

5. Finance: Systemically Important Financial Institutions

Commitment [#83]:

“We endorsed the policy framework, work processes, and timelines proposed by the FSB to reduce the moral hazard risks posed by systemically important financial institutions (SIFIs) and address the too-big-to-fail problem.”

Seoul Summit Document

Assessment:

Country	Lack of Compliance	Work in Progress	Full Compliance
Argentina			+1
Australia			+1
Brazil			+1
Canada		0	
China			+1
France			+1
Germany			+1
India			+1
Indonesia			+1
Italy		0	
Japan			+1
Korea			+1
Mexico		0	
Russia		+1	
Saudi Arabia		0	
South Africa		+1	
Turkey		0	
United Kingdom			+1
United States			+1
European Union			+1
Average Score		+ 0.75	

Background:

The G20 identified systemically important financial institutions (SIFIs) as major sources of potential systemic risk during times of financial crisis, noting that these firms can lead to the ‘too-big-to-fail’ problem whereby governments are obliged to ‘bail out’ systemically important firms in order to prevent broader contagion and shareholder losses. At the Seoul Summit in November 2010, G20 leaders endorsed the FSB’s policy framework and timeline for addressing the moral hazard risks posed by these firms. G20 Finance Ministers and Central Bank Governors agreed at a February 2011 meeting that the FSB should publish its recommendations in October 2011, a month earlier than the originally agreed-upon timeline of November 2011.⁵²¹

A 10 April 2011 report by the Financial Stability Board (FSB) called Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability notes that the FSB and other standard-setting actors are working to formulate a set of recommendations on

⁵²¹ Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability, Financial Stability Board (Basel) 10 April 2011. Date of Access: 26 April 2011. http://www.financialstabilityboard.org/publications/r_110219.pdf

resolution regimes for SIFIs and for financial institutions that are important in a global context, or G-SIFIs, which will be published by October 2011.⁵²² National supervisors are required to submit self-assessments of their ability to effectively supervise SIFIs in accordance with the Basel Core Principles by June 2011.⁵²³

On July 19 2011, the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision launched a public consultation on two documents putting forth proposed measures to address systemically important financial institutions. All proposed policy recommendations implement the framework contained in the Financial Stability Board's recommendations endorsed by the G20 Leaders at the Seoul Summit in November 2010, and they are offered for public consultation before the FSB finalizes and submits its overall recommendations to the G20 Leaders Summit in Cannes on 3-4 November 2011.⁵²⁴

The first consultative document on "Effective Resolution of Systemically Important Financial Institutions" puts forth a package of proposed policy measures "to improve the capacity of authorities to resolve failing SIFIs without systemic disruption and without exposing the taxpayer to the risk of loss."⁵²⁵ The proposed measures comprise four key building blocks: (1) strengthened national resolution regimes; (2) cross-border cooperation arrangements; (3) improved resolution planning by firms and authorities; (4) measures to remove obstacles to resolution.⁵²⁶

Furthermore, the FSB sought the views of all interested parties on two discussion notes to help inform its final resolution related recommendations. A note on Creditor hierarchy, depositor preference and depositor protection in resolution raises the possibility of moving depositors to the top of the hierarchy of bank creditors. Another note on Conditions for imposing temporary stays discusses the possible conditions under which a temporary suspension of contractual early termination rights should apply to support the implementation of certain resolution tools.⁵²⁷

The second consultative document on "Global Systemically Important Banks: Assessment Methodology and the Additional Loss Absorbency Requirement" sets out: (1) a methodology for assessing the global systemic importance of banks; (2) the magnitude of added loss absorbency

⁵²² Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability, Financial Stability Board (Basel) 10 April 2011. Date of Access: 26 April 2011.

http://www.financialstabilityboard.org/publications/r_110219.pdf

⁵²³ Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability, Financial Stability Board (Basel) 10 April 2011. Date of Access: 26 April 2011.

http://www.financialstabilityboard.org/publications/r_110219.pdf

⁵²⁴ Consultative Document, Effective Resolution of Systemically Important Financial Institutions, Financial Stability Board (Basel) 19 July 2011. Date of Access: 12 September 2011.

http://www.financialstabilityboard.org/publications/r_110719.pdf

⁵²⁵ Consultative Document, Effective Resolution of Systemically Important Financial Institutions, Financial Stability Board (Basel) 19 July 2011. Date of Access: 12 September 2011.

