8. Finance: Systemically Important Financial Institutions

Commitment [#68]

"We reiterate our commitment to strengthen the intensity and effectiveness of the supervision of SIFIs"

Los Cabos Summit Final Declaration

Assessment

Country	Lack of Compliance	Work in Progress	Full Compliance
Argentina	-1		
Australia			+1
Brazil		0	
Canada		0	
China		0	
France		0	
Germany		0	
India		0	
Indonesia		0	
Italy		0	
Japan			+1
Korea			+1
Mexico		0	
Russia		0	
Saudi Arabia		0	
South Africa		0	
Turkey		0	
United Kingdom		0	
United States			+1
European Union		0	
Average Score		+0.15	

Background

The G20 has consistently demonstrated its support for the supervision and monitoring of systemically important financial institutions (SIFIs).

The establishment of the Financial Stability Board (FSB) during the 2009 London Summit is perhaps the most significant action that the G20 has taken with respect to increasing supervision and oversight in the global financial landscape.[1969]

The FSB provides a concrete definition of SIFIs: "financial institutions whose disorderly failure, because of their size, complexity and systemic interconnectedness, would cause significant

[1969] Global Plan for Recovery and Reform, G20 Information Centre (Toronto) 2 April 2009. Date of Access 15 December 2012.
http://www.g20.utoronto.ca/2009/2009communique0402.html.

disruption to the wise financial system and economic activity."[1970] In the event that these large institutions become susceptible to failure, national governments have no choice but to implement bailouts, or "forestalling the failure of such institutions through public solvency support."[1971] As such, G-SIFIs (or Globally Systemically Important Financial Institutions) are understood as "financial institutions that are globally systemic" and whose "failure poses [a significant risk] to the global financial system."[1972]

At the Los Cabos Summit on 19 June 2012, the G20 recognized the progress made in the financial regulatory field and committed to continue making strides for the current compliance cycle [1973] The Financial Stability Board's Coordination Framework for Implementation Monitoring (CFIM) provides the basis for analysis by outlining the policy areas in need of reform and providing a timeline detailing when these changes can be realized.

According to the FSB, "additional loss absorbency requirements for global systemically important banks are proposed to be implemented from 2016 to 2019."[1974] In the interim, however, "recommendations regarding resolvability assessments, recovery and resolution plans, and cross-border cooperation agreements are to be implemented from 2012 onwards."[1975] Also included in this area are "recommendations related to supervisory intensity and effectiveness, with various deadlines."[1976] These elements are especially important because the Los Cabos Summit SIFIs commitment outlines these specifically.

On 1 November 2012, the FSB released its *Increasing the Intensity and Effectiveness of SIFI Supervision: Progress Report to the G20 Ministers and Governors*. This document outlines existing restraints to effective supervision of G-SIFIs and presents the progress made so far with respect to monitoring.

[1970] G20 Leaders endorse Financial Stability Board policy framework for addressing systemically important financial institutions, Financial Stability Board (Basel) 12 November 2012. Date of Access 15 December 2012.
http://www.financialstabilityboard.org/press/pr_101111a.pdf.
[1971] Policy Measures to Address Systemically Important Financial Institutions, Financial Stability Board (Basel) 4 November 2012. Date of Access 15 December 2012.
http://www.financialstabilityboard.org/publications/r_111104bb.pdf.
[1972] Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability, Financial Stability Board (Basel) 15 February 2011. Date of Access 15 December 2012.
http://www.financialstabilityboard.org/publications/r_110219.pdf.
[1973] G20 Leaders Declaration, G20 Information Centre (Toronto) 19 June 2012. Date of Access 15 December 2012.
http://www.g20.utoronto.ca/2012/2012-0619-loscabos.html.
[1974] A Coordination Framework for Monitoring the Implementation of Agreed G20/FSB Financial Reforms, Financial Stability Board (Basel) 18 October 2011. Date of Access 15 December 2012.
http://www.financialstabilityboard.org/publications/r_111017.pdf.
[1975] A Coordination Framework for Monitoring the Implementation of Agreed G20/FSB Financial Reforms, Financial Stability Board (Basel) 18 October 2011. Date of Access 15 December 2012.
http://www.financialstabilityboard.org/publications/r_111017.pdf.
[1976] A Coordination Framework for Monitoring the Implementation of Agreed G20/FSB Financial Reforms, Financial Stability Board (Basel) 18 October 2011. Date of Access 15 December 2012.
http://www.financialstabilityboard.org/publications/r_111017.pdf.

Commitment Features

This commitment requires members to strengthen both the intensity and effectiveness of SIFIs supervision. Therefore, in order to obtain full compliance, actions taken by members must encompass an increase in both the effectiveness and the intensity of SIFI supervision.

With respect to effective and intense supervision, in its *Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability* report, the FSB outlined the following recommendations for G20 members:

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.

The FSB notes, "While supervision has increased since the crisis, much remains to be done to support continuous improvement in SIFI supervision, in particular of G-SIFIs."[1977] In this respect, the FSB has outlined specific recommendations to increase both the intensity and effectiveness of supervision.

Measures to improve effectiveness include the following:

- "Supervisors should adopt proactive approaches to assess succession planning and set performance expectations for key positions within SIFIs (e.g. CEOs, CROs, Internal Auditors), elements that should no longer be regarded as only internal matters for financial institutions. Firms have robust processes in place to ensure effective talent management and succession planning for leaders of control functions,"[1978]

- "Supervisors of G-SIFIs need to ensure that the stress testing undertaken for G-SIFIs is comprehensive and commensurate with the risks and complexities of these institutions and should advance further with the implementation of the BCBS Principles for Sound Stress Testing Practices,"[1979]

- "Supervisors should further explore ways to formally assess risk culture, particularly at G-SIFIs,"[1980]

- "Supervisory interactions with Boards and senior management should be stepped up, in terms of frequency and level of seniority, as should the assessment of the effectiveness of Boards and senior management,"[1981]

[1977] Increasing the Intensity and Effectiveness of SIFI Supervision, Financial Stability Board (Basel) 1 November 2012. Date of Access 16 December 2012. http://www.financialstabilityboard.org/publications/r_121031ab.pdf.

[1978] Increasing the Intensity and Effectiveness of SIFI Supervision, Financial Stability Board (Basel) 1 November 2012. Date of Access 16 December 2012. http://www.financialstabilityboard.org/publications/r_121031ab.pdf.

[1979] Increasing the Intensity and Effectiveness of SIFI Supervision, Financial Stability Board (Basel) 1 November 2012. Date of Access 16 December 2012. http://www.financialstabilityboard.org/publications/r_121031ab.pdf.

[1980] Increasing the Intensity and Effectiveness of SIFI Supervision, Financial Stability Board (Basel) 1 November 2012. Date of Access 16 December 2012. http://www.financialstabilityboard.org/publications/r_121031ab.pdf.

Measures to improve intensity include the following:

- "Supervisory authorities should continually re-assess their resource needs; for example, interacting with and assessing Boards require particular skills, experience and adequate level of seniority. Multi-year resource plans, supervisory training programs, long-term career paths and development of "soft" skills, such as leadership and communication skills, are essential,"[1982]
- "Supervisors need to evaluate whether their approach to and methods of supervision remain effective or have, for example, moved too far toward focusing on adequacy of capital and control systems, and away from detailed assessments of sources of profits and financial data,"[1983]
- "Supervisors need to consider putting in place additional data management and analysis processes for the information available from a range of sources, such as that collected by trade repositories and other centralised sources of financial data, so that key players in markets and market anomalies are identified."[1984]

Scoring Guidelines

-1	Member does not take any action in compliance with the FSB policy measures for more intense AND more effective SIFI supervision.
0	Member takes actions in compliance with the FSB policy measures for more intense SIFI supervision OR more effective SIFI supervision.
+1	Member takes actions in compliance with the FSB policy measures for more intense AND more effective SIFI supervision.

G20 Research Group Chair: Ava-Dayna Sefa

Argentina: -1

Argentina has not complied with its commitment to strengthen the intensity and effectiveness of systemically important financial institutions.

On 5 March 2013 "officials from the International Monetary Fund and the World Bank arrived in Argentina…to evaluate the country's financial system as part of checkups agreed among Group of 20 nations."[1985]

[1981] Increasing the Intensity and Effectiveness of SIFI Supervision, Financial Stability Board (Basel) 1 November 2012. Date of Access 16 December 2012. http://www.financialstabilityboard.org/publications/r_121031ab.pdf.

[1982] Increasing the Intensity and Effectiveness of SIFI Supervision, Financial Stability Board (Basel) 1 November 2012. Date of Access 16 December 2012. http://www.financialstabilityboard.org/publications/r_121031ab.pdf.

[1983] Increasing the Intensity and Effectiveness of SIFI Supervision, Financial Stability Board (Basel) 1 November 2012. Date of Access 16 December 2012. http://www.financialstabilityboard.org/publications/r_121031ab.pdf.

[1984] Increasing the Intensity and Effectiveness of SIFI Supervision, Financial Stability Board (Basel) 1 November 2012. Date of Access 16 December 2012. http://www.financialstabilityboard.org/publications/r_121031ab.pdf.

[1985] IMF, World Bank visit Argentina for financial system checkup, Chicago Tribune (Chicago) 5 March 2013. Date of Access: 1 April 2013. http://articles.chicagotribune.com/2013-03-05/news/sns-rt-us-imf-argentinabre92503t-20130305_1_argentina-financial-sector-assessment-program-world-bank.

