FSB policy measures to meet both the resolution-related requirements and the requirements for strengthened supervision.

On 27 April 2012, Italian financial authorities attended the second meeting of the Financial Stability Board's Regional Consultative Group for Europe in Basel, where topics of discussion included the extension of the G-SIFI policy framework to domestic systemically important banks and non-banking entities.<sup>747</sup>

On 26 April 2012, Banca d'Italia (BoI) issued a Financial Stability Report, which stated that "Italian banks now have the liquidity needed to meet maturity liabilities and finance the economy, [as well as] an ample stock of additional collateral." BoI continues to remain committed to "strengthening banks' capital while not restricting credit to the economy," noting that the Italian core Tier 1 capital ratio had risen to 9.3 percent.<sup>748</sup>

On 18 February 2012, Governor of the Bank of Italy Ignazio Visco urged the Italian government to rapidly implement and extend financial reforms<sup>749</sup>. Mr. Visco described the Italian banking system as "solid," but hit hard by sovereign debt strains, as reflected by the downgrade in credit rating by Moody's a few days prior.<sup>750</sup> Despite Moody's citing of "uncertainty over the Euro areas prospects for institutional reform," Mr. Visco stressed Italy's proactive measures towards financial reform, including the planning of additional capital requirements for SIFIs in accordance with Basel III, the expansion of the range of assets available to banks as collateral for refinancing operations, and the implementation of "clearly defined" eligibility criteria for future collateral selection. Mr. Visco concluded by stressing that it was "important that the banks prepare for the introduction of Basel III," and praising Italian banks for complying with the increased capital requirements, "even in difficult times."<sup>751</sup>

On 8 December 2011, the Bank of Italy issued a press release reiterating its commitment to the recapitalization of banks for increased stability, and requesting a plan of action to be submitted by Italian banks by 20 January 2012. The Italian banks are expected to use private sources of

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<sup>747</sup> Press Release: Second meeting of the FSB Regional Consultative Group for Europe, Financial Stability Board (Basel) 27 April 2012. Date of Access: 27 April 2012

[http://www.financialstabilityboard.org/press/pr\\_1201427a.pdf](http://www.financialstabilityboard.org/press/pr_1201427a.pdf)

<sup>748</sup> Financial Stability Report No. 3, Banca d'Italia (Rome) 26 April 2012. Date of Access: 28 April 2012. [http://www.bancaditalia.it/pubblicazioni/stabilita-finanziaria/rapporto-stabilita-finanziaria/2012/rsf\\_2012](http://www.bancaditalia.it/pubblicazioni/stabilita-finanziaria/rapporto-stabilita-finanziaria/2012/rsf_2012)

<sup>749</sup> Italy must rapidly implement, extend reforms: central bank, Reuters (New York) 18 February 2012. Date of Access: 1 March 2012. <http://www.reuters.com/article/2012/02/18/us-italy-economy-cenbank-idUSTRE81H0CU20120218>.

<sup>750</sup> Moody's cuts Italy, Spain and Portugal's credit ratings, BBC News (London) 14 February 2012. Date of Access: 1 March 2012. <http://www.bbc.co.uk/news/business-17023792>.

<sup>751</sup> Address by Governor Ignazio Visco at the 18<sup>th</sup> ASSION FOREX Conference, Banca d'Italia (Rome) 18 February 2012. Date of Access: 1 March 2012. [http://www.bancaditalia.it/interventi/integov/2012/forex-18022012/en\\_Visco\\_180212.pdf](http://www.bancaditalia.it/interventi/integov/2012/forex-18022012/en_Visco_180212.pdf).

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funding to meet the targets, although the BoI would consider selling selected assets after consultation with the EBA to help achieve targets.<sup>752</sup>

On 6 December 2011, the Italian financial authorities attended the inaugural FSB Regional Consultative Group Meeting for Europe, where topics of discussion included: regulatory financial reforms, a framework for dealing with SIFIs, improved cooperation between authorities, and the increased Basel III capital and liquidity requirements for banks.<sup>753</sup>

In response to the reform measures from the BoI and EBA, UniCredit, which was identified as a SIFI by the FSB in November 2011<sup>754</sup>, launched a rights issue on capital markets in early January 2012 to cover its predicted capital shortfall<sup>755</sup>, successfully raising the money required by the end of January.<sup>756</sup> UniCredit was one of the 34 banks downgraded by S&P in February 2012.<sup>757</sup>

On 27 April 2012, the FSB hosted the second meeting of the FSB Regional Consultative Group for Europe in Basel. Among other topics, participants discussed the development of an extension of the G-SIFIs policy framework to the domestic systemically important banks and non-banking entities, and the process of deleveraging in the European financial sector.<sup>758</sup>

In regards to resolution-related requirements, the largest Italian banks have engaged in devising their Recovery and Resolution Plans (RRPs).<sup>759</sup> A Crisis Management Group (CMG), which was set up in 2009, has already examined the definition of the work plan for drafting RRP, and another CMG for another large banking group is under preparation.<sup>760</sup> The Bank of Italy also

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<sup>752</sup> Press Release: EBA Recommendation about bank capital, Banca d'Italia (Rome) 8 December 2012. Date of Access: 1 March, 2012.

[http://www.bancaditalia.it/media/comsta/2011/eba\\_racc\\_2011/CS\\_eba\\_EN.pdf](http://www.bancaditalia.it/media/comsta/2011/eba_racc_2011/CS_eba_EN.pdf).

<sup>753</sup> Press Release: FSB Regional Consultative Group for Europe holds its first meeting, Financial Stability Board (Basel) 6 December 2011. Date of Access: 1 March 2012.

[http://www.financialstabilityboard.org/press/pr\\_111206.pdf](http://www.financialstabilityboard.org/press/pr_111206.pdf).

<sup>754</sup> Policy Measures to Address Systemically Important Financial Institutions, Financial Stability Board (Basel) 4 November 2011. Date of Access: 1 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104bb.pdf](http://www.financialstabilityboard.org/publications/r_111104bb.pdf).

<sup>755</sup> European Bank Capital: By hook or by crook, The Economist (New York) 14 January 2012. Date of Access: 1 March 2012. <http://www.economist.com/node/21542779>.

<sup>756</sup> Successful end to UniCredit rights issue, The Wall Street Journal (New York) 27 January 2012. Date of Access: 1 March 2012.

<http://online.wsj.com/article/SB10001424052970204573704577187171303253162.html>.

<sup>757</sup> S&P downgrades 34 Italian banks, Reuters (New York) 10 February 2012. Date of Access: 29 February 2012. <http://www.reuters.com/article/2012/02/10/us-italy-banks-idUSTRE8191R320120210>.

<sup>758</sup> Second Meeting of the Financial Stability Board Regional Consultative Group for Europe, Financial Stability Board (Basel) 27 April 2012. Date of Access: 1 May 2012.

[http://www.financialstabilityboard.org/press/pr\\_120427a.pdf](http://www.financialstabilityboard.org/press/pr_120427a.pdf).