⁵²⁶ Consultative Document, Effective Resolution of Systemically Important Financial Institutions, Financial Stability Board (Basel) 19 July 2011. Date of Access: 12 September 2011.

http://www.financialstabilityboard.org/publications/r_110719.pdf

⁵²⁷ Consultative Document, Effective Resolution of Systemically Important Financial Institutions, Financial Stability Board (Basel) 19 July 2011. Date of Access: 12 September 2011.

http://www.financialstabilityboard.org/publications/r_110719.pdf

that globally systemic banks should have; (3) the proposed arrangements by which these requirements will be phased in.⁵²⁸

On 3 October 2011, the Financial Stability Board (FSB) approved the package of policy measures that it will recommend to the G20 Leaders at the Cannes Summit on 3-4 November 2011 in order to address the “too big to fail” problems posed by SIFIs. The recommendations take into account the results of the public consultation conducted over the summer.⁵²⁹

The policy package will include⁵³⁰:

- (1) Key Attributes of Effective Resolution Regimes for Financial Institutions, which will form a new international standard for the features that all national regimes should have to enable failing financial institutions to be resolved safely and without exposing the taxpayer to the risk of loss
- (2) A requirement that individual globally important SIFIs (G-SIFIs) have recovery and resolution plans, commonly called living wills, and that home and host authorities develop institution-specific cooperation agreements and cross-border crisis management groups
- (3) Additional loss absorbency requirements for those banks determined to be G-SIFIs, based on the methodology developed by the Basel Committee on Banking Supervision for assessing the global systemic importance of banks
- (4) Measures to enhance the intensity and effectiveness of supervision, in particular of SIFIs. Recommendations will include improved data systems for risk management at SIFIs and assessments of the adequacy of supervisory resources
- (5) The enhancement of international standards for the robustness of core financial market infrastructures.

The FSB put forth a specific timeline for the implementation of G-SIFI related recommendations to be completed and identified December 2012 as the deadline for completion.⁵³¹

Commitment Features:

In October 2010, the FSB published a policy framework for reducing the moral hazard posed by systemically important financial institutions (SIFIs), in order to prevent the necessity of states rescuing large or complex banks during a financial crisis.

According to the FSB report entitled “Reducing the Moral Hazard Posed by Systemically Important Financial Institutions,”⁵³² the FSB policy framework demands action by G20 members and international financial institutions in five areas.

⁵²⁸ Consultative Document, Effective Resolution of Systemically Important Financial Institutions, Financial Stability Board (Basel) 19 July 2011. Date of Access: 12 September 2011.

http://www.financialstabilityboard.org/publications/r_110719.pdf

⁵²⁹ Meeting of Financial Stability Board, Financial Stability Board (Basel) 3 October 2011. Date of Access: 4 October 2011. http://www.financialstabilityboard.org/press/pr_111003.pdf

⁵³⁰ Meeting of Financial Stability Board, Financial Stability Board (Basel) 3 October 2011. Date of Access: 4 October 2011. http://www.financialstabilityboard.org/press/pr_111003.pdf

⁵³¹ Meeting of Financial Stability Board, Financial Stability Board (Basel) 3 October 2011. Date of Access: 4 October 2011. http://www.financialstabilityboard.org/press/pr_111003.pdf

1. Improvements to resolution regimes to ensure that any financial institutions can be resolved without disruptions to the financial system and without taxpayer support.
2. That SIFIs, and in particular global SIFIs (G-SIFIs), have additional loss absorption capacity beyond the Basel III standards to reflect the greater risks that these institutions pose to the global financial system.
3. More intensive supervisory oversight for financial institutions which may pose systemic risk.
4. More robust standards for core financial infrastructure to reduce contagion risks from the failure of individual institutions.
5. Peer review by an FSB Peer Review Council of the effectiveness and consistency of national policy measures for G-SIFIs, beginning by end-2012.

The particular recommendation areas and deadlines in the report that fall under the jurisdiction of G20 are listed in Table 8.

Table 8: Recommendations for SIFIs

Area	Recommended Action
Resolution	<p>By end-March 2011 all FSB members, using the BCBS Cross-border Bank Resolution Group recommendations and the FSB draft Key Attributes of Effective Resolution Regimes, will report their assessment of their capacity to resolve SIFIs operating in their jurisdictions under their existing resolution regimes and the legislative and other changes to national resolution regimes and policies needed to accomplish effective resolution.</p> <p>-The FSB is planning to set out by mid-2011 criteria for assessing the resolvability of SIFIs, which the G20 will take into account to determine the systemic risk of a G-SIFI, and the attributes of effective resolution regimes, including the minimum level of legal harmonisation and legal preconditions required to make cross-border resolutions effective. G20 members are supposed to use these criteria and attributes to set out their plans to address areas where legal or regulatory changes or improvements to their resolution policies are needed, by end-2011.</p> <p>-By end-2011, authorities should have drawn up institution-specific cooperation agreements that specify the respective roles and responsibilities of the authorities at all stages of a crisis for all G-SIFIs.</p>
Increased supervisory oversight for financial institutions which may pose systemic risk	<p>G20 members should conduct a self-assessment against the relevant Core Principles, including essential and additional criteria, and identify deficiencies and corrective actions in a letter addressed to the FSB Chair, covering: supervisory mandates and independence; supervisory powers; and comprehensive consolidated supervision. These letters should be issued by mid-2011 for BCBS Core Principles and by early 2012 for IAIS Core Principles. Since the deadline for the IAIS Core Principles falls outside the current compliance cycle, the requirement that letters be issued for IAIS Core Principles will not apply for assessment of G20 member state compliance.</p>
Stronger robustness standards for core financial infrastructure*	<p>National authorities should implement: (i) the G20 commitments that all standardised OTC derivatives contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties (CCPs), and OTC derivatives contracts should be reported to trade repositories; and (ii) the recommendations set forth in the forthcoming report of the FSB OTC Derivatives Working Group.</p>

⁵³² Reducing the moral hazard posed by systemically important financial institutions, Financial Stability Board (Basel) 20 October 2010. Date of Access 26 January 2011.
http://www.financialstabilityboard.org/publications/r_101111a.pdf

*For more information on G20 commitments on OTC derivatives see the separate report in this document.