As of 28 January 2013, the Financial Stability Board reports that Argentina's Financial System Stability Assessment evaluation has been suspended, but is slated to resume later this year.[1986]

As Argentina has not released information pertaining to the implementation of concrete initiatives supporting the increase of the effectiveness and intensity of SIFIs supervision, it received a -1.

Analyst: Ava-Dayna Sefa

Australia: +1

Australia has complied with its commitment to strengthen the intensity and effectiveness of the supervision of SIFIs.

The 26 October 2012 Financial System Stability Assessment on Australia published by the International Monetary Fund states that "APRA's notable strengths are demonstrated by its strong risk analysis embedded in the [Probability and Impact Rating System (PAIRS) and Supervisory Oversight And Response System (SOARS)], its focus on bank boards' responsibility for risk management, and its assessment of banks on a system wide basis. APRA's on- and off-site supervision is well planned and executed; credit risk management is well developed." The reports further notes that APRA's approach of explaining bank leaders its expectations through "engagement with bank boards, regular contacts by supervisors and risk specialists, and letters and speeches delivered to the industry [...]has been broadly effective."[1987]

On systemic oversight, the IMF's Financial System Stability Assessment reports that "Promoting financial stability is also one of APRA's mandates, which is carried out through prudential regulation and supervision. APRA's PAIRS and SOARS system has an element of systemic oversight in that supervisors take a financial institutions' systemic importance into consideration. The system is complemented by APRA's industry risk registers, which identify emerging risks and necessary supervisory actions in each industry."[1988]

The report further notes, "There is a well-established mechanism for systemic risk identification and monitoring." The Reserve Bank of Australia's half-yearly Financial Stability Review "has been a useful financial stability tool."[1989]

On crisis management and resolution, the IMF's report states, "Commendable steps have been taken to strengthen the legal framework for bank resolution and crisis management over the last several years." Particularly, a Memorandum of Understanding on "Financial Distress

[1986] Participation in FSAPs, Financial Stability Board (Basel) 28 January 2013. Date of Access: 1 April 2013. http://www.financialstabilityboard.org/leading_by_example/participation.htm.
[1987] Australia: Financial System Stability Assessment, International Monetary Fund (Washington, D.C.) November 2012. Date of Access: 27 February 2013.
http://www.imf.org/external/pubs/ft/scr/2012/cr12308.pdf
[1988] Australia: Financial System Stability Assessment, International Monetary Fund (Washington, D.C.) November 2012. Date of Access: 27 February 2013.
http://www.imf.org/external/pubs/ft/scr/2012/cr12308.pdf
[1989] Australia: Financial System Stability Assessment, International Monetary Fund (Washington, D.C.) November 2012. Date of Access: 27 February 2013.
http://www.imf.org/external/pubs/ft/scr/2012/cr12308.pdf

Management among the [Council of Financial Regulators] agencies signed in 2008 facilitates coordinated responses to stress in the financial system.[1990]

In a November 2012 Technical Note on Australia entitled "Addressing Systemic Risk Through Higher Loss Absorbency," the International Monetary Fund explains that "To deal with systemic risks, the authorities deploy a multi-pronged approach consisting of risk-based supervision, recovery and resolution planning, and conservative risk weights and definitions of loss-absorbent capital."[1991]

In a November 2012 technical Note on Australia entitled "Financial Safety Net and Crisis Management Framework," the International Monetary Fund states that "the Australian authorities have taken commendable steps to strengthen the financial safety net and crisis management framework over the last several years." It adds that "the Council of Financial Regulators (CFR or Council) [...] facilitates strong coordination and information exchange among the agencies on financial sector policy issues." The report further states that "The authorities have made good progress in crisis preparedness and should continue planning in this area as a key priority" and "Powers for early intervention in problem banks (including to provide liquidity assistance) and to resolve non-systemic banks appear robust."[1992]

Australia has complied with its commitment to strengthen the intensity and effectiveness of the supervision of SIFIs and has thus been awarded a score of +1.

Compliance Analyst: Qing Zeng
Compliance Director: Alexandre de Palma

Brazil: 0

Brazil has partially complied with its commitment to increase in both the effectiveness and the intensity of SIFI supervision.

In its' 31 July 2012 "Detailed Assessment of Observance of Basel Core Principles for Effective Banking Supervision"report, the International Monetary Fund suggests that Brazil has largely addressed the main recommendations of the 2002 FSAP with respect to banking supervision. The report states, "the Brazilian legal framework provides adequate support for banking supervision. The BCB operates independently and has the authority to resolve weak banks, including their liquidation."[1993] The report further mentions, "A significant enhancement was made to the banking supervision planning process. The BCB implemented the Annual Program of Supervision (PAS), which encompasses the planning of its activities, among which stands out the SRC. The SRC is a well-structured methodology for identifying and assessing the most relevant

[1990] Australia: Financial System Stability Assessment, International Monetary Fund (Washington, D.C.) November 2012. Date of Access: 27 February 2013. http://www.imf.org/external/pubs/ft/scr/2012/cr12308.pdf

[1991] Australia: Addressing Systemic Risk Through Higher Loss Absorbency— Technical Note, International Monetary Fund (Washington, D.C.) November 2012. Date of Access: 27 February 2013. http://www.imf.org/external/pubs/ft/scr/2012/cr12311.pdf

[1992] Australia: Financial Safety Net and Crisis Management Framework—Technical Note, International Monetary Fund (Washington, D.C.) November 2012. Date of Access: 27 February 2013. http://www.imf.org/external/pubs/ft/scr/2012/cr12310.pdf

[1993]Brazil: Detailed Assessment of Observance of Basel Core Principles for Effective Banking Supervision, International Monetary Fund (Washington D.C.) 31 July 2012. Date of Access: 2 January 2013. http://www.imf.org/external/pubs/ft/scr/2012/cr12207.pdf risks of institutions, as well as the quality of internal controls and risk management systems."[1994] It also explains that "There is a long-standing tradition of independent operation and since the last FSAP the legal protection of the BCB governor and the BCB's enforcement powers have been strengthened." On risk management, the report states that "Collection of country risk data has been expanded. [...] Requirements for risk management oversight and structures are comprehensive, include conservative assumptions, and linked to capital adequacy determination. [...]The BCB carries out rigorous, intrusive risk based supervision. Processes are well developed based on extensive information and analytically intensive." The IMF report explains that "Enforcement powers are broad and have been significantly enhanced with the issuance of Resolution 4019. [...]A number of examples of enforcement cases were reviewed and the proactive nature of the BCB was evident."[1995]

The 31 July 2012 "Financial System Stability Assessment" report from the International Monetary Fund suggests that Brazil has made considerable progress toward implementing the recommendations of the initial FSAP to strengthen supervision and regulation, and compliance with international standards is high, especially in banking supervision. The report further explains that "The BCB has tested the BCBS Global-SIBs assessment framework, and is developing its framework for identifying and measuring the risk posed by domestic SIBs with a view to exploring the scope for surcharges once guidelines are issued by the BCBS." The BCB conducted "Credit risk stress tests [which] suggest that the vast majority of Brazilian banks could withstand extreme shocks, including a severe global recession." Similarly, "Single factor tests show that concentration risk in credit portfolios is contained, if uneven, as are market and interest rate risks," while "Liquidity stress tests suggest that the system could withstand substantial stress and contagion through bilateral exposures is limited, although some types of banks appear more vulnerable." The report further adds that "Since the initial FSAP assessments in 2002, there has been material progress in key areas of financial sector oversight. [...]Most importantly, the approach to regulation and supervision has shifted from a compliance mode to a risk-based approach, with some agencies already very near full compliance with international standards." When assessing the Institutional Architecture for Financial Stability, the IMF notes that "Brazil has a well-developed architecture for supervisory cooperation and information sharing. [...]The BCB's broad powers and well-developed banking supervision are reflected in very high compliance with the Basel Core Principles. [...]An extensive quantitative and qualitative review results in a comprehensive understanding of an institution's risk profile." On Financial Sector Safety Nets, the IMF concludes that "The Brazilian authorities' response to spillovers from the global financial crisis was swift, flexible, and effective. [...]However, there is scope to improve the existing financial safety nets to ensure they can cope with future shocks and limit moral hazard in a system that is growing in size and sophistication.. [...]The BCB's Emergency Liquidity Assistance (ELA) facilities, while well-designed, could be made more effective in practice."[1996]

[1994] Brazil: Detailed Assessment of Observance of Basel Core Principles for Effective Banking Supervision, International Monetary Fund (Washington D.C.) 31 July 2012. Date of Access: 2 January 2013. http://www.imf.org/external/pubs/ft/scr/2012/cr12207.pdf

[1995] Brazil: Detailed Assessment of Observance of Basel Core Principles for Effective Banking Supervision, International Monetary Fund (Washington D.C.) 31 July 2012. Date of Access: 2 January 2013. http://www.imf.org/external/pubs/ft/scr/2012/cr12207.pdf

[1996] Brazil: Financial System Stability Assessment, International Monetary Fund (Washington D.C.) 31 July 2012. Date of Access: 2 January 2013. http://www.imf.org/external/pubs/ft/scr/2012/cr12206.pdf

On 21 June 2012, the Central Bank of Brazil and China Banking Regulatory Commission signed a Memorandum of Understanding to enhance the exchange of information relating to the supervision of financial institutions. The goal is to fine-tune the monitoring procedures of Brazilian financial institutions operating in China. The initiative is part of Central Bank' efforts to improve the supervision of the financial system, and is in line with the recommendations of the Basel Committee on Banking Supervision.[1997]

Brazil has taken steps to increase supervision effectiveness and has thus been awarded a score of 0.