<sup>759</sup> FSB-G20-Monitoring Progress – Italy, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104k.pdf](http://www.financialstabilityboard.org/publications/r_111104k.pdf)

<sup>760</sup> FSB-G20-Monitoring Progress – Italy, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104k.pdf](http://www.financialstabilityboard.org/publications/r_111104k.pdf)

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participated as host authority in two meetings of CMGs established for non-Italian banking groups.<sup>761</sup>

Since 6 January 2011, the European Commission has worked on entrusting the European Banking Authority (EBA) with considerable emergency powers and additional resolution tools over SIFIs in order to not only intervene at an early stage but also to resolve or restructure financial institutions without relying on taxpayer funds.<sup>762</sup> Such resolution tools include: sale of business tool, bridge bank tool, asset separation tool, and debt write down or conversion tool, all of which would strengthen the supervisory regime and its regulatory oversight over financial institutions under the Capital Requirements Directive (CRD).<sup>763</sup> Furthermore, the Commission has worked on establishing resolution colleges of supervisors to supervise cross-border SIFIs and to require its members to set up a bank resolution fund to cover the costs of resolution tools.<sup>764</sup> The Bank of Italy actively participates in the European Union process which reviews resolution regimes that ensure an orderly winding down of large cross-border financial institutions, by contributing to the European Banking Authority (EBA) work in the field of early intervention tools and to the EU Commission work for enhancing banking crisis management framework.<sup>765</sup>

The Bank of Italy is also actively participating in the FSB SIFI project which aims to define the proposals to make SIFIs resolution a viable option.<sup>766</sup> Finally, the Committee for the safeguarding of financial stability, the Domestic Standing Group in Italy, has led the cooperation efforts as well as the sharing of information and assessments among supervisory authorities and the Italian Ministry of Economy and Finance since its establishment in 2008.<sup>767</sup>

Hence Italy has taken actions in compliance with the FSB policy measures to meet both the resolution-related requirements and the requirements for strengthened supervision. Thus Italy is awarded a score of +1.

*Analysts: Ian Barnard and Krystel Montpetit*

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<sup>761</sup> FSB-G20-Monitoring Progress – Italy, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104k.pdf](http://www.financialstabilityboard.org/publications/r_111104k.pdf)

<sup>762</sup> European Resolution and Recovery Framework for Financial Institutions, JDSupra, 17 February 2011. Date of Access: 7 April 2011

<http://www.jdsupra.com/post/documentViewer.aspx?fid=f0ec7db0-1c95-4613-9600-92fbf33c0f88>

<sup>763</sup> European Resolution and Recovery Framework for Financial Institutions, JDSupra, 17 February 2011. Date of Access: 7 April 2011

<http://www.jdsupra.com/post/documentViewer.aspx?fid=f0ec7db0-1c95-4613-9600-92fbf33c0f88>

<sup>764</sup> European Resolution and Recovery Framework for Financial Institutions, JDSupra, 17 February 2011. Date of Access: 7 April 2011

<http://www.jdsupra.com/post/documentViewer.aspx?fid=f0ec7db0-1c95-4613-9600-92fbf33c0f88>

<sup>765</sup> FSB-G20-Monitoring Progress – Italy, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104k.pdf](http://www.financialstabilityboard.org/publications/r_111104k.pdf)

<sup>766</sup> FSB-G20-Monitoring Progress – Italy, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104k.pdf](http://www.financialstabilityboard.org/publications/r_111104k.pdf)

<sup>767</sup> FSB-G20-Monitoring Progress – Italy, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104k.pdf](http://www.financialstabilityboard.org/publications/r_111104k.pdf)

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### **Japan: +1**

Japan has fully complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. Japan has taken actions in compliance with the FSB policy requirements for a strengthened supervision of the national financial system and a strengthened resolution regime.

On 8 November 2011, the Japanese Bankers Association (JBA) released its feedback on the consultation paper “Understanding Financial Linkages: A Common Data Template for Global

Systemically Important Banks” released on 6 October 2011 by the FSB.<sup>768</sup> The feedback included comments on the scope and depth of the collected data, the frequency of data collection, as well as the issues of access, disclosure and confidentiality of the data.

On 19 April 2012, the Bank of Japan (BOJ) released its semi-annual Financial System Report. In the Report, the BOJ assessed: (1) the environment surrounding Japan’s financial system, (2) Japan’s financial institutions’ performance of financial intermediation, (3) risks in the financial system, (4) resilience of the financial system through stress testing, and (5) challenges to the stability of Japan’s financial system.<sup>769</sup> The Report asserted that Japan has been successful in maintaining the stability of its financial system. The Report identified three primary challenges that Japan’s financial institutions needed to address in order to ensure “the long-lasting stability”: (1) the effectiveness of risk management, (2) the strength of capital bases, and (3) the strength of profit bases.<sup>770</sup>

In addressing “the development of resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future,” the Japanese Deposit Insurance Law and other related laws already provide for adequate resolution regimes that reduce moral hazard.<sup>771</sup> In addition, both the Financial Services Agency (FSA) and the Bank of Japan (BOJ) still continue to take part in the discussion concerning SIFIs at the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB).<sup>772</sup>

In November 2011, the FSB announced the names of Japan’s three G-SIFIs: Mitsubishi UFJ Financial Group, Mizuho Financial Group, and Sumitomo Mitsui Financial Group. The three banks will be required to have additional loss absorption capacity of 2.5% of risk-weighted assets.

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<sup>768</sup> Comments on the Financial Stability Board’s Consultative Document Understanding Financial Linkages: A Common Data Template for Global Systemically Important Banks, Japanese Bankers Association (Tokyo) 8 November 2011. Date of Access: 15 March 2012. <http://www.zenginkyo.or.jp/en/news/entryitems/news111108.pdf>.

<sup>769</sup> Financial Stability Report, Bank of Japan (Tokyo) 19 April 2012. Date of Access: 1 May 2012. <http://www.boj.or.jp/en/research/brp/fsr/data/fsr120419a1.pdf>.

<sup>770</sup> Financial Stability Report, Bank of Japan (Tokyo) 19 April 2012. Date of Access: 1 May 2012. <http://www.boj.or.jp/en/research/brp/fsr/data/fsr120419a1.pdf>.

<sup>771</sup> Regulators aim for minimum big bank safeguards, Reuters (London) April 4 2011. Date of Access: 7 April 2011. <http://uk.reuters.com/article/2011/04/04/uk-fsb-banks-idUKTRE7333ON20110404>

<sup>772</sup> Regulators aim for minimum big bank safeguards, Reuters (London) April 4 2011. Date of Access: 7 April 2011. <http://uk.reuters.com/article/2011/04/04/uk-fsb-banks-idUKTRE7333ON20110404>

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Currently, Mitsubishi UFJ Financial Group reports a Tier 1 capital ratio of 12.82%.<sup>773</sup> Mizuho Financial Group announced a Tier 1 capital ratio of 11.56%, as of 31 December 2011.<sup>774</sup> Sumitomo Mitsui Financial Group stated its Tier 1 capital ratio amounted to 12.49%, as of 31 December 2011.<sup>775</sup>

In 2012, Japan intends to undergo The International Monetary Fund's (IMF) Financial Sector Assessment Program, a review of the country's financial systems.<sup>776</sup>

Hence Japan has taken actions to meet both the supervisory-related requirements and the resolution-related requirements. Thus Japan is awarded a score of +1.

*Analyst: Vera Gavrilova*

### **Korea: +1**

Korea has fully complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. Korea has taken actions in compliance with the FSB policy measures to meet the requirements for strengthened supervision and the resolution-related requirements.

Korea has pursued improvement in its financial regulatory and supervisory system by keenly participating in discussions related to financial regulations and by proactively introducing financial regulations.<sup>777</sup> The Bank of Korea participates in FSB's activities, helping relevant bodies to gain a better understanding of the country's newly introduced international financial regulations.

The Bank of Korea is liable for monitoring the financial system and evaluating its stability. It is the main contributor in maintaining financial stability by recognizing potential risk factors and prevents them from causing financial system instability.<sup>778</sup> The Bank of Korea semi-annually publishes a Financial Stability Report that analyzes the potential risks of its financial system and provides an overall assessment of its stability. In February 2012, the Korean Financial Supervisory Service (FSS) introduced an examination system in order to improve the transparency and objectivity of firms. The disclosure will offer a checklist that covers all the

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<sup>773</sup> Investor Relations FAQ, Mitsubishi UFJ Financial Group (Tokyo) September 2011. Date of Access: 15 March 2012. <http://www.mufg.jp/english/investors/faqs/#a0105>.

<sup>774</sup> Announcement regarding Capital Adequacy Ratio as of December 31, 2011, Mizuho Financial Group (Tokyo) 14 February 2012. Date of Access: 15 March 2012. [http://www.mizuho-fg.co.jp/english/release/pdf/20120214release\\_eng.pdf](http://www.mizuho-fg.co.jp/english/release/pdf/20120214release_eng.pdf).