In sum, G20 member states are expected to comply with three of the five aforementioned recommendation areas: resolution, increased supervisory oversight for financial institutions that might pose systemic risk, and stronger robustness standards for core financial infrastructure.

Definitions

SIFIs: Financial institutions whose disorderly failure, because of their size, complexity, and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity.”⁵³³

G-SIFIs: Financial institutions that are clearly systemic in a global context,” which must consequently have “higher loss-absorbency capacity than the minimum levels agreed in Basel III.”⁵³⁴ The FSB report also notes that G-SIFIs “must also be subject to more intensive coordinated supervision and resolution planning to reduce the probability and impact of their failure.”⁵³⁵

Scoring Guidelines:

-1	Member does not take any action in compliance with the three FSB recommendation areas and associated timelines to reduce moral hazard posed by SIFIs and address the too-big-to-fail problem.
0	Member takes actions in compliance with at least one of the FSB recommendations areas and associated timelines to reduce moral hazard posed by SIFIs and address the too-big-to-fail problem.
+1	Member takes actions in compliance with all three FSB recommendation areas and associated timelines to reduce moral hazard posed by SIFIs and address the too-big-to-fail problem.

Argentina: +1

Argentina has fully complied with its commitment to reduce the moral hazard posed by systemically important financial institutions by taking concrete actions in all three FSB recommendations areas: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

Argentina is committed to implementing “the ten key recommendations on cross-border bank resolution issued by the BCBS in March 2010.” While this process is ongoing, actions have been taken to “review resolution regimes and bankruptcy laws in light of recent experience to ensure that they permit an orderly wind-down of large complex cross-border financial institutions.”⁵³⁶

In a 12 November 2010 report on progress in financial reform since the 2008 Washington Summit, the FSB reported that Argentine authorities have “signed MOUs with many other

⁵³³ <http://www.efinancialnews.com/story/2010-11-12/group-twenty-endorses-financial-stability-plan>

⁵³⁴ Reducing the moral hazard posed by systemically important financial institutions, Financial Stability Board (Basel) 20 October 2010. Date of Access 26 January 2011. http://www.financialstabilityboard.org/publications/r_101111a.pdf

⁵³⁵ Reducing the moral hazard posed by systemically important financial institutions, Financial Stability Board (Basel) 20 October 2010. Date of Access 26 January 2011. http://www.financialstabilityboard.org/publications/r_101111a.pdf

⁵³⁶ FSB Report on Progress Since the Washington Summit; Argentina, Financial Stability Board (Basel) 12 November 2010. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_101111b.htm

financial supervisors, for consolidated supervision and information sharing.” Progress is reported to be ongoing.⁵³⁷ Argentina has previously established “resolution procedures for all financial institutions taking deposits... and for insurance companies in Argentina.”⁵³⁸ The National Securities Commission (CNV) is currently “working on initiatives in order to improve the bankruptcy process in futures and derivative markets.”⁵³⁹

In a report released in September 2010, the Central Bank of Argentina (BCRA) reiterated its commitment to the “series of proposals for reform designed to strengthen the international financial system.”⁵⁴⁰ The report notes that “financial system exposure to the private sector fell slightly” at the beginning of 2010.⁵⁴¹ The BCRA reiterates its commitment to “strengthen adherence to international prudential regulatory and supervisory standards.”⁵⁴²

On 4 September 2011, the former Argentine Ambassador to the United States announced that “there is a real chance that Argentina will help set up an anti-crisis fund in the region” in order to combat the negative effects of SIFIs.⁵⁴³

According to the conclusions of the OTC Derivatives section of the present report, Argentina has taken steps towards strengthening the regulation and supervision on OTC Derivatives, thus taking action in compliance with the implementation of stronger robustness standards for core financial infrastructure.

Argentina has fully complied with its commitment to reduce the systemic risks presented by SIFIs with respect to: (1) resolution (2) increased supervisory oversight for financial institutions that might pose systemic risk, and (3) strong robustness standards for core financial infrastructure. Thus it has been awarded a score of +1.