Compliance Analyst: Yuan Zhang
Compliance Co-director : Alexandre De Palma

Canada: 0

Canada has partially complied with its commitment to takes actions in compliance with the FSB's policy measures for more intense SIFI supervision and more effective SIFI supervision. More specifically, it has taken actions to comply the effectiveness of supervision.

The Office of the Superintendent of Financial Institutions (OSFI) issued Minimum Continuing Capital and Surplus Requirements Guideline for life insurance companies, which will be effective in January 2013. The guideline sets up minimum and supervisory target capital levels and provides the framework within which OSFI assesses life issuance companies' efforts to maintain adequate capital. The guideline also requires each company to have an appointed actuary who needs to sign and approve that the company has met the requirements in the Guideline[1998]. In the same time, OSFI issued Minimum Capital Test Guideline for federally regulated property and casualty insurance companies. The Guideline sets up minimum and supervisory target capital standards with a supervisory target capital ratio of 150 per cent and provides framework within which OSFI assess property and casualty companies efforts to maintain adequate capital. OSFI also requires each property and casualty insurance company to establish an internal target capital ratio that is higher than the supervisory ones[1999].

On 23 August 2012 "Julie Dickson, the head OSFI, said she is concerned that regulators who are drafting new banking regulations are ignoring the importance of effective supervisory oversight in favour of rewriting global rules."[2000] According to Dickinson, "stricter rules, like substantially higher capital requirements, can create a false sense of security; an institution will never have

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[1997] BC assigned a Memorandum of Understanding with China Banking Regulatory Commission, Brazilian Central Bank (Brasilia) 21 June 2012. Date of Access: 1 January 2013. http://www.bcb.gov.br/textonoticia.asp?codigo=3580&idpai=NOTICIAS

[1998] Minimum Continuing Capital and Surplus Requirements for Life Insurance Companies, Date of Access: December 2012 http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/guidelines/capital/guidelines/MCCSR2013_e.pdf

[1999] Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies, Date of Access: December 2012 http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/guidelines/capital/guidelines/mct2013_e.pdf

[2000] OSFI head Julie Dickson puts focus on bank supervision, Globe and Mail (Toronto) 23 August 2012. Date of Access: 3 March 2013. http://m.theglobeandmail.com/report-on-business/osfi-head-julie-dickson-puts-focus-on-bank-supervision/article1502406/?service=mobile.

enough capital if there are material flaws in its risk management practices. That is why supervision matters."[2001]

On 27 December 2012 it was announced that "Canada's top financial watchdog intends to press the big banks next year on how well prepared they are to deal with so-called "operational risk"– one of the most difficult risks to protect against."[2002] However, while OSFI has maintained that a more rigorous stance on supervision in general and operational risk more specifically are in development, no concrete plans have been implemented at this point.

Canada has partially complied with its commitment to takes actions in compliance with the FSB policy measures for more intense SIFI supervision and more effective SIFI supervision. More specifically, it has take actions to comply the effectiveness of supervision. It has thus been awarded a score of 0.

Analysts: Lucy Lu, Ava-Dayna Sefa

China: 0

China has partially complied with its commitment to increase in both the effectiveness and the intensity of SIFI supervision.

On 19 November 2012, People's Bank of China has issued the Standard System of Banking Industry, which will improve the internal control and risk management of SIFIs.[2003] On 2 November 2012, CBRC released that the Forum on Financial Stability and Prudential Supervision was held recently in Beijing jointly by FSI and CBRC. At the meeting, Mr. Wang, vice chairman of CBRC, emphasized that macro prudential supervision was only one way to maintain the stability of financial system, and that to safeguard the stability and prevent systemic risks, both macro and micro prudential supervision were needed.[2004]

On 15 October 2012, the 6th CBRC-U.S. Banking Supervisors' Conference was held in the United States of America on October 15, 2012. Assistant Chairman Yan Qingmin, leading senior officials from the CBRC, met with representatives from the Fed, the OCC, the FDIC, the Fed of New York and the Fed of San Francisco to exchange views on the following issues: (1) major risks in the respective banking sector; (2) supervisory policies for SIFIs and community banks;

[2001] OSFI head Julie Dickson puts focus on bank supervision, Globe and Mail (Toronto) 23 August 2012. Date of Access: 3 March 2013. http://m.theglobeandmail.com/report-on-business/osfi-head-julie-dickson-puts-focus-on-bank-supervision/article1502406/?service=mobile.
[2002] Canada's bank regulator targets 'operational risk' in 2013, Wall Street Journal (New York) 27 December 2012. Date of Access: 3 March 2013. http://blogs.wsj.com/canadarealtime/2012/12/27/canadas-bank-regulator-targets-operational-risk-in-2013/
[2003] People's Bank of China released Standard System of Banking Industry, People's Bank of China (Beijing) 19 November 2012. Date of Access: 28 December 2012. http://www.pbc.gov.cn/publish/goutongjiaoliu/524/2012/20121129111204972130468/20121129111204972130468_.html
[2004] FSI and CBRC jointly held Forum on Financial Stability and Prudential Supervision, China Banking Regulatory Commission (Beijing) 2 November 2012. Date of Access: 1 January 2012. http://www.cbrc.gov.cn/EngdocView.do?docID=9518D7F69A944F95B24121E5BE420BBB

(3) implementation of the new international regulatory standards; and (4) cross-border supervisory cooperation.[2005]

On 17 September 2012, the State Council approved the Twelfth Five-Year Plan for Financial Sector Development and Reform. The plan expounds on the guiding principles, main objectives and policy measures for financial sector development and reform, highlighting the improvement of macro financial management, the safeguard of financial stability, the strengthening of financial infrastructure, and the risk management capacity of financial institutions.[2006]

The CBRC has connected the crime prevention, internal control and corporate operation via methods of capital management and permission thresholds. The weakness of internal control of financial institutions was exposed in 2012, due to which Shang Fulin, chairman of CBRC, repeatedly emphasized supervision on operational risk of banks in the first three quarters of 2012. The measures adopted by CBRC will make sure that the innovative business of banks will be restricted by supervisory bureaus, once serious cases occur.[2007]

Analyst: Yuan Zhang

France: 0

France has partially complied with its commitment to increase effectiveness and intensity of supervision.

In its 21 December 2012 Financial System Stability Assessment for France, the International Monetary Fund states that "France has a high level of compliance with the Basel Core Principles for Effective Banking Supervision (BCPs). ACP's supervisory practices are of a very high standard, incorporating many high-quality processes." However, "While the intention clearly is for ACP to be independent, certain aspects of the current arrangements have the potential to undermine this objective." The report further notes that "The legislative framework is broadly sound, but two deficiencies could hamper supervisory effectiveness. One is lack of a complete legislative framework related to ACP's powers to regulate the responsibilities of the banks' Board of Directors, as distinct from senior management. […] The possibility of effective early intervention and the ability to assess whether the Board of Directors of an institution has sound knowledge of the business and risks of a bank is weakened. The second legal issue is that ACP does not have the formal power to approve acquisitions by French banks when the target acquisition is outside France. This can undermine the effectiveness of ACP's otherwise rigorous practice of consolidated supervision." Furthermore, "Certain aspects of the new structure raise

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[2005] The 6th CBRC-U.S. Banking Supervisors' Conference was held in the United States of America, China Banking Regulatory Commission (Beijing) 15 October 2012. Date of Access: 1 January 2012. Date of Access: 29 December 2011.
http://www.cbrc.gov.cn/EngdocView.do?docID=DC784005AB6E483CB1C7C74052592067

[2006] The PBC released the 12th Five-Year Plan for the Financial Industry, The People's Bank of China (Beijing) 17 September 2012. Date of Access: 1 January 2012.
http://www.pbc.gov.cn/publish/english/955/2012/20120926145631142409624/20120926145631142409624_.html

[2007] Supervision on Intra-system Risk Transmission Will be Intensified in the Coming Year, Economic Information China Edition 26 December 2012. Date of Access: 3 January 2012.
http://www.jjckb.cn/2012-12/26/content_420468.htm

concerns about potential independence, sound governance, and access to adequate resources for the supervisor, though there is no evidence of problems to date."[2008]

On Capital Requirements, the IMF's report notes that "While capital requirements are in many ways prudent and appropriate, there are a few areas where current capital regulations in France, pursuant to EU capital rules, fall short of the applicable Basel standards."[2009]

Regarding Crisis Management and Safety Nets, the report considers that "Already before the crisis, France had a comprehensive framework for crisis management and bank resolution, which has allowed the authorities to deal with problem financial institutions effectively (Box 5). With some exceptions, the framework contains the instruments and measures that now constitute international best practices." The report further notes that "Progress is well underway on preparation of recovery and resolution plans (RRPs) for the large banks." Regarding the role of the central bank, the IMF notes, "As expected, the specific and only role of BdF in the safety net is the provision of liquidity through standing or extraordinary facilities. All liquidity provision is subject to the rules and restrictions of the Eurosystem." While "Coordination in monitoring of financial stability and in the prevention and management of crises is likely to be facilitated by the structural relationships between the relevant authorities. [...] Accountability and transparency could be increased."[2010]

France has taken steps to increase supervision effectiveness and has thus been awarded a score of 0.