<sup>775</sup> Capital Ratio as of December 31, 2011, Sumitomo Mitsui Financial Group (Tokyo) 14 February 2012. Date of Access: 15 March 2012. [http://www.smbc.co.jp/news\\_e/e510071\\_01.html](http://www.smbc.co.jp/news_e/e510071_01.html).

<sup>776</sup> Big Financial Sectors Under Review in 2012 By IMF, International Monetary Fund (Washington) 13 January 2012. Date of Access: 15 March 2012. <http://www.imf.org/external/pubs/ft/survey/so/2012/pol011312a.htm>.

<sup>777</sup> Current Situation, The Bank of Korea (Seoul) 2012. Date of Access: 2 March 2012. <http://www.bok.or.kr/broadcast.action?menuNaviId=1797>.

<sup>778</sup> The BOKs Role in Ensuring Financial Stability, The Bank of Korea (Seoul) 2012. Date of Access: 2 March 2012. <http://www.bok.or.kr/broadcast.action?menuNaviId=1624>.

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recent information and will evaluate the risk of failures.<sup>779</sup> The Korean FSS intends to publish a management report that has a newly developed model in which it evaluates the likelihood of failures.<sup>780</sup>

On 10-11 April, The Bank of Korea, the Bank of International Settlement, and the International Monetary Fund held a joint conference regarding “Macro-financial linkages: Implications for monetary and financial stability policies.” The conference program included discussions on the topics of bank liquidity regulation; macro-prudential policies in theory and practice; and monetary policy and financial stability. Addressing the conference, Choongsoo Kim, Governor of the Bank of Korea, noted that “[...] we need to continuously monitor and track how [measures to reform financial regulations] will affect the sustainability of world economic growth in the medium- and long-term. In doing so, we should be careful so that the strengthening of financial regulation does not weaken the benign function of finance, which is to drive the growth of the real economy through seamless financial intermediation.”<sup>781</sup>

On 8 February 2012, the Korean FSS publicized its 2012 policy directions, which include the enhancement of cooperation with overseas supervisors and hosting congregations. The Korean FSS will augment the supervision of risk management among financial service companies. Financial firms, with the inclusion of commercial banks, will be ordered to accumulate more loan loss provisions and to refrain from providing shareholders with excessive dividends. The FSS intends to prevent local financial companies from being destabilized by external factors, thus instructing them to secure adequate foreign currency liquidity.

In regards to resolution-related requirements, Korea is set to implement an in-depth study on the applicability of Recovery and Resolution Plans (RRPs) of G-SIFIs to its domestic SIFIs and get ready to take the necessary measures.<sup>782</sup> In the meantime, Korea participates in Supervisory Colleges and Crisis Management Groups (CMGs) to implement Recovery and Resolution Plans.<sup>783</sup>

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<sup>779</sup> The Commerciality & Social Responsibility of Banks, Knowledge, Insight, and Frontier (Seoul) 4 February 2012. Date of Access: 1 March 2012.  
[http://www.kif.re.kr/kif2/eng/publication/pub\\_detail.aspx?menuid=10&nodeid=850&volumeid=2986](http://www.kif.re.kr/kif2/eng/publication/pub_detail.aspx?menuid=10&nodeid=850&volumeid=2986).

<sup>780</sup> The Commerciality & Social Responsibility of Banks, Knowledge, Insight, and Frontier (Seoul) 4 February 2012. Date of Access: 1 March 2012.  
[http://www.kif.re.kr/kif2/eng/publication/pub\\_detail.aspx?menuid=10&nodeid=850&volumeid=2986](http://www.kif.re.kr/kif2/eng/publication/pub_detail.aspx?menuid=10&nodeid=850&volumeid=2986).

<sup>781</sup> Bank of Korea, BIS and IMF Conclude Joint Conference on Macro-Financial Linkages and Policy Implications, International Monetary Fund (Washington) 16 April 2012. Date of Access: 26 April 2012. <http://www.imf.org/external/np/sec/pr/2012/pr12136.htm>.

<sup>782</sup> FSB-G20-Monitoring Progress – Korea, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104m.pdf](http://www.financialstabilityboard.org/publications/r_111104m.pdf)

<sup>783</sup> FSB-G20-Monitoring Progress – Korea, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104m.pdf](http://www.financialstabilityboard.org/publications/r_111104m.pdf)

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Hence Korea has made efforts to comply with the recommendations put forth by the G20 group and FSB and has taken actions to meet the requisites.<sup>784</sup> The governments' actions have led Korea to fully comply with its commitment to reduce the systemic risks presented by SIFIs with respect to: (1) resolution (2) more rigorous supervision of SIFIs through stronger supervisory mandates. Thus Korea is awarded a score of +1.

*Analysts: German Cairo and Krystel Montpetit*

**Mexico: +1**

Mexico has fully complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. Mexico has taken actions in compliance with the FSB policy measures to meet both (1) the resolution-related requirements and (2) the requirements for strengthened supervision.

On 8 November 2011, Manuel Sánchez, Deputy Governor of Banco de México, in his speech at the Mexico Financial Day 2011 in New York, reported that “Mexico has made substantial improvements on regulation and supervision. However, the agenda for financial authorities needs to embrace the further enhancement of micro-prudential standards for banks, such as capitalization and liquidity requirements; macro-prudential measures to detect early systemic risk factors and counteract them; and the design of an expedient bank resolution mechanism.”<sup>785</sup>

On 15 December 2011, the Council for Financial System Stability reported that “the Council took note of the actions undertaken by the Secretariat Finance and Public Credit and the National Banking and Securities order to meet its recommendation... of adopting measures to generate the incentives to improve transparency and encourage prudent fiscal policies in the states, through changes to banking regulation in building provisions and reserves, among others.”<sup>786</sup>

On 1 May 2012, Gerardo Rodríguez Regordosa, Deputy Secretary of Finance and Public Credit, in his article in *El Financiero*, stated that Mexico has made strong commitments to strengthen international financial regulation and that intends to comply with these agreements in a timely fashion.<sup>787</sup>

In regards to resolution-related requirements, the legal framework for banking resolution was considerably improved to “support the decision process through the implementation of an orderly resolution procedure that clearly sets responsibilities for all relevant authorities” since the

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<sup>784</sup> FSB-G20-Monitoring Progress – Korea, Financial Stability Board (Basel) September 2011.

Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104m.pdf](http://www.financialstabilityboard.org/publications/r_111104m.pdf).

<sup>785</sup> The Strengths and Challenges of Mexico's Financial System Remarks by Manuel Sánchez Member of the Governing Board of the Bank of Mexico at the Mexico Financial Day 2011 CEO Roundtable, Banco de Mexico (Mexico City) 8 November 2011. Date of Access: 3 March 2012.

<http://www.banxico.org.mx/publicaciones-y-discursos/discursos-y-presentaciones/discursos/%7BBBC8C1B3-2D22-3AFD-364C-14D034A4C70F%7D.pdf>.

<sup>786</sup> Analiza El Consejo De Stabilidad La Evolucion De La Crisis En Europa Y Los Posibles Canales De Contagio A La Economia Nacional, Consejo de Estabilidad del Sistema Financiero (Mexico City) 15 December 2011. Date of Access: 3 March 2012.

[http://www.consar.gob.mx/sala\\_prensa/pdf/boletines/2011/BP\\_17\\_2011.pdf](http://www.consar.gob.mx/sala_prensa/pdf/boletines/2011/BP_17_2011.pdf).

<sup>787</sup> Retos, compromisos y logros del G20, *El Financiero* (Mexico City) 1 May 2012. Date of Access: 3 May 2012.

[http://www.elfinanciero.com.mx/index.php?option=com\\_k2&view=item&id=17589&Itemid=43](http://www.elfinanciero.com.mx/index.php?option=com_k2&view=item&id=17589&Itemid=43).