Analysts: Jasmine Hamade and Kate Partridge

Australia: +1

Australia has fully complied with its commitment to reduce the moral hazard posed by systemically important financial institutions by taking concrete actions in all three FSB recommendations areas: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

⁵³⁷ FSB Report on Progress Since the Washington Summit; Argentina, Financial Stability Board (Basel) 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_101111b.htm

⁵³⁸ FSB Report on Progress Since the Washington Summit; Argentina, Financial Stability Board (Basel) 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_101111b.htm

⁵³⁹ FSB Report on Progress Since the Washington Summit; Argentina, Financial Stability Board (Basel) 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_101111b.htm

⁵⁴⁰ Financial Stability Report, Second Half 2010, Central Bank of Argentina (Buenos Aires) September 2010. Date of Access: 10 April 2011. <http://www.bkra.gov.ar/pdfs/polmon/bef0210i.pdf>

⁵⁴¹ Financial Stability Report, Second Half 2010, Central Bank of Argentina (Buenos Aires) September 2010. Date of Access: 10 April 2011. <http://www.bkra.gov.ar/pdfs/polmon/bef0210i.pdf>

⁵⁴² FSB Report on Progress Since the Washington Summit; Argentina, Financial Stability Board 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_101111b.htm

⁵⁴³ Interview: Mercosur-China FTA could be “extraordinary”, says Argentine FM, ShanghaiDaily.com (Buenos Aires), 4 September 2011. Date of Access: 8 October 2011.

http://www.shanghaidaily.com/article/article_xinhua.asp?id=13807

The global financial crisis did not place as much of a burden on Australia as other countries. The Financial Stability Board (FSB) peer-review on Australia, released on 26 September 2011 states, ‘the Australian financial system weathered the financial crisis well’.⁵⁴⁴

On 3 October 2011, the FSB released its approved package of measures to address SIFIs. This included key attributes of effective resolution regimes for financial institutions, additional loss absorbency requirements for banks determined to be G-SIFIs, measures to enhance supervision, the enhancement of international standards for the robustness of core financial market infrastructures, and the requirement that all G-SIFIs have recovery resolution plans, commonly called living wills.⁵⁴⁵ Australia supports the policy action to write ‘living wills’, and has already set a 2012 deadline for the country’s six largest banks with resolution plans to follow. APRA is also analyzing if Australia’s smaller banks, credit unions and insurers should be included in the asset recovery plan.⁵⁴⁶

On 26 September 2011, the Financial Stability Board published a peer review of Australia, which provides an overview of the Australian financial system structure and regulatory framework and assesses its banking supervision, securities regulation and insurance regulation and supervision. The peer review contends that “the presence of four domestic big banks presents important policy challenges for the [Australian] authorities. Their size and nature of activities means that they could pose systemic and moral hazard risks in Australia. The authorities have [already] 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 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.”⁵⁴⁷

Australia has complied with its commitment for increased supervisory oversight for financial institutions that might pose systemic risk by means of completing a self-assessment against the relevant Core Principles. The enhancements to the Basel II Framework released by APRA on 23 May 2011 will become effective on 1 January 2012.⁵⁴⁸

On 19 July 2011, the FSB published two consultative documents, asking interested international stakeholders to submit their comments regarding the FSB’s proposed new G-SIFIs measures, before the FSB approves them.⁵⁴⁹ The Australian Bankers’ Association (ABA) commented on this document. The ABA’s findings could be summarized into four points: (1) The ABA believes that the report covers most key points, in particular they agree with the proposed elements of a Recovery and Resolution Plan, short stay on early termination rights, and flexibility allowing

⁵⁴⁴ FSB completes peer review of Australia, The Financial Stability Board (Basel) 26 September 2011. Date of Access: 30 September 2011. http://www.financialstabilityboard.org/press/pr_110926a.pdf

⁵⁴⁵ Key Financial Regulatory Reforms, FSB (Basel) 3 October 2011. Date of Access: 10 October 2011. http://www.financialstabilityboard.org/press/pr_111003.pdf

⁵⁴⁶ Australian banks assure of strong buffer against global financial turmoil, International Business Times (Sydney) 27 September 2011. Date of Access: 10 October 2011. <http://au.ibtimes.com/articles/220281/20110927/australian-banks-have-strong-buffer-against-global-market-turmoil.htm>

⁵⁴⁷ Peer Review of Australia, Review Report, Financial Stability Board (Basel) 26 September 2011. Date of Access: 13 October 2011. http://www.financialstabilityboard.org/publications/r_110926b.pdf

⁵⁴⁸ 4. Developments in the Financial System Architecture, RBA (Sydney) 26 September 2011. Date of Access: 30 Sept. 2011. <http://www.rba.gov.au/publications/fsr/2011/sep/pdf/dev-fin-sys-arch.pdf>

⁵⁴⁹ FSB Consultative document on Effective Resolutions of SIFIs, FSB (Basel) 19 July 2011. Date of Access: 10 October 2011. http://www.financialstabilityboard.org/press/c_110909.htm

firms to issue contractual instruments that can be written off or converted into equity based on a trigger. However, more review must be done before these points are implemented; (2) Some proposals introduce or increase systemic risks, especially surrounding bail-in powers and cross-border issues in the event that an FSB bank has interest in a country that has not adopted the framework; (3) Few timelines are provided. The timelines that are given are very aggressive considering that more consultation needs to occur; (4) A better communication plan needs to be created and working groups need to be established for handling 'next-day' measures to deal with the resolution shocks and fears.⁵⁵⁰

According to the conclusions of the OTC Derivatives section of the present report, Australia has taken steps towards strengthening the regulation and supervision on OTC Derivatives, thus taking action in compliance with the implementation of stronger robustness standards for core financial infrastructure.