Compliance Director: Alexandre de Palma

Germany: 0

Germany has partially complied with its commitment to strengthen the intensity and effectiveness of the supervision of systemically important financial institutions.

In November 2012 the Financial Stability Board released its Resolution of Systemically Important Financial Institutions progress report. The FSB maintains that the German government enacted reforms "that strengthened and expanded crisis management and resolution powers."[2011] Among these reforms were the "transfer and bridge bank powers, the establishment of a special restructuring fund, and the introduction of a two-stage recovery and reorganization procedure for

[2008] France: Financial System Stability Assessment, International Monetary Fund (Washington, D.C.), 21 December 2012. Date of Access: 03 March 2012. http://www.imf.org/external/pubs/ft/scr/2012/cr12341.pdf
[2009] France: Financial System Stability Assessment, International Monetary Fund (Washington, D.C.), 21 December 2012. Date of Access: 03 March 2012. http://www.imf.org/external/pubs/ft/scr/2012/cr12341.pdf
[2010] France: Financial System Stability Assessment, International Monetary Fund (Washington, D.C.), 21 December 2012. Date of Access: 03 March 2012. http://www.imf.org/external/pubs/ft/scr/2012/cr12341.pdf.
[2011] Resolution of systemically important financial institutions, Financial Stability Board (Basel) 2 November 2012. Date of Access: 3 March 2013. http://www.financialstabilityboard.org/publications/r_121031aa.pdf

banks."[2012] These reforms encompass the increase in the effectiveness of SIFIs supervision as outlined by the Financial Stability Board.

On 13 December 2012, the German government played an integral role when European leaders gathered in Brussels and "reached an agreement to place euro zone banks under a single supervisor."[2013] German Chancellor Angela Merkel, along with French President Francois Hollande made significant compromises to ensure the supervision of 100 to 200 banks in the Eurozone under the auspices of the European Central Bank.[2014] The agreement is of particular significance since previous talks "broke because of French and German discord over how many banks in the currency union should be covered by the new system."[2015]

Thus Germany has been awarded a 0 for its enhancement of the effectiveness of SIFIs supervision.

Analyst: Ava-Dayna Sefa

India: 0

India has partially complied with its commitment to strengthen the intensity and effectiveness of the supervision of systemically important financial institutions.

On 15 January 2013, the IMF released its Financial System Stability Assessment Update for India and stated, "India has made remarkable progress toward fostering a stable and well-developed financial system."[2016] According to the IMF, "commercial banks [in India] are well positioned to withstand a range of severe shocks."[2017] However, the IMF makes specific recommendations to the Indian government with regards to strengthening the financial infrastructure. These include: "enhance the effectiveness of the financial sector supervisory regime and ensure that India Post is adequately supervised; and enhance the effectiveness of the suspicious transactions reporting regime."[2018]

[2012] Resolution of systemically important financial institutions, Financial Stability Board (Basel) 2 November 2012. Date of Access: 3 March 2013. http://www.financialstabilityboard.org/publications/r_121031aa.pdf

[2013] European leaders hail accord on banking supervision, New York Times (Brussels) 13 December 2012. Date of Access: 4 April 2013. http://www.nytimes.com/2012/12/14/business/global/eu-leaders-hail-accord-on-banking-supervision.html?_r=0

[2014] European leaders hail accord on banking supervision, New York Times (Brussels) 13 December 2012. Date of Access: 4 April 2013. http://www.nytimes.com/2012/12/14/business/global/eu-leaders-hail-accord-on-banking-supervision.html?_r=0

[2015] European leaders hail accord on banking supervision, New York Times (Brussels) 13 December 2012. Date of Access: 4 April 2013. http://www.nytimes.com/2012/12/14/business/global/eu-leaders-hail-accord-on-banking-supervision.html?_r=0

[2016] Resolution of Systemically Important Financial Institutions, International Monetary Fund (Washington) 15 January 2013. Date of Access: 5 April 2013. http://www.imf.org/external/pubs/ft/scr/2013/cr1308.pdf

[2017] Resolution of Systemically Important Financial Institutions, International Monetary Fund (Washington) 15 January 2013. Date of Access: 5 April 2013. http://www.imf.org/external/pubs/ft/scr/2013/cr1308.pdf

[2018] Resolution of Systemically Important Financial Institutions, International Monetary Fund (Washington) 15 January 2013. Date of Access: 5 April 2013. http://www.imf.org/external/pubs/ft/scr/2013/cr1308.pdf

On 22 March 2013 "the Financial Sector Legislative Reforms Commission (FSLRC), set up two years ago to rewrite and review financial sector laws that have become out-dated or obsolete, submitted its final report to the finance ministry."[2019] The report is presented in two volumes: the first featuring analysis and recommendations, and the second a comprehensive draft of the Indian Financial Code. The report calls "for unifying the Securities and Exchange Board of India (Sebi), Pension Fund Regulatory and Development Authority (PFRDA), Insurance Regulatory and Development Authority (Irda) and Forward Markets Commission (FMC) into a single regulator."[2020] It is estimated that "the government may take at least two years to implement the proposed reforms and probably they will get it done in a phased manner."[2021]

Thus India has been awarded a 0 for its enhancement of the effectiveness of SIFIs supervision.

Analyst: Ava-Dayna Sefa

Indonesia: 0

Indonesia has partially complied with its commitment to increase effectiveness and intensity of supervision.

In its 18 July 2012 Financial Sector Assessment Program report, the IMF explains, "The responsibility for supervising the financial sector in Indonesia is shared largely between two institutions. The responsibilities and objectives of each of the authorities are clearly defined in the relevant legislation. BI, the central bank, has authority to regulate and supervise the banking sector, and Bapepam-LK is authorized to regulate and supervise the leasing and finance companies, insurance companies, pension funds, and securities companies." It further adds, "BI's independence is contained in the BI Act, which also requires annual disclosure to the public along with intended goals and financial reporting. Though BI's operational budget needs parliamentary approval, it does not appear to be constrained in performing its regulatory or supervisory functions. The BI has sufficient powers to ensure compliance with laws, regulations, prudential standards, and guidelines."[2022]

On Crisis Management and Public Safety Nets, the IMF concludes that "BI and the Deposit Insurance Corporation (LPS) have strived to set up mechanisms to provide appropriate safety nets, [...]In the light of its past experience, Indonesia has been developing a crisis management framework for dealing with financial sector crises."[2023]

[2019] Financial sector legislative reforms committee (FSLRC) moots 2-regulator structure, DNA India (Mumbai) 23 March 2013. Date of Access: 5 April 2013. http://www.dnaindia.com/money/1814590/report-financial-sector-legislative-reforms-committee-fslrc-moots-2-regulator-structure

[2020] Financial sector legislative reforms committee (FSLRC) moots 2-regulator structure, DNA India (Mumbai) 23 March 2013. Date of Access: 5 April 2013. http://www.dnaindia.com/money/1814590/report-financial-sector-legislative-reforms-committee-fslrc-moots-2-regulator-structure

[2021] Financial sector legislative reforms committee (FSLRC) moots 2-regulator structure, DNA India (Mumbai) 23 March 2013. Date of Access: 5 April 2013. http://www.dnaindia.com/money/1814590/report-financial-sector-legislative-reforms-committee-fslrc-moots-2-regulator-structure

[2022] Indonesia: Financial Sector Assessment Program— Basel Core Principles Assessment—Detailed Assessment of Compliance, International Monetary Fund (Washington,D.C.) 18 December 2012. Date of Access: 03 March 2013. http://www.imf.org/external/pubs/cat/longres.aspx?sk=40170.0

[2023] Indonesia: Financial Sector Assessment Program— Basel Core Principles Assessment—Detailed Assessment of Compliance, International Monetary Fund (Washington,D.C.) 18 December 2012. Date of Access: 03 March 2013. http://www.imf.org/external/pubs/cat/longres.aspx?sk=40170.0

The intensity of supervision has been improved as "The BI has succeeded in effectively addressing some of the shortcomings that prevailed in the banking system in the late 1990s. It has also consciously focused on improving staff competency which has helped it to establish credibility among the banking community in Indonesia."[2024]

On international regulatory cooperation, the IMF regrets that "The lack of appropriate gateways for information exchanges with domestic and foreign supervisory authorities is an impediment to BI discharging its legal responsibilities of regulating and supervising the banking system."[2025]

Indonesia has taken steps to increase supervision effectiveness and has thus been awarded a score of 0.

Compliance Director: Alexandre de Palma

Italy: 0

Italy has made progress toward complying with its commitment to strengthen both the intensity and effectiveness of the supervision of SIFIs.

Italy has partially complied with its commitment to strengthen the intensity and effectiveness of the supervision of systemically important financial institutions.