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amendment of the Mexican banking law in 2006.<sup>788</sup> As of September 2011, Mexican financial authorities were preparing an amendment to the banking law to enhance the resolution processes. Authorities are assessing proposals to include the obligation of banks to devise periodic Recovery Plans.<sup>789</sup> What is more, authorities are “planning to further strengthen cooperation mechanisms through crisis management groups and supervisory colleges.”<sup>790</sup> Finally, Banco de Mexico and the CNBV (Comisión Nacional Bancaria y de Valores) participate in a number of supervisory colleges and crisis management groups, contributing to the review of Recovery and Resolution Plans (RRP) for a number of global financial institutions.<sup>791</sup>

Hence Mexico has taken actions in compliance with the FSB policy measures to meet both the resolution-related requirements and the requirements for strengthened supervision. Thus Mexico is awarded a score of +1.

*Analysts: Eleni Tsaliki and Krystel Montpetit*

### **Russia: 0**

Russia has partially complied with its commitment to improve resolution regimes and strengthen supervision of SIFIs.

Russian authorities have taken measures in accordance with the FSB requirements for strengthened supervision.

On 16 November 2011, Russian Deputy Finance Minister Sergey Storchak announced that work was underway to define the list of Russian systemically important banks similar to the G-SIFIs list put forth by the FSB.<sup>792</sup>

On 17 November 2011, Russian Finance Ministry proposed amendments to the Federal Law on Central Bank of the Russian Federation (Bank of Russia) which provide for appointing central bank’s authorised representatives to commercial banks identified as systemically important in order to collect information on credit activities.<sup>793</sup>

Russia has taken actions to strengthen SIFIs supervision. However, no measures concerning resolution planning and resolvability assessment of Russian SIFIs during the compliance period have been registered. Thus, Russia is given a score of 0.

*Analyst: Andrey Shelepov*

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<sup>788</sup> FSB-G20-Monitoring Progress – Mexico, Financial Stability Board (Basel) September 2011.

Date of Access: 14 May 2012. [http://www.financialstabilityboard.org/publications/r\\_111104n.pdf](http://www.financialstabilityboard.org/publications/r_111104n.pdf)

<sup>789</sup> FSB-G20-Monitoring Progress – Mexico, Financial Stability Board (Basel) September 2011.

Date of Access: 14 May 2012. [http://www.financialstabilityboard.org/publications/r\\_111104n.pdf](http://www.financialstabilityboard.org/publications/r_111104n.pdf)

<sup>790</sup> FSB-G20-Monitoring Progress – Mexico, Financial Stability Board (Basel) September 2011.

Date of Access: 14 May 2012. [http://www.financialstabilityboard.org/publications/r\\_111104n.pdf](http://www.financialstabilityboard.org/publications/r_111104n.pdf)

<sup>791</sup> FSB-G20-Monitoring Progress – Mexico, Financial Stability Board (Basel) September 2011.

Date of Access: 14 May 2012. [http://www.financialstabilityboard.org/publications/r\\_111104n.pdf](http://www.financialstabilityboard.org/publications/r_111104n.pdf)

<sup>792</sup> Statements of Deputy Finance Minister of the Russian Federation S.Storchak to RIA Novosti Information Agency, Ministry of Finance of the Russian Federation 16 November 2011. Date of Access: 31 March 2012. <http://www1.minfin.ru/ru/press/speech/index.php?pg4=5&id4=14690>.

<sup>793</sup> Draft Federal Law on Making Amendments to Articles 74 and 76 Federal Law on Central Bank of the Russian Federation (Bank of Russia), Ministry of Finance of the Russian Federation 17 November 2011. Date of Access: 31 March 2012.

<http://www.minfin.ru/ru/legislation/projorders/index.php?id4=14697>.

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### **Saudi Arabia: 0**

Saudi Arabia has partially complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. Saudi Arabia has taken action in compliance with the FSB policy measures to meet the requirements for strengthened supervision, but not the resolution-related requirements.

On 30 November 2011, during his speech at the Moody's Analytics Symposium on "Risk Strategies for Basel-III Compliance and Beyond," the Saudi Arabian Monetary Agency (SAMA) Vice Governor Dr. Abdulrahman Al-Hamidy stressed that steps have already been taken to increase regulations on domestic SIFIs. He stated that "SAMA has already started the Basel III implementation process by publishing its plans, introducing relevant prudential returns and providing guidance to banks. As a part of its implementation plans, SAMA has conducted quantitative impact studies on selected banks."<sup>794</sup> More specifically, he contended that the implementation strategy focuses on the "implementation of various other standards of BCBS and FSB, besides Basel-III. These include, inter alia, the FSB Principles and Standards on Compensation, BCBS Principles on Stress testing, plans to introduce rules for D-SIFIs, etc."<sup>795</sup>

On 2 March 2012, SAMA, in its 47<sup>th</sup> Annual Report on The Latest Economic Developments 1432H (2011G), however announced that the national implementation of the risk-based capital requirements will not begin until 1 January 2013.<sup>796</sup> Despite this delay in the implementation of the new capital requirements, Saudi Arabia has taken action in compliance strengthened supervision by conducting quantitative impact studies on selected banks.

It is important to note that no Saudi Bank currently qualifies as a G-SIFI, although some GSIFIs have a branch operation in Saudi Arabia. SAMA is "following on these subjects and is preparing for the implementation of recommendations emanating from these committees as needed."<sup>797</sup>

Hence Saudi Arabia has taken action in compliance with the FSB policy measures to meet the requirements for strengthened supervision, but not the resolution-related requirements. Thus Saudi Arabia is awarded a score of 0.

*Analyst: Sayed Majeed Alaali*

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<sup>794</sup> Remarks by Dr. Abdulrahman Al-Hamidy at the Moody's Analytics Symposium on Risk Strategies for Basel-III Compliance and Beyond, Saudi Arabian Monetary Agency. (Riyadh) 30 November 2011. Date of Access: 2 March 2012.

<http://www.sama.gov.sa/sites/samaen/News/Pages/Risk%20Strategies%20for%20BaselIII.aspx>

<sup>795</sup> Remarks by Dr. Abdulrahman Al-Hamidy at the Moody's Analytics Symposium on Risk Strategies for Basel-III Compliance and Beyond, Saudi Arabian Monetary Agency. (Riyadh) 30 November 2011. Date of Access: 2 March 2012.

<http://www.sama.gov.sa/sites/samaen/News/Pages/Risk%20Strategies%20for%20BaselIII.aspx>

<sup>796</sup> 46<sup>th</sup> Annual Report on The Latest Economic Developments 1432H (2011G), Saudi Arabian Monetary Agency (Riyadh) July 2010. Date of Access: 2 March 2012.

[http://www.sama.gov.sa/sites/samaen/ReportsStatistics/ReportsStatisticsLib/6500\\_R\\_Annual\\_En\\_47\\_2011\\_10\\_27.pdf](http://www.sama.gov.sa/sites/samaen/ReportsStatistics/ReportsStatisticsLib/6500_R_Annual_En_47_2011_10_27.pdf)

<sup>797</sup> FSB-G20-Monitoring Progress – Saudi Arabia, Financial Stability Board (Basel) September 2011. Date of Access: 14 May 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104q.pdf](http://www.financialstabilityboard.org/publications/r_111104q.pdf)

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### **South Africa: +1**

South Africa has fully complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. South Africa has taken actions in compliance with the FSB policy requirements for strengthened supervision of the national financial system and a strengthened resolution regime.