Australia has fully complied with its commitment to reduce the systemic risks presented by SIFIs with respect to: (1) resolution (2) increased supervisory oversight for financial institutions that might pose systemic risk, and (3) strong robustness standards for core financial infrastructure. Thus it has been awarded a score of +1.

Analyst: Lauren Millar

Brazil: +1

Brazil has fully complied with its commitment to reduce the moral hazard posed by systemically important financial institutions by taking concrete actions with all three FSB recommendations areas: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

The Central Bank of Brazil “participates in the Cross Border Resolution Group of BCBS and is committed to adopt the recommendations concerning contingency and resolution plans, once they are eventually approved.” The Central Bank has also proposed improvements to domestic resolution procedures, which are awaiting approval by the Federal Legislative Branch.⁵⁵¹

The Central Bank of Brazil is further analyzing a legislative proposal “to reduce the probability of failure of financial institutions and facilitate their orderly resolution.”⁵⁵² All financial institutions are required to follow “standardized approaches for credit, market and operational risks as recommended by BCBS.”⁵⁵³

⁵⁵⁰ Effective Resolution of Systemically Important Financial Institutions, Australian Bankers' Association (New South Wales) September 2011. Date of Access: 10 October 2011

http://www.financialstabilityboard.org/press/c_110909g.pdf

⁵⁵¹ FSB Report on Progress Since the Washington Summit; Brazil, Financial Stability Board (Basel)12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_101111b.html

⁵⁵² “Publications –FSB report on Progress since the Washington Summit in the Implementation of the G20 Recommendations for Strengthening Financial Stability, FSB (Basel) November 8, 2010, Date of Access: 9 April 2011. http://www.financialstabilityboard.org/list/fsb_publications/index.htm

⁵⁵³ “Publications –FSB report on Progress since the Washington Summit in the Implementation of the G20 Recommendations for Strengthening Financial Stability, FSB (Basel) November 8, 2010, Date of Access: 9 April 2011. http://www.financialstabilityboard.org/list/fsb_publications/index.htm

Brazil is currently ahead of schedule in implementing the Basel III recommendations, and will have all “measures implemented gradually...by July 2016.”⁵⁵⁴ Regulators are to “set leverage and liquidity ratios while the Central Bank of Brazil will add conservation and counter-cyclical buffers to normal capital requirements totalling 10.5 to 13 per cent by 2013.”⁵⁵⁵

Brazil has more conservative regulations than the international standard. Consequently, the adoption of stricter Basel III standards will be less stressful than for other countries. More specifically, “it is estimated that approximately 90 per cent of all derivatives are standardised, exchange traded and centrally cleared.”⁵⁵⁶

In a 12 November 2010 report on progress in financial reform since the 2008 Washington Summit, the FSB reported that important financial institutions in Brazil will need to strengthen their capital bases and improve their ability to absorb losses in order to meet Basel III standards.⁵⁵⁷ In the FSB self-assessment submitted in 2010, Brazil committed to “studying the implementation of regulatory adjustments from 1 July 2012.”⁵⁵⁸ This deadline is consistent with the ultimate implementation of Basel III by 1 January 2014.

According to the conclusions of the OTC Derivatives section of the present report, Brazil has taken steps towards strengthening the regulation and supervision on OTC Derivatives, thus taking action in compliance with the implementation of stronger robustness standards for core financial infrastructure.

Brazil has fully complied with its commitment to reduce the systemic risks presented by SIFIs with respect to: (1) resolution (2) increased supervisory oversight for financial institutions that might pose systemic risk, and (3) strong robustness standards for core financial infrastructure. Thus it has been awarded a score of +1.

Analysts: Jasmine Hamade and Kate Partridge

Canada: 0

Canada has partially complied with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

⁵⁵⁴ Implementing Basel III in emerging economies: A process not free of pain, FXstreet.com (Barcelona) 6 October 2011. Date of Access: 10 October 2011. <http://www.fxstreet.com/fundamental/market-view/emerging-marketsbbva/2011/10/06/>

⁵⁵⁵ Implementing Basel III in emerging economies: A process not free of pain, FXstreet.com (Barcelona) 6 October 2011. Date of Access: 10 October 2011. <http://www.fxstreet.com/fundamental/market-view/emerging-marketsbbva/2011/10/06/>

⁵⁵⁶ OTC Derivatives Market Reforms: Progress report on Implementation, Financial Stability Board (Basel) 15 April 2011, Date of Access: 8 October 2011. http://www.financialstabilityboard.org/publications/r_110415b.pdf

⁵⁵⁷ “Publications – FSB report on Progress since the Washington Summit in the Implementation of the G20 Recommendations for Strengthening Financial Stability, FSB (Basel) November 8, 2010, Date of Access: 9 April 2011. http://www.financialstabilityboard.org/list/fsb_publications/index.htm