On 26 March 2013, the IMF stated, "Italy's banks have overcome shocks and even raised additional capital and boosted domestic deposits."[2026] However, "while they have stabilized, the Italian banking system is not immune from risks."[2027] In terms of risk management, Italy "has an effective framework for crisis management and bank resolution…although that should be enhanced…to allow greater flexibility."[2028]

On 11 March 2013, as part of a comprehensive evaluation of Italy's twenty largest banks, the Italian central bank is pressuring Italian lenders to report surges in provisioning as part of fourth-

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[2024] Indonesia: Financial Sector Assessment Program— Basel Core Principles Assessment—Detailed Assessment of Compliance, International Monetary Fund (Washington,D.C.) 18 December 2012. Date of Access: 03 March 2013. http://www.imf.org/external/pubs/cat/longres.aspx?sk=40170.0.

[2025] Indonesia: Financial Sector Assessment Program— Basel Core Principles Assessment—Detailed Assessment of Compliance, International Monetary Fund (Washington,D.C.) 18 December 2012. Date of Access: 03 March 2013. http://www.imf.org/external/pubs/cat/longres.aspx?sk=40170.0.

[2026] IMF says Italy banks must bolster provisions, Fox Business (New York) 26 March 2013. Date of Access: 3 April 2013. http://www.foxbusiness.com/news/2013/03/26/imf-says-italy-banks-must-bolster-provisions/

[2027] IMF says Italy banks must bolster provisions, Fox Business (New York) 26 March 2013. Date of Access: 3 April 2013. http://www.foxbusiness.com/news/2013/03/26/imf-says-italy-banks-must-bolster-provisions/

[2028] IMF says Italy banks must bolster provisions, Fox Business (New York) 26 March 2013. Date of Access: 3 April 2013. http://www.foxbusiness.com/news/2013/03/26/imf-says-italy-banks-must-bolster-provisions/

quarter earnings reports.[2029] The central bank has stated, "banks that have failed to allow for adequate provisions will be asked to make a 'rapid intervention'."[2030]

Thus Italy has been awarded a 0 for its enhancement of the intensity of SIFIs supervision.

Analyst: Ava-Dayna Sefa

Japan: +1

Japan has fully complied with its commitment to increase effectiveness and intensity of supervision.

In the August 2012 Financial Sector Stability Assessment Update on Japan, the International Monetary Fund notes, on systemic risk, that "The BOJ's semi-annual FSR [Financial Stability Review] represents a key component of the authorities' macrofinancial surveillance. The FSR casts a wide surveillance net, with extensive reviews of financial and economic developments, both domestic and overseas, and is supported by a relatively deep analytical foundation, including stress tests." However, "The current oversight framework operates in the absence of a dedicated financial stability committee or council to assist in macroprudential decision-making and coordination outside crisis periods."[2031]

The IMF further considers thet "The banking supervisory framework is largely compliant with the Basel Core Principles" even though "A key challenge ahead is the need to recalibrate certain prudential requirements." The IMF considers "important to enhance the prudential regime with regard to […] Capital requirements, […] Sanction powers, […and] Concentration risk limits." Furthermore, "The overall supervisory approach could also be more closely aligned with the profile of systemic risk."[2032]

On Crisis Preparedness and Resolution, the IMF considers that "Japan has developed a robust and time-tested crisis management framework." The IMF states that "The BOJ has wide ranging powers to provide liquidity to both bank and nonbank financial institutions. Standing facilities for the supply of liquidity are available to both banks and those broker/dealers that transact and hold accounts with the central bank." Regarding crisis resolution, the report states that "The authorities are working closely with other countries to improve arrangements for collectively resolving cross-border problems. They are preparing "recovery and resolution" plans (RRPs) for Japan's three global SIFIs, and examining their extension to a wider range of domestic financial institutions." The report further explains that "The coverage of Japan's financial safety net for depositors, investors and insurance policy holders seems broadly appropriate, but there are some gaps.18 The DICJ has been provided with an array of resolution tools, but the fact that its board

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[2029] Italian banks urged to boost provisions, Financial Times (New York) 11 March 2013. Date of Access: 3 April 2013. http://www.ft.com/intl/cms/s/0/90def058-8a6a-11e2-bf79-00144feabdc0.html#axzz2Pk7F3ZFd.

[2030] Italian banks urged to boost provisions, Financial Times (New York) 11 March 2013. Date of Access: 3 April 2013. http://www.ft.com/intl/cms/s/0/90def058-8a6a-11e2-bf79-00144feabdc0.html#axzz2Pk7F3ZFd.

[2031] Japan: Financial Sector Stability Assessment Update, International Monetary Fund (Washington, D.C.) 01 August 2012. Date of Access: 03 March 2013. http://www.imf.org/external/pubs/ft/scr/2012/cr12210.pdf

[2032] Japan: Financial Sector Stability Assessment Update, International Monetary Fund (Washington, D.C.) 01 August 2012. Date of Access: 03 March 2013. http://www.imf.org/external/pubs/ft/scr/2012/cr12210.pdf.

members currently include representatives of banking associations gives the appearance of conflicts of interest."[2033]

On intensity, the IMF noted that "The FSA needs additional resources and skills to undertake thematic risk assessments (across types of financial institutions) on a regular basis, and deepen its oversight of nonbanks."[2034]

In its 10 August 2012 report entitled "Japan: Basel Core Principles for Effective Banking Supervision — Detailed Assessment of Compliance," the International Monetary Fund notes that "Close domestic coordination among the above agencies is required for effective macro prudential policy making. As the FSA, MOF, and BOJ frequently exchange information at multiple levels and there are also several councils covering various aspects of financial system policies, the lack of MOUs is not a major obstacle to effective cooperation." It further notes that "As regards crisis management, the Financial System Management Council (FSMC) is activated when government intervention in a troubled financial institution is necessary." On system-wide risk assessment practices, the IMF explains that "As regards the financial system as a whole, BOJ analyzes and assesses risks in the entire financial system and releases its findings in the Financial System Report (FSR) semi-annually."[2035]

The IMF report explains that "The assessors concluded that in general the mandates for supervision are sufficiently clear and unambiguous. […]The institutional framework for supervision in Japan provides sufficient safeguards for the supervisor's independence in its day-to-day supervision." However, on international supervisory cooperation, the IMF notes that "Predominantly informal arrangements exist for the cooperation between the FSA and BOJ and with foreign supervisory authorities. The cooperation between the Japanese authorities should further be intensified."[2036]

On 30 June 2012, the Financial Services Agency "extended the flexible treatment of the capital adequacy requirement for banks that focus on domestic operations through March 30, 2014."[1] In attempting to allow for greater ease of financing and borrowing for small and medium-sized firms, the Bank of Japan established and implemented a funds-provisioning measure that would strengthen the foundations for economic growth as well as establish credit lines for asset-based lending.[2]

In addition, the FSA announced on 7 August 2012 that a new draft has been developed on the issue of prompt corrective actions, guidelines for supervision and revisions of ministerial ordinances. This follows the "amendment to administrative notice on capital adequacy rules for internationally active banks based on Basel III."[3]

[2033] Japan: Financial Sector Stability Assessment Update, International Monetary Fund (Washington, D.C.) 01 August 2012. Date of Access: 03 March 2013. http://www.imf.org/external/pubs/ft/scr/2012/cr12210.pdf.

[2034] Japan: Financial Sector Stability Assessment Update, International Monetary Fund (Washington, D.C.) 01 August 2012. Date of Access: 03 March 2013. http://www.imf.org/external/pubs/ft/scr/2012/cr12210.pdf.

[2035] Japan: Basel Core Principles for Effective Banking Supervision - Detailed Assessment of Compliance, International Monetary Fund (Washington, D.C.), 10 August 2012. Date of Access: 02 March 2013. http://www.imf.org/external/pubs/ft/scr/2012/cr12231.pdf

[2036] Japan: Basel Core Principles for Effective Banking Supervision - Detailed Assessment of Compliance, International Monetary Fund (Washington, D.C.), 10 August 2012. Date of Access: 02 March 2013. http://www.imf.org/external/pubs/ft/scr/2012/cr12231.pdf

The Bank of Japan has stated that in order for Japanese financial institutions to maintain smooth financial intermediation while at the same time being able to mitigate and respond to stresses on both the global and national economy, three major issues much be faced: (1) Enhancing the effectiveness of risk management; (2) Strengthening capital bases; and (3) Constructing stable profit bases. According to the Bank of Japan, it will continue to conduct on-site examinations and off-site monitoring[4], participate in international discussions and continue to hold seminars at the Bank's Center for Advanced Financial Technology.[5]

Japan has fully complied with its commitment to increase effectiveness and intensity of supervision and has thus been awarded a score of +1.

Analyst: Filip Kedzior
Compliance Co-director: Alexandre De Palma

Korea: +1

As of this moment, Korea is currently on track in its compliance with FSB policy measures in more intense and more effective SIFI supervision. The Bank of Korea has developed several measures when responding to increasing uncertainties nationally and abroad that would continue to actively provide stability in its financial system.

On 13 July 2012, the Bank of Korea invested 135 billion won into the Korea Housing Finance Corporation (KHFC) in efforts of improving the household debt structure as well as provide for greater fixed-rate home mortgage loans for securitization.[2037] In addition, the Bank of Korea has implemented a measure using its Aggregate Credit Ceiling Loan System to support small businesses as well "to encourage financial institutions to extend unsecured loans to SMEs lacking sufficient collateral." With this, the "Special Financial Support Ceiling for Small Business Owners" was introduced in October 2012.[2038]

In dealing with global and national financial insecurity and possible market disruptions, Korea has introduced an immediate response system that will monitor macro-economic conditions and prepare necessary countermeasures while maintaining cooperative relationships with the government, banks and other organizations.[2039]

In June 2012, Korea has increased its foreign currency deposits in order to maintain the stability of its banks.[4] In addition, the Bank of Korea conducts "joint examinations with the Financial Supervisory Service, enabling it to analyze financial sector soundness in-depth, and has made efforts to reflect the results of this analysis in its policies."[2040] The managerial soundness of NH Bank and Standard Chartered Bank Korea are included in its analysis.