On 1 January 2012, the South African Reserve Bank published the amended regulations relating to banks that were proposed on 31 October 2011. The regulations consist of a list of forms that banks must complete and submit to the Reserve Bank. Some of the issues presented are: calculation of averages, gross balances and trading activities. The regulation seeks to: (1) strengthen measures providing risk cover; (2) prevent excessive levels of lending; and (3) reduce risks relating to securitisation and off-balance-sheet activities.<sup>798</sup>

On 30 March 2012, the South African Reserve Bank released a first draft of the complete set of proposed amended Regulations relating to Banks.<sup>799</sup> Among the topics touched by the proposed amended Regulations are capital and leverage, operational risk, and consolidated supervision. Comments from banks, controlling companies and all other parties are to be submitted by 18 May 2012.

On 9 March 2012, the National Treasury published the first draft of the Financial Services Laws General Amendment (FSLGA) Bill, which proposes amendments to eleven domestic financial services laws.<sup>800</sup> The objective of the FSLGA Bill is to address shortcomings and strengthen the financial-sector regulatory framework as recommended by the IMF/World Bank Financial Sector Assessment Program (FSAP) evaluation of 2010 of South Africa's compliance to international financial regulatory principles in respect to insurance, banking and securities regulation.<sup>801</sup> The Bill is to be released for public consultation leading to the expected tabling in the second half of 2012.

On 3 April 2012, Parliament of South Africa tabled the Financial Markets (FM) Bill.<sup>802</sup> The FM Bill covers the topics of the regulation of securities exchanges, central securities depositories,

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<sup>798</sup> Amended Bank Regulations Now in Operation, Sabinet Law (Centurion) 10 January 2012. Date of Access: 4 March 2012. <http://www.sabinetlaw.co.za/finances/articles/amended-bank-regulations-now-operation>.

<sup>799</sup> Proposed amended Regulations relating to Banks, South African Reserve Bank (Pretoria) 30 March 2012. Date of Access: 27 April 2012. <http://www.resbank.co.za/Publications/Detail-Item-View/Pages/Publications.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblast=21b5222e-7125-4e55-bb65-56fd3333371e&sarbitem=5007>.

<sup>800</sup> Request for public comment: Draft Financial Services Laws General Amendment Bill, 2012, National Treasury of the Republic of South Africa (Pretoria) 9 March 2012. Date of Access: 3 May 2012. <http://www.info.gov.za/speech/DynamicAction?pageid=461&sid=25740&tid=59727>.

<sup>801</sup> Financial Stability Review – March 2012, South African Reserve Bank (Pretoria) 25 April 2012. Date of Access: 3 May 2012. <http://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/5025/FSR%20March%202012.pdf>.

<sup>802</sup> Press Release: Financial Markets Bill 2012, National Treasury of the Republic of South Africa (Pretoria) 5 April 2012. Date of Access: 3 May 2012. [http://www.treasury.gov.za/comm\\_media/press/2012/2012040401.pdf](http://www.treasury.gov.za/comm_media/press/2012/2012040401.pdf).

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clearing houses and their respective members. The FM Bill will work to align South Africa's legislative framework with local and international developments and standards.<sup>803</sup>

On 25 April 2012, the South African Reserve Bank published its semi-annual Financial Stability Review.<sup>804</sup> The Review reports that the banking sector is "stable with banks well capitalized," and the capital-adequacy ratio exceeds the minimum prudential requirement of 9.5%. The Review also informs of the Bank's continuing monitoring of the credit exposure of the five largest South African banks to the troubled Greece, Italy, Ireland, Portugal, and Spain.

South Africa does not have any G-SIFIs in its jurisdiction. However, where appropriate the South African Government committed to applying the principles of resolution of SIFI's to its national systemically financial institutions.<sup>805</sup> What is more, South Africa is in the process of strengthening its resolution regime as the process is an integral part of the reforms that are currently taking place in South Africa's regulatory framework towards a twin peaks model.<sup>806</sup>

South Africa has made progress towards complying with the stronger supervision of its national financial system to reduce the systemic risks and to meet the resolution-related requirements.<sup>807</sup> Thus South Africa is awarded a score of +1.

*Analysts: German Cairo and Krystel Montpetit*

#### **Turkey: +1**

Turkey has made sufficient progress with its commitment to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. Turkey has taken actions in compliance with the FSB supervision-related requirements and the resolution-related requirements.

The Banking Regulation and Supervision Agency (BRSA) is a public agency that ensures the confidence and stability in Turkey's financial markets. The regulations put forth by the BRSA contribute to the achievement of long-run economic growth and stability of the country. Owing to

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<sup>803</sup> Financial Stability Review – March 2012, South African Reserve Bank (Pretoria) 25 April 2012. Date of Access: 3 May 2012.

<http://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/5025/FSR%20March%202012.pdf>.

<sup>804</sup> Financial Stability Review – March 2012, South African Reserve Bank (Pretoria) 25 April 2012. Date of Access: 3 May 2012.

<http://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/5025/FSR%20March%202012.pdf>.

<sup>805</sup> FSB-G20-Monitoring Progress – Saudi Arabia, Financial Stability Board (Basel) September 2011. Date of Access: 14 May 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104s.pdf](http://www.financialstabilityboard.org/publications/r_111104s.pdf)

<sup>806</sup> FSB-G20-Monitoring Progress – Saudi Arabia, Financial Stability Board (Basel) September 2011. Date of Access: 14 May 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104s.pdf](http://www.financialstabilityboard.org/publications/r_111104s.pdf)

<sup>807</sup> FSB-G20-Monitoring Progress – South Africa September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104s.pdf](http://www.financialstabilityboard.org/publications/r_111104s.pdf).

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this regulation in Turkey, the banking sector maintains one of the highest Capital Adequacy Ratios and net profits of the G20 countries.<sup>808</sup>

On 24 November 2011, the Turkish state launched a competition investigation into 12 of Turkey's top banks. "We need real competition in the sector; the banks should not be fixing prices and rates" said Deputy Prime Minister Ali Babacan.<sup>809</sup> Their main emphasis is on credit cards, given lending growth, the unsecured nature of credit card loans can cause economic decline if loans turn sour.<sup>3</sup>

In an interview with the Financial Times, Ali Babacan said: "We can't have independent institutions which are like independent countries; we cannot have a republic of the banking authority or a republic of the central bank."<sup>3</sup> The competition authority announced that the probe will look into both private and state-owned Turkish banks such as GarantiBank, Akbank, Isbank, Yapi Kredi, Ziraat Bankasi and Halkbank, as well as foreign groups such as HSBC and ING Vysya.<sup>3</sup>

It is worth noting that Turkey has no institution classified as G-SIFI's<sup>810</sup> and, due to the relatively small size of Turkish banks' foreign subsidiaries and affiliated partnerships<sup>811</sup>, the home country supervisor, the Turkish Banking Regulatory and Supervision Agency (BRSA), did not arrange any meetings in Turkey with counterpart authorities.<sup>812</sup> However, the BRSA has attended the meetings arranged by home country supervisory authorities of cross-border financial groups operating in Turkey.<sup>813</sup> In addition, the BRSA exchanges information with foreign counterpart authorities during the supervisory process.<sup>814</sup>

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<sup>808</sup> The Banking Sector in Turkey 2007-2011, The Banks Association of Turkey (İstanbul) 16 February 2012. Date of Access: 3 March 2012. [http://www.tbb.org.tr/Dosyalar\\_eng/Arastirma\\_ve\\_Raporlar/The\\_Banking\\_Sector\\_in\\_Turkey\\_2007-2011.pdf](http://www.tbb.org.tr/Dosyalar_eng/Arastirma_ve_Raporlar/The_Banking_Sector_in_Turkey_2007-2011.pdf).

<sup>809</sup> Turkey: regulators v banks, Financial Times (London) 24 November 2011. Date of Access: 3 March 2012. <http://blogs.ft.com/beyond-brics/2011/11/24/turkey-regulators-v-banks/#axzz1oBc2MTeX>.