⁵⁵⁸ “BC divulga orientações preliminares e cronograma de implementação das recomendações de Basileia III – BC announces preliminary guidelines and timetable for implementing the recommendations of Basel III,” February 17, 2011, <http://www.bcb.gov.br/textonoticia.asp?codigo=2927&IDPAI=NOTICIAS>

On 15 June 2011, the Honourable Jim Flaherty, Minister of Finance, announced that Canada is “prepared to accept [...] additional capital requirements on Systemically Important Financial Institutions.”⁵⁵⁹

In September 2011, the Bank of Canada published a working paper “Measuring Systemic Importance of Financial Institutions: An Extreme Value Approach,” where it proposed a set of tools designed to measure the systemic importance of a banking institution.⁵⁶⁰ The Bank of Canada then described how it used the proposed set of measures to identify systemically important banks (SIBs) in Canadian banking sector as well as “major risk contributors from international financial institutions to Canadian banking sector.” The Bank of Canada revealed that the Royal Bank of Canada Financial Group, Toronto-Dominion Bank Financial Group, and Bank of Nova-Scotia appear more systemically important than other Canadian banks. Additionally, the Bank of Canada stated potential crashes of U.S. banks would be more damaging to the Canadian financial sector than crashes of major European and Asian banks, while crashes of Asian banks would be least damaging.⁵⁶¹

On September 2 2011, the Canadian Bankers Association (CBA) submitted its feedback on the FSB’s “Consultative Document: Effective Resolution of Systemically Important Financial Institutions.” In its comments, the CBA proclaimed: “Whilst the financial crisis demonstrated that large, complex and interconnected financial institutions can generate disproportionate risks to financial stability, we believe that systemic risk should be borne by all key interested stakeholders, including home and host governments where appropriate.” Additionally, the CBA expressed concern that the timeline proposed by the FSB would not “allow jurisdictions to adequately prepare for and incorporate (at times, through legislative changes) the FSB’s recommendations into their national regimes.”⁵⁶² As of the publication date of this report, no evidence had been found of efforts on the part of Canadian regulators to mandate or encourage the drafting of resolution plans for systemically important banks.

On 26 September 2011, in her remarks to the Economic Club of Canada, Julie Dickson of the OSFI, confirmed: “The OSFI, the Canada Deposit Insurance Corporation, the Bank of Canada, and the federal Department of Finance, are currently focused on the issue of living wills” for the Canadian financial institutions deemed global systematically important.⁵⁶³ Ms. Dickson also added: “This is a new activity started since the financial crisis began, and although it is time-consuming work for both institutions and the government sector, it is necessary work.”

⁵⁵⁹ Flaherty Says Canada Is Prepared To Accept Capital Buffers on Big Banks, Bloomberg L.P. (London) 15 June 2011. Date of Access: 9 October 2011. <http://mobile.bloomberg.com/news/2011-06-15/flaherty-says-canada-is-prepared-to-accept-capital-buffers-on-big-banks>.

⁵⁶⁰ Measuring Systemic Importance of Financial Institutions: An Extreme Value Theory Approach, Bank of Canada (Ottawa) September 2011. Date of Access: 9 October 2011. <http://www.bankofcanada.ca/2011/09/publications/research/working-paper-2011-19/>.

⁵⁶¹ Working Paper: Measuring Systemic Importance of Financial Institutions: An Extreme Value Theory Approach, Bank of Canada (Ottawa) September 2011. Date of Access: 9 October 2011. <http://www.bankofcanada.ca/wp-content/uploads/2011/09/wp2011-19.pdf>.

⁵⁶² RE: CBA Comments on the Financial Stability Board’s Consultative Document: Effective Resolution of Systemically Important Financial Institutions, Canadian Bankers Association (Toronto) 2 September 2011. Date of Access: 11 October 2011. http://www.financialstabilityboard.org/press/c_110909m.pdf.

⁵⁶³ The Lasting Impacts of the Crisis on the Global Financial System, Office of the Superintendent of Financial Institutions Canada (Toronto) 26 September 2011. Date of Access: 9 October 2011. http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/speeches/jd20110926_e.pdf.

On 24 February 2011, the Office of the Superintendent of Financial Institutions (OSFI) released the updated Supervisory Framework, the criteria used by the OSFI to evaluate the safety and soundness of financial institutions, which included recommendations on improving the supervision of SIFIs.⁵⁶⁴ Finally, the Financial Consumer Agency of Canada (FCAC) included high-level financial stability risk as a component to its market conduct risk assessment model.⁵⁶⁵

According to the conclusions of the OTC Derivatives section of the present report, Canada has taken steps towards strengthening the regulation and supervision on OTC Derivatives, thus taking action in compliance with the implementation of stronger robustness standards for core financial infrastructure.

Canada has made progress toward complying with its commitment to reduce the systemic risks presented by SIFIs. Thus it has been awarded a score of 0.