The BOK will continue to strengthen its capacity to issue early warnings in a timely manner by way of in-depth analysis and evaluation of systemic risk factors in the economy. In particular, the bank intends to enhance its efforts to identify financial system risks, through in-depth analysis of

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[2037] Financial Stability Report, Bank of Korea (Seoul) October 2012. Date of Access: 27 December 2012. http://www.centerforfinancialstability.org/fsr/kor_fsr_201210.pdf
[2038] Financial Stability Report, Bank of Korea (Seoul) October 2012. Date of Access: 27 December 2012. http://www.centerforfinancialstability.org/fsr/kor_fsr_201210.pdf.
[2039] Financial Stability Report, Bank of Korea (Seoul) October 2012. Date of Access: 27 December 2012. http://www.centerforfinancialstability.org/fsr/kor_fsr_201210.pdf.
[2040] Financial Stability Report, Bank of Korea (Seoul) October 2012. Date of Access: 27 December 2012. http://www.centerforfinancialstability.org/fsr/kor_fsr_201210.pdf.

micro-economic data obtained from financial institutions in the course of its joint examinations of them. The BOK will also work to strengthen its implementation of macro-prudential policy, by establishing a system for close cooperation with other policy authorities and through the development of more efficient policy tools.[2041]

Thus, Korea has been awarded a score of +1 in its compliance of more intense and effective SIFI supervision as proposed by the FSB.

Analyst: Filip Kedzior

Mexico: 0

Mexico has partially complied with its commitment to strengthen the intensity and effectiveness of the supervision of systemically important financial institutions (SIFIs). It has enacted a new law pertaining to the supervision of financial institutions, but the law has yet to pass the legislature and come into force.

On 25 October 2012, President Felipe Calderón presented the Mexican Senate with a proposal for a new and comprehensive law for the regulation and supervision of financial institutions. The proposed legislation has as its objective, the strengthening of the regulation of financial institutions in Mexico, so that they may conform to the highest international standards.[2042] The law would make financial institutions declare their financial situation to determine whether or not they are at risk of bankruptcy or exposed in other ways that would necessitate a government bailout to avoid a financial disaster and to protect the public's investments.[2043]

Financial institutions, under the scope of the new law, would need to be sufficiently solvent in relation to their responsibilities and to the risks to which they are exposed — particularly risks inherent to firms' specific operations — so that they are able to adequately fulfill their obligations to their clients.[2044] Moreover, financial institutions would be required to develop their investment strategies with clear objectives, with the goal of remaining solvent.[2045] Furthermore, financial

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[2041] Financial Stability Report, Bank of Korea (Seoul) October 2012. Date of Access: 27 December 2012. http://www.centerforfinancialstability.org/fsr/kor_fsr_201210.pdf.

[2042] Dictamen correspondiente a la Iniciativa de Decreto por el que se expide la Ley de Instituticiones de Seguros y Fianzas y se reforman y adicionan diversas disposiciones de la Ley Sobre el Contrato de Seguro, Senado de la República, Estados Unidos Mexicanos (Mexico) 11 December 2012. Date of Access: 7 January 2013.
www.senado.gob.mx/sgsp/gaceta/62/1/2012-12-13-1/assets/documentos/Dictamen_LEY_INSTITUCIONES.pdf

[2043] Calderón presenta iniciativa de ley para seguros, El Economista (Mexico) 25 October 2012. Date of Access: 3 January 2013.
http://eleconomista.com.mx/finanzas-publicas/2012/10/25/calderon-envia-senado-nueva-ley-seguros

[2044] Calderón presenta iniciativa de ley para seguros, El Economista (Mexico) 25 October 2012. Date of Access: 3 January 2013.
http://eleconomista.com.mx/finanzas-publicas/2012/10/25/calderon-envia-senado-nueva-ley-seguros

[2045] Senado aprueba ley de seguros y fianzas, El Universal (Mexico) 14 December 2012. Date of Access: 3 January 2013.
http://www.eluniversal.com.mx/finanzas/99489.html

firms must hold a determined amount of capital[2046] in order to weather exposure, market forces, unforeseen contingencies, and liquidity crises — in other words, they must be able to handle situations that would otherwise render these firms insolvent and threaten financial stability.[2047]

Additionally, the proposed law would regulate the organization, operation, and functioning of financial firms, as well as what activities these firms can engage in. The law would also subject financial institutions to annual stress and solvency tests in order to evaluate the adequacy of their level of capital and whether it is enough to handle vastly different scenarios, with the additional goal of identifying and correcting flaws as well as mitigating risk.[2048]

Under the proposed law, financial firms will be required to have at least one qualification that is above the standards determined by supervisory bodies.[2049] On top of governmental supervision, institutions will be required to develop internal supervisory bodies to ensure that each firm is well capitalized.[2050] Additionally, institutions will be required to consider their individual risk profiles, as well as market conditions, so that they may strengthen their individual risk management.[2051] On top of that, the new legislation would also require financial entities to strengthen their corporate governance by being more transparent by disclosing their risk profile.[2052]

Lastly, the legislation redefines the faculties of the National Sureties and Insurance Commission, so that it may focus on supervising, with greater emphasis, on the proper administration of risk

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[2046] Dictamen correspondiente a la Iniciativa de Decreto por el que se expide la Ley de Instituticiones de Seguros y Fianzas y se reforman y adicionan diversas disposiciones de la Ley Sobre el Contrato de Seguro, Senado de la República, Estados Unidos Mexicanos (Mexico) 11 December 2012. Date of Access: 7 January 2013.
www.senado.gob.mx/sgsp/gaceta/62/1/2012-12-13-1/assets/documentos/Dictamen_LEY_INSTITUCIONES.pdf

[2047] Calderón presenta iniciativa de ley para seguros, El Economista (Mexico) 25 October 2012. Date of Access: 3 January 2013.
http://eleconomista.com.mx/finanzas-publicas/2012/10/25/calderon-envia-senado-nueva-ley-seguros

[2048] Calderón presenta iniciativa de ley para seguros, El Economista (Mexico) 25 October 2012. Date of Access: 3 January 2013.
http://eleconomista.com.mx/finanzas-publicas/2012/10/25/calderon-envia-senado-nueva-ley-seguros

[2049] Calderón presenta iniciativa de ley para seguros, El Economista (Mexico) 25 October 2012. Date of Access: 3 January 2013.
http://eleconomista.com.mx/finanzas-publicas/2012/10/25/calderon-envia-senado-nueva-ley-seguros

[2050] Dictamen correspondiente a la Iniciativa de Decreto por el que se expide la Ley de Instituticiones de Seguros y Fianzas y se reforman y adicionan diversas disposiciones de la Ley Sobre el Contrato de Seguro, Senado de la República, Estados Unidos Mexicanos (Mexico) 11 December 2012. Date of Access: 7 January 2013.
www.senado.gob.mx/sgsp/gaceta/62/1/2012-12-13-1/assets/documentos/Dictamen_LEY_INSTITUCIONES.pdf

[2051] Dictamen correspondiente a la Iniciativa de Decreto por el que se expide la Ley de Instituticiones de Seguros y Fianzas y se reforman y adicionan diversas disposiciones de la Ley Sobre el Contrato de Seguro, Senado de la República, Estados Unidos Mexicanos (Mexico) 11 December 2012. Date of Access: 7 January 2013.
www.senado.gob.mx/sgsp/gaceta/62/1/2012-12-13-1/assets/documentos/Dictamen_LEY_INSTITUCIONES.pdf

[2052] BOLETÍN-0702 Aprueba Senado Nuevo Ley de Seguros y Fianzas, Senado de la República, Estados Unidos Mexicanos (Mexico) 13 December 2012. Date of Access: 7 January 2013.
comunicacion.senado.gob.mx/index.php/periodo-ordinario/boletines/4965-boletin-0702-aprueba-senado-nueva-ley-de-seguros-y-fianzas.html

among financial institutions.[2053] The law would allow the authorities to forbid or limit the acquisition of instruments that represent excessive risk for institutions, allowing authorities to act on situations that merit intervention in order to protect the financial system.[2054] The law also holds that firms that fail to comply with the new regulations and requirements will face sanctions and possible revocation of their licence to operate.[2055]

On 13 December 2012, the Senate held a vote on the proposed legislation and approved it unanimously.[2056] According to the Senate, the law will allow for a quick response to situations that threaten financial stability, and will help avert crises, as authorities will be able to intervene promptly, thus helping to ameliorate situations that may otherwise lead to greater financial problems.[2057]

Following Senate approval, Senator Alejandro Tello stated that the legislation "harmonizes the interests of the involved parties, as it strengthens solvency requirements, the governing of financial firms, and the transparency of information." Senator Carlos Mendoza Davis welcomed the approval of the law by the senate, as the financial sector in Mexico has grown to be very important throughout the last decade, as it impacts the market and the economy in very influential ways. Due to the importance of the financial sector, Davis and his colleagues have lauded the new law as a crucial "advance towards a normative framework that is efficient and competent."[2058]

Although the proposed legislation has gained Senate approval, it still requires approval from the lower house in Mexico's Congress, the Chamber of Deputies, thus the legislation has yet to be approved into law.