<sup>810</sup> FSB-G20-Monitoring Progress – Turkey September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012. [http://www.financialstabilityboard.org/publications/r\\_111104v.pdf](http://www.financialstabilityboard.org/publications/r_111104v.pdf)

<sup>811</sup> FSB-G20-Monitoring Progress – Turkey September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012. [http://www.financialstabilityboard.org/publications/r\\_111104v.pdf](http://www.financialstabilityboard.org/publications/r_111104v.pdf)

<sup>812</sup> FSB-G20-Monitoring Progress – Turkey September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012. [http://www.financialstabilityboard.org/publications/r\\_111104v.pdf](http://www.financialstabilityboard.org/publications/r_111104v.pdf)

<sup>813</sup> FSB-G20-Monitoring Progress – Turkey September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012. [http://www.financialstabilityboard.org/publications/r\\_111104v.pdf](http://www.financialstabilityboard.org/publications/r_111104v.pdf)

<sup>814</sup> FSB-G20-Monitoring Progress – Turkey September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012. [http://www.financialstabilityboard.org/publications/r\\_111104v.pdf](http://www.financialstabilityboard.org/publications/r_111104v.pdf)

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Hence Turkey has taken sufficient actions in compliance with the FSB policy measures to meet the strengthened supervision-related requirements and the resolution-related requirements.<sup>815</sup> Thus Turkey is awarded a score of +1.

*Analysts: German Cairo and Krystel Montpetit*

**United Kingdom: +1**

The United Kingdom has fully complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. The United Kingdom has taken actions in compliance with the FSB policy measures to meet both (1) the resolution-related requirements and (2) the requirements for strengthened supervision. Specifically, the United Kingdom has taken steps to carry out the Independent Commission on Banking's final report on banking reform, and has accordingly shown both cooperation and compliance with national and European Union regulations.

On 20 December 2011, the Bank of England's Financial Policy Committee (FPC) adopted the government's white paper for financial reform, which entrusts the Central Bank with new powers for macro-prudential supervision of the economy.<sup>816</sup> The FPC will have the power to make recommendations to the new Twin Peaks agencies, the Financial Conduct Authority (FCA), and Prudential Regulation Authority (PRA), for enforcement of new regulatory standards. The FCA and PRA will replace the current Financial Services Authority (FSA). The new features proposals include policies which have a direct effect on the balance sheet of financial institutions, terms and conditions of transactions, in particular financial markets and market structures.<sup>817818</sup>

On 20 December 2011, the Bank of England released a discussion paper that outlined new key features the Bank of England may adopt in its expanded role as financial supervisor. Said new features include: (1) countercyclical capital buffers for minimum (common equity) liquidity requirements; (2) sectorial capital requirements (variable risk weights that balance each bank's lending to its stock); (3) a maximum leverage ratio; (4) use of central counterparties (CCR); and (5) disclosure requirements. These particular new features will mandate the establishment of a common solvency rule akin to the G7 countries' standard.<sup>819</sup>

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<sup>815</sup> FSB-G20-Monitoring Progress – Turkey September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104v.pdf](http://www.financialstabilityboard.org/publications/r_111104v.pdf)

<sup>816</sup> A new approach to financial regulation: the blueprint for reform, Her Majesty's Treasury (London) June 2011. Date of Access: 1 March 2012. [http://www.hm-treasury.gov.uk/d/consult\\_finreg\\_new\\_approach\\_blueprint.pdf](http://www.hm-treasury.gov.uk/d/consult_finreg_new_approach_blueprint.pdf)

<sup>817</sup> News Release – Instruments of Macroprudential Policy – Discussion Paper, Bank of England (London) 20 December 2011. Date of Access: 1 March 2012. <http://www.bankofengland.co.uk/publications/Pages/news/2011/160.aspx>.

<sup>818</sup> Instruments of Macroprudential Policy – Discussion Paper, Bank of England (London) 20 December 2011. Date of Access: 1 March 2011. <http://www.bankofengland.co.uk/publications/Documents/other/financialstability/discussionpaper111220.pdf>.

<sup>819</sup> Instruments of Macroprudential Policy – Discussion Paper, Bank of England (London) 20 December 2011. Date of Access: 1 March 2012. <http://www.bankofengland.co.uk/publications/Documents/other/financialstability/discussionpaper111220.pdf>.

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On 23 November 2011, the Bank of England's interim FPC announced its main proposals for financial reform in the British financial services industry. The committee recommended that banks should limit distributions and consider raising external capital in the following months if they found that earnings were insufficient to further build capital levels. Further, it indicated that the Financial Services Authority should give further consultations to banks on improving resilience of balance sheets without exacerbating market fragility, and without reducing lending to the real economy. Finally, the FPC recommended the FSA encourage banks to disclose leverage ratios no later than end-2013, as prescribed by the Basel III agreement.<sup>820</sup>

On 19 November 2011, Chancellor of the Exchequer George Osborne announced the British government's intention to adopt parts of the proposals for reform put forth in the Independent Commission on Banking Report. The government's main priorities towards 2019 will be to "make banks better able to absorb losses, make it easier and less costly to sort out banks that still get into trouble; and curb incentives for excessive risk-taking."<sup>821</sup>

On 28 March 2012 the Bank of England published its record of the interim Financial Policy Committee meeting, held 16 March 2012. The record includes recommendations made to Her Majesty's Treasury regarding macro prudential tools. Specifically, the FPC's power to Direct action by the PRA and the FCA, and secondly, the FPC's opinion regarding financial stability and proposed financial reform, including Twin Peaks and beyond. The FPC acknowledge the importance of systemic risk, posed by "excessive balance sheet leverage and fragile funding positions amongst financial institutions"<sup>822</sup>, evaluating the efficacy of both balance sheet instruments and countercyclical capital buffers as countermeasures. The FPC recommended that financial institutions acquire sectorial capital requirements against exposures to specific sectors, citing it would increase the FPC's ability to target risk — more so than a countercyclical buffer.<sup>823</sup>

On 27 April 2012, the FSB hosted the second meeting of the FSB Regional Consultative Group for Europe in Basel. Among other topics, participants discussed the development of an extension of the G-SIFIs policy framework to the domestic systemically important banks and non-banking entities, and the process of deleveraging in the European financial sector.<sup>824</sup>

Regarding resolution-related requirements, a Financial Services Authority (FSA) pilot project on Recovery and Resolution Plans (RRPs) involving a small number of large UK banks is currently underway and will contribute to the development of UK and international policy in this area as outlined in the FSA's consultation paper Recovery and Resolution Plans (CP11/16), published in

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<sup>820</sup> Financial Stability Report, Bank of England (London) 1 December 2011. Date of Access; 8 March 2012. <http://www.bankofengland.co.uk/publications/Documents/fsr/2011/fsrsum1112.pdf>.

<sup>821</sup> The Government response to the Independent Commission on Banking, Her Majesty's Treasury (London) 19 November 2011. Date of Access: 6 March 2012. [http://cdn.hm-treasury.gov.uk/govt\\_response\\_to\\_icb\\_191211.pdf](http://cdn.hm-treasury.gov.uk/govt_response_to_icb_191211.pdf).

<sup>822</sup> Record of The Interim Financial Policy Committee Meeting, Bank of England (London) 28 March 2012. Date of Access: 20 April 2012. <http://www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2012/record1203.pdf>.

<sup>823</sup> Record of The Interim Financial Policy Committee Meeting, Bank of England (London) 28 March 2012. Date of Access: 27 April 2012. <http://www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2012/record1203.pdf>.

<sup>824</sup> Second Meeting of the Financial Stability Board Regional Consultative Group for Europe, Financial Stability Board (Basel) 27 April 2012. Date of Access: 1 May 2012. [http://www.financialstabilityboard.org/press/pr\\_120427a.pdf](http://www.financialstabilityboard.org/press/pr_120427a.pdf).

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August 2011. The CP covers the proposed requirement for certain financial services firms to prepare and maintain RRP and separately (for some of these firms and others) to make additional preparations in relation to their investment client money and custody assets holdings.