Analyst: Vera Gavrilova

China: +1

China has fully complied with its commitment to reduce the moral hazard posed by systemically important financial institutions by taking concrete actions with all three FSB recommendations areas: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

During the 2008-2009 global financial crisis, China's banking sector remained relatively unscathed since it had little exposure to US subprime debt or the sovereign debt of peripheral euro-zone governments.⁵⁶⁶ However, following the state-directed lending boom in 2009-2010, there were concerns over the future health of the banking sector.⁵⁶⁷ Over the years 2009-2010, the reduction in the non-performing loan ratio (NPL) reflected huge growth in the loan base.⁵⁶⁸

On 17-18 March 2011, China hosted the 5th CBRC-US Banking Supervisors' Bilateral Conference. At the Conference, senior officials from the CBRC and representatives from the Fed, the OCC, the FDIC, the Fed of New York and the Fed of San Francisco exchanged views on the following issues: (1) major risks in the global banking market; (2) supervision over the SIFIs; (3) impact of international financial reform and new international supervisory standards on China and the US; and (4) cross-border crisis management and supervisory cooperation, etc.⁵⁶⁹

⁵⁶⁴ Supervisory Framework, Office of the Superintendent of Financial Institutions Canada (Ottawa) 24 February 2011. Date of Access: 12 April 2011.

http://www.osfibsif.gc.ca/osfi/index_e.aspx?ArticleID=4234

⁵⁶⁵ Financial Stability Board Report on Progress since the Washington Summit Canada, Financial Stability Board (Basel) 12 November 2011. Date of Access: 12 April 2011.

http://www.financialstabilityboard.org/publications/r_110401d.pdf.

⁵⁶⁶ China banks: subsector update, Economist Intelligence Unit (New York) 4 January 2011. Date of Access: 12 April 2011. http://www.eiu.com/index.asp?layout=ib3Article&article_id=277795612&country_id=&pubtypeid=1132462498&industry_id=&company_id=470055047&channel_id=&rf=0

⁵⁶⁷ China banks: subsector update, Economist Intelligence Unit (New York) 4 January 2011. Date of Access: 12 April 2011. http://www.eiu.com/index.asp?layout=ib3Article&article_id=277795612&country_id=&pubtypeid=1132462498&industry_id=&company_id=470055047&channel_id=&rf=0

⁵⁶⁸ China banks: subsector update, Economist Intelligence Unit (New York) 4 January 2011. Date of Access: 12 April 2011. http://www.eiu.com/index.asp?layout=ib3Article&article_id=277795612&country_id=&pubtypeid=1132462498&industry_id=&company_id=470055047&channel_id=&rf=0

⁵⁶⁹ The 5th CBRC--U.S. Banking Supervisors' Bilateral Conference was held in Beijing, CBRC (Beijing) 17-18 March 2011. Date of Access: 12 April 2011. <http://www.cbrc.gov.cn/english/home/jsp/docView.jsp?docID=2011032501C697BDE3D5D8C0FF8E9DB727FE6800>

The People's Bank of China (PBC) began drawing proposals on establishing more stringent regulations on capital, leverage ratio, liquidity and risk provisions and on setting up clear settlement arrangements and risk resolution following the unveiling of the FSB framework for SIFIs in November 2010.⁵⁷⁰ The PBC is also working on establishing a clearly-layered risk resolution and payment arrangement for SIFIs which plans to: (1) strengthen responsibilities of institutions, shareholders and creditors, (2) quickening the establishment of deposit insurance mechanisms, and (3) giving full play of its supportive role as the central bank.⁵⁷¹

On 21 February 2011, China's Banking Regulatory Commission (CBRC) confirmed to the China Securities Journal that it was drafting new rules to set tougher criteria for capital adequacy, provisions, leverage, and liquidity conditions for lenders.⁵⁷²

On 25 February 2011, the CBRC created a draft for a new set of capital requirement rules.⁵⁷³ Under the draft, China's SIFIs will be subject to a minimum capital adequacy ratio (CAR) of 11.5% under 'normal conditions.'⁵⁷⁴

On 12 April 2011, the China Securities Journal reported that the CRBC would enhance scrutiny on commercial banks through monitoring their average daily would-to-deposit ratios starting from June.⁵⁷⁵ Also on 12 April 2011, Xinhua News' Economic Information Daily reported that China might raise its reserve requirement ratio by 50 basis points on 15 or 22 April 2011.⁵⁷⁶

On 27 April 2011, the China Banking Regulatory Commission (CBRC), the PRC regulator for banking financial institutions, issued official guidelines for implementing Basel III requirements in its CBRC Guidelines, which outlined detailed requirements on "capital adequacy ratios," "a leverage ratio," "liquidity requirements" and "provision ratios"—all of which PRC banks are to comply with.⁵⁷⁷

⁵⁷⁰ 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

⁵⁷¹ Progress since the Washington Summit in the Implementation of the G20 Recommendations for Strengthening Financial Stability, FSB (Basel) 8 November 2010. Date of Access: 11 April 2011.