Thus, Mexico has taken steps to improve the effectiveness and intensity of the supervision of SIFIs and has thus been awarded a score of 0.

Analyst: David Gelles

[2053] BOLETÍN-0702 Aprueba Senado Nuevo Ley de Seguros y Fianzas, Senado de la República, Estados Unidos Mexicanos (Mexico) 13 December 2012. Date of Access: 7 January 2013. comunicacion.senado.gob.mx/index.php/periodo-ordinario/boletines/4965-boletin-0702-aprueba-senado-nueva-ley-de-seguros-y-fianzas.html

[2054] BOLETÍN-0702 Aprueba Senado Nuevo Ley de Seguros y Fianzas, Senado de la República, Estados Unidos Mexicanos (Mexico) 13 December 2012. Date of Access: 7 January 2013. comunicacion.senado.gob.mx/index.php/periodo-ordinario/boletines/4965-boletin-0702-aprueba-senado-nueva-ley-de-seguros-y-fianzas.html

[2055] Senado aprueba ley de seguros y fianzas, El Universal (Mexico) 14 December 2012. Date of Access: 3 January 2013. http://www.eluniversal.com.mx/finanzas/99489.html

[2056] BOLETÍN-0702 Aprueba Senado Nuevo Ley de Seguros y Fianzas, Senado de la República, Estados Unidos Mexicanos (Mexico) 13 December 2012. Date of Access: 7 January 2013. comunicacion.senado.gob.mx/index.php/periodo-ordinario/boletines/4965-boletin-0702-aprueba-senado-nueva-ley-de-seguros-y-fianzas.html

[2057] BOLETÍN-0702 Aprueba Senado Nuevo Ley de Seguros y Fianzas, Senado de la República, Estados Unidos Mexicanos (Mexico) 13 December 2012. Date of Access: 7 January 2013. comunicacion.senado.gob.mx/index.php/periodo-ordinario/boletines/4965-boletin-0702-aprueba-senado-nueva-ley-de-seguros-y-fianzas.html

[2058] Senado aprueba ley de seguros y fianzas, El Universal (Mexico) 14 December 2012. Date of Access: 3 January 2013. http://www.eluniversal.com.mx/finanzas/99489.html

Russia: 0

Russia has partially complied with its commitment on strengthening the intensity and effectiveness of the supervision of SIFIs.

On 1 November 2012, the Russian Central Bank Board of Directors approved Guidelines for the Single State Monetary Policy in 2013 and for 2014 and 2015. According to the Guidelines, in 2013 Russian Central Bank will make proposals on establishing the regulatory system for national systemically important banks. Stability of such banks will become a focus of supervisory policies. Additional supervisory and regulatory mechanisms will be introduced taking into account international practices.[2059]

In November 2012, Russian Central Bank established the Systemically Important Banks Department within its structure.[2060]

On 29 December 2012, Russian Central Bank recommended that all banks, particularly systemically important, had recovery plans in place, which is provided for by the FSB Key Attributes of Effective Resolution Regimes for Financial Institutions.[2061]

On 16 January 2013, Deputy Chairman of the Bank of Russia Sergey Shvetsov announced that the Bank of Russia had made up a list of 15-30 systemically important banks. It is proposed to make top-management compensations dependent on the financial performance of these banks, which is line with the FSB recommendations on strengthening regulation of SIFIs. Sergey Shvetsov also mentioned that special groups involving representatives of different countries' regulatory authorities will be established for Russian systemically important banks carrying out activities abroad.[2062]

On 24 January 2013, Deputy Chairman of the Bank of Russia Mikhail Sukhov announced that starting from 2015-2016 Russian systemically important banks will be required to make information on their leverage ratios available not only to the regulatory authority, but for all interested parties.[2063]

Russia has taken measures to improve intensity of SIFIs supervision, but no facts of concrete Russian steps towards more effective supervision of SIFIs have been registered during the compliance period. Thus, Russia is given a score of 0.

Analyst: Andrey Shelepov

[2059] Guidelines for the Single State Monetary Policy in 2013 and for 2014 and 2015, Bank of Russia 7 November 2012. Date of Access: 22 March 2013. http://cbr.ru/today/publications_reports/on_2013(2014-2015).pdf.
[2060] Russian Central Bank Established the Systemically Important Banks Department, PRAIM 14 March 2013. Date of Access: 22 March 2013. http://prime.ria.ru/banks/20130314/761761548.html.
[2061] Bank of Russia letter No.193-T of 29 .12.2012 "Guidelines for Elaborating Credit Institutions' Recovery Plans", Bank of Russia 16 January 2013. Date of Access: 22 March 2013. http://cbr.ru/publ/Vestnik/ves130116001.pdf.
[2062] Russian Central Bank Made Up the List of Systemically Important Banks, PRAIM 16 January 2013. Date of Access: 22 March 2013. http://1prime.ru/Central_bank/20130116/760544134-print.html.
[2063] Russian Central Bank Plans to Require Banks Disclose Information on Leverage Ratios in the Framework of Transition to Basel III, Interfax 24 January 2013. Date of Access: 22 March 2013. http://www.interfax.ru/ifx.asp?id=5d0fa7cd-3900-4443-a46f-d4fa944af39f.

Saudi Arabia: 0

Saudi Arabia has partially complied with its commitment to improve effectiveness and intensity of supervision.

On 19 November 2012, the Saudi Arabian Monetary Agency (SAMA) "published the draft Implementing Regulations of the Real Estate Finance Law, the Financial Lease Law, and the Law on Supervision of Finance Companies for public consultation."[2064] In December 2012 Norton Rose, a law firm, explains that "The Law on Supervision of Finance Companies sets out the regulatory regime under which finance companies will operate (noting that this relates to all finance companies, not just real estate), with the oversight and licensing of such sector lying with SAMA. The accompanying Regulation cements SAMA's role in licensing and regulating finance companies and the governance of finance companies."[2065]

This comes to show that the Saudi government is regulating the financial sector and working towards greater supervision of key institutions and key players. However, there is little evidence of any measures that were taken to satisfy the requirement of stress testing.

The boards of the national banks of Saudi Arabia lack the representation and diversity that would have otherwise suggested compliance with the improved intensity measure. Furthermore, there is no indication of the identification of the key players in Saudi Arabia. Thus the lack of transparency suggests noncompliance with the improved intensity measure.

Saudi Arabia has taken action in compliance with the improved effectiveness measures, and has thus awarded a score of 0.

Analyst: Israa Hamad
Compliance Co-director: Alexandre De Palma

South Africa: 0

South Africa has partially complied with its commitment to increase in both the effectiveness and the intensity of SIFI supervision. South Africa has paid efforts to enhance supervision by adopting international standards which are aimed to increase the supervisory effectiveness and intensity, yet has failed to meet some of them.

On 6 July 2012, SARB issued Guidance Note 6/2012 providing guidance to all parties relating to the parallel test run and some other additional key dates regarding the implementation of Basel

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[2064] Publishing Draft Implementing Regulations of the Finance Laws, Saudi Arabian Monetary Agency (Riyadh) 19 November 2012. Date of Access: 03 March 2013. http://www.sama.gov.sa/sites/samaen/News/Pages/PublishingDraftImplementingRegulationsoftheFinanceLaws.aspx

[2065] Saudi Arabia legal update - SAMA issues draft regulations, Norton Rose (Dubai) December 2012. Date of Access: 03 March 2013. http://www.nortonrose.com/knowledge/publications/73251/saudi-arabia-legal-update-sama-issues-draft-regulations

III.[2066] On 15 August 2012, SARB issued Guidance Note 8/2012 providing further guidance and additional information regarding the Basel III parallel test run.[2067]

The Financial Service Board conducted its first Quantitative Impact Study (QIS1) in December 2011 to determine the impact of the new proposed solvency rules. The results of QIS1 were taken into account for the second QIS (QIS2) data collection exercise, which was announced in July 2012. The data collection period for QIS2 commenced in July 2012 and terminated in November 2012. Result of data collection was submitted for group calculations on 5 November 2012, and report will be published on 31 January 2013. In addition, the FSB conducted targeted interviews with a sample of insurers between September and November 2012, and a full report on the findings is to be issued towards the end of January 2013.[2068]

The Insurance Laws Amendment Bill (ILAB) forms part of the SAM Interim Measures. ILAB deals with insurance group supervision, governance, risk management and internal controls. It was submitted to National Treasury on 13 April 2012 for review, and is likely to be tabled in Parliament in the first half of 2013.[2069]

South Africa has made many other efforts in enhancing financial regulation. On 15 November 2012, Finance Minister Pravin Gordhan has mooted the establishment of a national center to ensure that heads of government departments take action on financial mismanagement uncovered during internal audits.[2070] The Financial Services Board has proposed a draft legislative framework is currently under consideration and it is anticipated that a discussion document will be published for public comment by November 2012.

Analyst: Yuan Zhang

Turkey: 0

Turkey partially complied its obligation with regards to the commitment to a full and timely implementation of the financial sector reforms agreed upon in Seoul, which mainly addressed a specific method to maintain the stability of Systematically Important Financial institutions. As seen in previous years, Turkey has taken actions in compliance with the FSB improved effectiveness requirements and the improved intensity requirements.