Since the UK implemented a new Banking Act in February 2009, a legal framework for a Special Resolution Regime, which provides the UK authorities with “a variety of tools to resolve a failing bank or building society (a private sector purchaser tool; a bridge bank tool; Temporary Public Ownership (TPO); and new bank insolvency and bank administration procedures)”<sup>825</sup> has been in place.<sup>826</sup>

Since the UK Financial Services Authority published its consultation paper Recovery and Resolution Plans (CP11/16) in August 2011, “covering the proposed requirement for certain financial services firms to prepare and maintain RRP and separately to make additional preparations in relation to their investment client money and custody assets holdings”<sup>827</sup>, progress has been registered.

Hence the United Kingdom has taken actions in compliance with the FSB policy measures to meet both (1) the resolution-related requirements and (2) the requirements for strengthened supervision. Thus the United Kingdom is awarded a score of +1.

*Analysts: Tobias McVey and Krystal Montpetit*

#### **United States: +1**

The United States has fully complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. The United States has taken actions in compliance with the FSB policy measures to meet both (1) the resolution-related requirements and (2) the requirements for strengthened supervision. Specifically, the United States drafted further national regulatory measures aimed at meeting its commitments for financial supervision and new financial accounting standards.

On 17 November 2011, five regulators including the Federal Reserve, the Consumer Financial Protection Bureau (CFPB), the Federal Depositors Insurance Corporation (FDIC), the Office of the Controller of the Currency (OCC) and the National Credit Union Administration (NCUA) released a joint statement explaining the method to measure the total assets of an insured bank, thrift or credit union. This measure determines which supervision and enforcement responsibilities will be applied under the Dodd-Frank Wall Street Reform and Consumer Protection Act.<sup>828</sup>

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<sup>825</sup> FSB-G20-Monitoring Progress – United Kingdom September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104w.pdf](http://www.financialstabilityboard.org/publications/r_111104w.pdf)

<sup>826</sup> FSB-G20-Monitoring Progress – United Kingdom September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104w.pdf](http://www.financialstabilityboard.org/publications/r_111104w.pdf)

<sup>827</sup> FSB-G20-Monitoring Progress – United Kingdom September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104w.pdf](http://www.financialstabilityboard.org/publications/r_111104w.pdf)

<sup>828</sup> Agencies Issue Statement to Clarify Supervisory and Enforcement Responsibilities For Federal Consumer Financial Laws, The Federal Deposit Insurance Corporation (Washington) 17 November 2011. Date of Access: 5 March 2012.

<http://www.fdic.gov/news/news/press/2011/pr11179.html>

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On 17 January 2012, the FDIC published a notice of proposed rulemaking (NPR) that will require large insured depository institutions to conduct annual capital-adequacy stress tests. This will apply to FDIC-insured state nonmember banks and FDIC-insured state-chartered savings associations with total consolidated assets of more than USD10 billion. As of 30 September 2011, the FDIC regulated 23 state non-member banks with total assets of more than USD10 billion.<sup>829</sup> On 26 January 2012, the FDIC hosted its second meeting of the Systemic Resolution Advisory Committee (SRAC), inviting private sector contributions to develop the government's policies for resolving large financial companies. The advisory committee was created after Dodd-Frank was ratified, serving the purpose of providing advice and recommendations in regards to the failure and the resolution of a systematically important financial company.<sup>830</sup> The discussion included living will preparations and a discussion on the coordination of international efforts to standardize resolution regimes across jurisdictions in order to minimize risk.

The SRAC will directly advise the FDIC on “the effects on financial stability and economic conditions from a systemically important company’s failure; how resolution strategies would affect stakeholders and customers of these entities; the tools available to the FDIC to wind down the operations of a failed organization; and the tools needed to assist in cross-border relations with foreign regulators and governments when a systemic company has international operations.”<sup>831</sup>

On 21 March 2012, the FDIC extended the comment period on the introduction of Section 165i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, until April 30, 2012.<sup>832</sup> The law requires state, non-member banks and savings associations with more than US10 billion in consolidated assets to conduct an annual series of stress tests.<sup>833</sup>

On 26 March 2012, the Board of Governors of the Federal Reserve System, the FDIC, and the Office of the Comptroller of the Currency proposed replacing the 2001 leveraged finance guidance. The agencies are seeking industry’s comments on the topics of Establishing a Sound Risk-Management Framework, Underwriting Standards, Valuation Standards, Pipeline Management and Reporting and Analytics. The guidance is intended to improve on weaknesses in

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<sup>829</sup> FDIC Board Proposes Stress Testing Regulation for Large Banks, The Federal Deposit Insurance Corporation (Washington) 17 January 2012. Date of Access: 6 March 2012. <http://www.fdic.gov/news/news/press/2012/pr12004.html>.

<sup>830</sup> FDIC Conducts Meeting of Systemic Resolution Advisory Committee, The Federal Deposit Insurance Corporation (Washington) 25 January 2012. Date of Access: 6 March 2012. <http://www.fdic.gov/news/news/press/2012/pr12008.html>.

<sup>831</sup> FDIC Conducts Meeting of Systemic Resolution Advisory Committee, The Federal Deposit Insurance Corporation (Washington) 25 January 2012. Date of Access: 6 March 2012. <http://www.fdic.gov/news/news/press/2012/pr12008.html>.

<sup>832</sup> FDIC Extends Comment Period on Stress Test Proposal, Federal Deposit Insurance Corporation (Washington) 21 March 2012. Date of Access: 27 April 2012. <http://www.fdic.gov/news/news/press/2012/pr12031.html>.

<sup>833</sup> Federal Register Vol.77, No. 55, Office of the Comptroller of the Currency, Treasury (OCC) (Washington) 21 March 2012. Date of Access: 20 April 2012. [http://www.fdic.gov/regulations/laws/federal/2012/2012-01-23\\_proposed-rule\\_extension.pdf](http://www.fdic.gov/regulations/laws/federal/2012/2012-01-23_proposed-rule_extension.pdf).

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leveraged lending that occurred before the financial crisis, by improving prudent underwriting practices.<sup>834</sup>

On 30 March 2012, the Federal Reserve System, the FDIC, and the OCC issued guidance about the implementation and date for section 716 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, also known as the Swaps Pushout provision. “Section 716 prohibits certain types of Federal assistance, such as discount window lending and deposit insurance, for certain uses to a swaps entity, subject to specified exceptions, with respect to its swap, security-based swap, or other activity.”<sup>835</sup>

On 19 April 2012, the Federal Reserve Board announced a statement clarifying section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, also known as the Volcker Rule. The section requires that an entity covered by section 619 has the full two-year period provided by the statute to fully conform its activities and investments lest the Board extends this period. This requires banking entities to conform their activities and investments regarding the prohibitions and restrictions included in the statute on proprietary trading, hedge fund and private equity investment activities.<sup>836</sup>

On 20 April 2012, the Federal Reserve Board announced the formation of the Model Validation Council. The council will advise the Federal Reserve with independent expert advice on its process to assess models used in stress tests of banking institutions.<sup>837</sup>

Regarding resolution-related requirements, regulators have reviewed the initial recovery plans of American financial firms to further refine them ever since firms submitted them to U.S. financial regulators on August 16, 2010.<sup>838</sup> The Dodd-Frank Act requires resolution plans for all large bank holding companies and non-bank financial companies subject to heightened supervision by the U.S. Federal Reserve.<sup>839</sup> Under the Dodd-Frank Act, the Federal Deposit Insurance Corporation (FDIC) has the power to set up a “bridge firm in order to maximize value in an orderly liquidation process for a financial group”<sup>840</sup>, and has now drafted regulations for the implementation of its

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<sup>834</sup> Agencies Propose Revisions to Leveraged Finance Guidance, Federal Deposit Insurance Corporation (Washington) 26 March 2012. Date of Access: 20 April 2012.

<http://www.fdic.gov/news/news/press/2012/pr12034.html>.

<sup>835</sup> Board of Governors of the Federal Reserve System, The Federal Reserve System (Washington) 30 March 2012. Date of Access: 27 April 2012.