[2066] Publication Detail: G6/2012: Basel III parallel test run: Reporting requirements in terms of the amended regulatory BA forms, South African Reserve Bank (Pretoria) 10 July 2012. Date of Access: 1 January 2013.
http://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/5085/G6%20of%202012.pdf

[2067] Publication Detail: G8/2012: Further information and additional requirements regarding the Basel III parallel test run, South African Reserve Bank (Pretoria) 16 August 2012. Date of Access: 1 January 2013.
http://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/5112/G8_2012.pdf

[2068] Update on Progress with the Solvency Assessment and Management (SAM) Project, Financial Service Board (Pretoria) 6 September 2012. Date of Access: 2 January 2013.
ftp://ftp.fsb.co.za/public/insurance/SAM/Newsletters/SAMNewsletter10.pdf

[2069] Update on Progress with the Solvency Assessment and Management (SAM) Project, Financial Service Board (Pretoria) 6 September 2012. Date of Access: 2 January 2013.
ftp://ftp.fsb.co.za/public/insurance/SAM/Newsletters/SAMNewsletter10.pdf

[2070] Gordhan in a bid to improve govt's financial management, South Africa Broadcasting Corporation (Johannesburg) 15 November 2012. Date of Access: 1 January 2013.
http://www.sabc.co.za/news/a/e03657004d74a4a79ba3fbe570eb4ca2/Gordhan-in-a-bid-to-improve-Govts-financial-management-20121511

The report on the Progress in the Implementation of G20/FSB Recommendations of June 2012 evaluated the progress Turkey made with regards to implementation of regulations. The report shows that Turkey has taken many steps to comply with the improved effectiveness measure as it has called for more regulations, in different domains of the financial sector such as the regulation of hedge funds.[2071] As for the improved intensity measure, Turkey has been continuing to build up on the improvements it has achieved in 2011.

Thus Turkey has taken actions in compliance with the FSB policy measures to meet the improved effectiveness requirements and improved intensity requirement and is awarded a score of 0.

Compliance Analyst: Israa Hamad

United Kingdom: 0

The United Kingdom has partially complied with its commitment to increase effectiveness and intensity of banking supervision.

These recommendations include: (1) The allowance of HMT greater discretion within the flexibility of the EU legislation; (2) That the FSA increasingly encourages banks disclose their leverage ratios as was defined in Basel III; (3) That the FSA furthers their work with the banks in building up greater cushions of capital that may act as shock-absorbers during financially turbulent times and in the event of greater risk of loss; (4) That the FSA encourage banks to improve the handling of their balance sheets without over- or under-assuming; (5) Banks are strongly encouraged to be increasingly more aware of their balance sheets, particularly in assessing, managing and mitigating the risks of current and potential stresses found within the euro zone; (6) The FSA is encouraged to make clear that liquid assets be easier to more easily accessible to banks by the Central Bank; and (7) Recommendation that UK banks work to ensure greater consistency with the FSA and the British Banker's Association in association with their Pillar 3 responsibilities.[2072]

Recommendations (1), (2), (5) and (7) are all under way. HMT is currently moving towards greater flexibility within the European Union legislation with regards to greater self-management; UK banks are on track in meeting these requirements by the end of 2012, which would ease investors uncertainty about UK firms; HMT is taking steps towards greater assessment and mitigating exposure to potential euro zone financial problems; and cooperation between the BBA and the FSA is in progress in developing an action plan in delivering the proposed improvements, especially those regulating measures under Basel III.[2073]

Recommendations (3) and (4) are currently superseded. The FSA, HMT and at least one UK bank are in conducive talks regarding the raising of external capital, the bringing together of existing recommendations, as well as the resilience of the UK banking system. As well, HMT acknowledges that the FSA's recommendations that banks improve the resilience of their balance

[2072] Financial Stability Report, Bank of England (London) 29 November 2012. Date of Access: 1 January 2012. http://www.bankofengland.co.uk/publications/Documents/fsr/2012/fsrfull1211.pdf

[2073] Financial Stability Report, Bank of England (London) 29 November 2012. Date of Access: 1 January 2012. http://www.bankofengland.co.uk/publications/Documents/fsr/2012/fsrfull1211.pdf.

sheets is continuing, there is a belief that they can do more. In this regard, HMT's recommendations are even more conservative than those proposed by the FSA.[2074]

Recommendation (6) has already been implemented. Liquid asset holdings in the UK have fallen since the previous recommendation, but messages relayed between the FSA and HMT to UK banks are increasingly being heard and understood.[2075]

Thus, based on the recommendations and actions undertaken, the United Kingdom has been awarded a score of 0 in its compliance of more effective SIFI supervision as proposed by the FSB.

Analyst: Filip Kedzior

United States: +1

The United States 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. The United States has taken actions in compliance with the FSB improved effectiveness requirements and the improved intensity requirements.

On 9 October 2012, the FDIC announced "publication of its final rule regarding company-run stress testing required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The rule applies to covered institutions with total consolidated assets greater than $10 billion."[2076]

The Financial Stability Board report regarding the "Progress in the Implementation of G20/FSB Recommendations" of June 2012 indicates that the United States has taken regulatory steps to implement the board's recommendation both in terms of improved effectiveness and improved intensity requirements.[2077]

Hence the United States of America has taken actions in compliance with the FSB policy measures to meet improved effectiveness requirements and improved intensity requirements. Thus the United States of America is awarded a score of +1.

Analyst: Israa Hamad

European Union: 0

The European Union has partially complied with its commitment to strengthen the intensity and effectiveness of the supervision of systemically important financial institutions.

[2074] Financial Stability Report, Bank of England (London) 29 November 2012. Date of Access: 1 January 2012. http://www.bankofengland.co.uk/publications/Documents/fsr/2012/fsrfull1211.pdf.
[2075] Financial Stability Report, Bank of England (London) 29 November 2012. Date of Access: 1 January 2012. http://www.bankofengland.co.uk/publications/Documents/fsr/2012/fsrfull1211.pdf.
[2076] FDIC Approves Final Rules Regarding Large Bank Stress Tests and Large Bank Assessment Pricing and Releases An Update on the DIF Projections, Federal Deposit Insurance Corporation (Washington) 9 October 2012. Date of Access: 6 April 2013. http://www.fdic.gov/news/news/press/2012/pr12116.html
[2077] Progress in the Implementation of G20/FSB Recommendations, Financial Stability Board (Basel) 19 June 2012. Date of Access: 6 April 2013. http://www.financialstabilityboard.org/publications/r_120619ww.pdf

On 5 April 2013 European Central Bank Executive Yves Mersch outlined the strategy behind the Banking Union. Mersch stated three main reasons for creating the Banking Union: "first, delinking sovereigns and banks and fostering the reintegration of financial markets, second, avoiding national bias in supervision, and third, restoring the proper transmission of monetary policy."[2078]

On 13 December 2012 European leaders reached "an agreement to place the euro zone banks under a single supervisor."[2079] The leaders hailed the decision as "a concrete measure to maintain the viability of the currency as well as a step in laying the groundwork for a broader economic union."[2080] The leaders conceded to Germany and "agreed that thousands of smaller banks would be primarily overseen by national regulators."[2081] However, the French advocated for "all euro zone banks to be held accountable, [and the agreement included the provision that] the central bank will be able to take over supervision of any bank in the region at any time."[2082] President of the European Central Bank Mario Draghi stated, "The agreement on banking supervision was "an important step towards a stable economic and monetary union, and toward further European integration." But he noted that governments and the European Commission still had to work on the details of the supervision mechanism."[2083]

Thus the European Union has been awarded a 0 for its enhancement of the effectiveness of SIFIs supervision.

Analyst: Ava-Dayna Sefa

[2078] The Banking Union - a European perspective: reasons, benefits and challenges of the Banking Union, European Central Bank (Brussels) 5 April 2013. Date of Access: 7 April 2013. http://www.ecb.europa.eu/press/key/date/2013/html/sp130405.en.html

[2079] European leaders hail accord on banking supervision, New York Times (Brussels) 13 December 2012. Date of Access: 4 April 2013. http://www.nytimes.com/2012/12/14/business/global/eu-leaders-hail-accord-on-banking-supervision.html?_r=0

[2080] European leaders hail accord on banking supervision, New York Times (Brussels) 13 December 2012. Date of Access: 4 April 2013. http://www.nytimes.com/2012/12/14/business/global/eu-leaders-hail-accord-on-banking-supervision.html?_r=0

[2081] European leaders hail accord on banking supervision, New York Times (Brussels) 13 December 2012. Date of Access: 4 April 2013. http://www.nytimes.com/2012/12/14/business/global/eu-leaders-hail-accord-on-banking-supervision.html?_r=0

[2082] European leaders hail accord on banking supervision, New York Times (Brussels) 13 December 2012. Date of Access: 4 April 2013. http://www.nytimes.com/2012/12/14/business/global/eu-leaders-hail-accord-on-banking-supervision.html?_r=0

[2083] European leaders hail accord on banking supervision, New York Times (Brussels) 13 December 2012. Date of Access: 4 April 2013. http://www.nytimes.com/2012/12/14/business/global/eu-leaders-hail-accord-on-banking-supervision.html?_r=0