<http://www.federalreserve.gov/newsevents/press/bcreg/20120330a.htm>.

<sup>836</sup> Volcker Rule Conformance Period Clarified, Federal Deposit Insurance Corporation (Washington) 19 April 2012. Date of Access: 27 April 2012.

<http://www.fdic.gov/news/news/press/2012/pr12041.html>.

<sup>837</sup> Press Release, The Federal Reserve System (Washington) 20 April 2012. Date of Access: 27 April 2012. <http://www.federalreserve.gov/newsevents/press/bcreg/20120420a.htm>.

<sup>838</sup> FSB-G20-Monitoring Progress – United States September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104x.pdf](http://www.financialstabilityboard.org/publications/r_111104x.pdf)

<sup>839</sup> FSB-G20-Monitoring Progress – United States September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104x.pdf](http://www.financialstabilityboard.org/publications/r_111104x.pdf)

<sup>840</sup> FSB-G20-Monitoring Progress – United States September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104x.pdf](http://www.financialstabilityboard.org/publications/r_111104x.pdf)

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authority under Title II. A first set of interim final rules was adopted in January 2011; a second set of rules was proposed in March 2011; and a final rule was approved in July 2011.<sup>841</sup>

Hence the United States of America has taken actions in compliance with the FSB policy measures to meet both (1) the resolution-related requirements and (2) the requirements for strengthened supervision. Thus the United States of America is awarded a score of +1.

*Analysts: Tobias McVey and Krystal Montpetit*

### **European Union: +1**

The European Union has fully complied with its commitment to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including a comprehensive framework to address the risk posed by systemically important financial institutions. The European Union has taken actions in compliance with the FSB policy measures to meet both (1) the resolution-related requirements and (2) the requirements for strengthened supervision. Specifically, the European Union has taken steps to enhance greater supervisory authority and harmonization of standards in the European banking system.

The European Banking Authority (EBA) has adopted several reforms intended to harmonize regulatory standards across Europe including proposals to capture Incremental Default and Migration risks in banks' trading books. This set of guidelines, released on 30 November 2011, are intended to instruct institutions about the Internal Model Approach (IMA) used to accurately calculate the capital requirements for specific interest risk in the trading book, targeting especially incremental risk capital charge (IRC).<sup>842</sup>

On 13 February 2012, pursuing its consultations with the financial services industry; the EBA published a consultation paper on Supervisory reporting requirements for large exposures<sup>843</sup> as part of the Capital Requirements Regulation (CRR). The consultation paper discusses earlier 2011 proposals that expanded the mandate of the EBA to adopt the Basel III requirements. The consultation paper included Implementing Technical Standards (ITS) for supervision requirements, and will be part of a single 'rulebook' meant to boost harmonization of European regulatory standards and IT solutions for credit institutions and investment firms in Europe.

On 23 March 2012, the Joint Expert Group on Reconciliation of credit institutions' statistical and supervisory reporting requirements (JEGR) published the second edition manual for European Central Bank (ECB) and the EBA reporting frameworks. The manual is part of the JEGR's

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<sup>841</sup> FSB-G20-Monitoring Progress – United States September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104x.pdf](http://www.financialstabilityboard.org/publications/r_111104x.pdf)

<sup>842</sup> EBA Consultation Paper on the Draft Guidelines on the Incremental Default and Migration Risk Charge (IRC), European Banking Authority (London) 30 November 2011. Date of Access: 5 March 2012.

[http://www.eba.europa.eu/cebs/media/Publications/Consultation%20Papers/2011/CP49/EBA-BS-2011-165-\(CP-on-GL-IRC\)-FINAL.pdf](http://www.eba.europa.eu/cebs/media/Publications/Consultation%20Papers/2011/CP49/EBA-BS-2011-165-(CP-on-GL-IRC)-FINAL.pdf)

<sup>843</sup> EBA Consultation Paper on Draft Implementing Technical Standards on Supervisory reporting requirements for large exposures, European Banking Authority (London) 13 February 2012. Date of Access: 8 March 2012.

<http://www.eba.europa.eu/cebs/media/Publications/Consultation%20Papers/2012/CP51/CP51-ITS-on-reporting-of-LE.pdf>

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mandate to provide those “definitions, concepts, valuation rules, reporting templates, etc.”<sup>844</sup>, which are required to reconcile statistical and supervisory frameworks related to monetary financial institutions, particularly those required for separate reporting to the ECB and EBA. The manual identifies overlap and provides a classification system for the purpose of simplifying reporting to the separate frameworks: international accounting standards (FINREP), capital adequacy data requirements (COREP) and Large Exposures (LE) for EBA reporting, and statistical reporting framework for monetary financial institutions’ balance sheet items (BSI).<sup>845</sup>

On 27 April 2012, the FSB hosted the second meeting of the FSB Regional Consultative Group for Europe in Basel. Among other topics, participants discussed the development of an extension of the G-SIFIs policy framework to the domestic systemically important banks and non-banking entities, and the process of deleveraging in the European financial sector.<sup>846</sup>

In regards to resolution-related requirements, the EU Commission legislative proposal for a Crisis Management Directive aims to implement a legal framework for crisis management in the EU which boasts a range of resolution powers that must be available to authorities in all EU members.<sup>847</sup> The proposal is set to include requirements for (i) drawing up of recovery and resolution plans by institutions and resolution authorities; and (ii) crisis management groups or resolution colleges to be established for cross -border banking groups,<sup>848</sup> thus “conferring functions on resolution colleges, providing for rules for their operation and imposing enhanced information sharing requirements.”<sup>849</sup>

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<sup>844</sup> MFI Balance Sheet and Interest Rate Statistics and EBA Guidelines on FINREP and COREP/Large Exposures: Bridging The Reporting Requirements – Methodological Manual Second Edition, European Banking Authority (London) 23 March 2012. Date of Access: 20 April 2012.

<http://www.ecb.europa.eu/pub/pdf/other/mfibalancesheetinterestratesstatisticsebsguidelines201203en.pdf>

<sup>845</sup> Second Version of the classification system between EBA/ECB reporting frameworks, European Banking Authority (London) 23 March 2012. Date of Access: 20 April 2012.

<http://www.eba.europa.eu/News--Communications/Year/2012/Updated-classification-system-between-the-reportin.aspx>

<sup>846</sup> Second Meeting of the Financial Stability Board Regional Consultative Group for Europe, Financial Stability Board (Basel) 27 April 2012. Date of Access: 1 May 2012.

[http://www.financialstabilityboard.org/press/pr\\_120427a.pdf](http://www.financialstabilityboard.org/press/pr_120427a.pdf)

<sup>847</sup> FSB-G20-Monitoring Progress – European Union September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104x.pdf](http://www.financialstabilityboard.org/publications/r_111104x.pdf)[http://www.financialstabilityboard.org/publications/r\\_111104y.pdf](http://www.financialstabilityboard.org/publications/r_111104y.pdf)

<sup>848</sup> FSB-G20-Monitoring Progress – European Union September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104x.pdf](http://www.financialstabilityboard.org/publications/r_111104x.pdf)[http://www.financialstabilityboard.org/publications/r\\_111104y.pdf](http://www.financialstabilityboard.org/publications/r_111104y.pdf)

<sup>849</sup> FSB-G20-Monitoring Progress – European Union September 2011, Financial Stability Board (Basel) September 2011. Date of Access: 4 March 2012.

[http://www.financialstabilityboard.org/publications/r\\_111104x.pdf](http://www.financialstabilityboard.org/publications/r_111104x.pdf)[http://www.financialstabilityboard.org/publications/r\\_111104y.pdf](http://www.financialstabilityboard.org/publications/r_111104y.pdf)

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Hence the European Union has taken actions in compliance with the FSB policy measures to meet both (1) the resolution-related requirements and (2) the requirements for strengthened supervision. Thus the European Union is awarded a score of +1.

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