<http://www.fsa.go.jp/inter/fsf/20101119/01.pdf>

⁵⁷² CBRC to set new rules for banking sector, China Daily (Beijing) 23 February 2011. Date of Access: 12 April 2011. <http://www.cdeclips.com/en/business/fullstory.html?id=60976>

⁵⁷³ CBRC to set new rules for banking sector, China Daily (Beijing) 23 February 2011. Date of Access: 12 April 2011. <http://www.cdeclips.com/en/business/fullstory.html?id=60976>

⁵⁷⁴ China drafts new rules on bank capital requirements, International Business Times (New York) 25 February 2011. Date of Access: 12 April 2011. <http://uk.ibtimes.com/articles/116568/20110226/basel-iii-guidelines-china-banking-regulatory-commission-financial-institutions-capital-adequacy-rat.htm>

⁵⁷⁵ China Stocks: Baoshan Iron, China Construction, ICBC, Vanke, Bloomberg (New York) 12 April 2011. Date of Access: 12 April 2011. <http://www.bloomberg.com/news/2011-04-13/china-stocks-baoshan-ironchina-construction-icbc-vanke.html>

⁵⁷⁶ China Stocks: Baoshan Iron, China Construction, ICBC, Vanke, Bloomberg (New York) 12 April 2011. Date of Access: 12 April 2011. <http://www.bloomberg.com/news/2011-04-13/china-stocks-baoshan-ironchina-construction-icbc-vanke.html>

⁵⁷⁷ China Banking Regulatory Commission issues new guidelines in respect of Basel III, Norton Rose, 8 May 2011. Date of Access: 9 October 2011. <http://www.mondaq.com/australia/x/131520/China+Banking+Regulatory+Commission+issues+new+guidelines+in+respect+of+Basel+III>

In May 2011, the China Banking Regulatory Commission (CBRC) announced its plans to strengthen financial supervision by “implementing new and stricter regulations based on Basel III principles by the end of 2016.”⁵⁷⁸ Specifically, the CBRC aimed to impose different criteria for systemically important financial institutions (SIFIs) and non-SIFIs.

On 31 August 2011, the Bank of China (BOC) submitted its response to the consultative document on ‘effective resolution of SIFIs’ released by the Financial Stability Board (FSB) on 19 July 2011. In the response, the Bank of China stated that it found “many conflicts” between the Consultative Documents and the current laws and regulations of China regarding the resolution of SIFIs, and therefore it needs to make “considerable modifications and additions” to its current legal regulatory framework in order to adopt the FSB’s recommendations.⁵⁷⁹ Consequently, the Bank of China requested that the FSB take into consideration the differences in “national situations and market environments between China and the developed countries” and the difficulties in “achieving effective resolution that arise from such differences.”⁵⁸⁰

On 22 September 2011, the Chinese government announced that it is considering adopting even stricter supervision standards for *systemically important financial institutions* (SIFIs) within the next five years.⁵⁸¹ Major mainland financial institutions such as ICBC, Construction Bank, Bank of China, Bank of Communications, Agricultural Bank, and Merchant Banks—all of which are considered as SIFIs—are to be required by the CBRC to meet Basel III capital requirements by 2013, “two years earlier than their counterparts in developed economies.”⁵⁸²

According to the conclusions of the OTC Derivatives section of the present report, China has taken steps towards strengthening the regulation and supervision on OTC Derivatives, thus taking action in compliance with the implementation of stronger robustness standards for core financial infrastructure.

China has fully complied with its commitment to reduce the systemic risks presented by SIFIs with respect to: (1) resolution (2) increased supervisory oversight for financial institutions that might pose systemic risk, and (3) strong robustness standards for core financial infrastructure. Thus it has been awarded a score of +1.

Analysts: David Byun and Hermonie Xie

France: +1

France has fully complied with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory

⁵⁷⁸ Implementing Basel III in emerging economies: A process not free of pain, FX Street, 6 October 2011. Date of Access: 9 October 2011. <http://www.fxstreet.com/fundamental/market-view/emerging-marketsbbva/2011/10/06/>

⁵⁷⁹ Comments on Consultative Document on Effective Resolution of SIFIs, Financial Stability Board (Basel) 31 August 2011. Date of Access: 9 October 2011. http://www.financialstabilityboard.org/press/c_110909i.pdf

⁵⁸⁰ Comments on Consultative Document on Effective Resolution of SIFIs, Financial Stability Board (Basel) 31 August 2011. Date of Access: 9 October 2011. http://www.financialstabilityboard.org/press/c_110909i.pdf

⁵⁸¹ Tougher checks loom for bigger mainland banks, The Standard (Hong Kong), 22 September 2011. Date of Access: 9 October 2011. http://www.thestandard.com.hk/news_detail.asp?we_cat=2&art_id=115419&sid=33805139&con_type=1&d_str=20110922&fc=4

⁵⁸² Tougher checks loom for bigger mainland banks, The Standard (Hong Kong), 22 September 2011. Date of Access: 9 October 2011. http://www.thestandard.com.hk/news_detail.asp?we_cat=2&art_id=115419&sid=33805139&con_type=1&d_str=20110922&fc=4

oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

France has taken unilateral and multilateral (EU-led) actions to reduce moral hazard posed by SIFIs and address the too-big-to-fail problem.

On 2 September 2011, the French Banking Federation (FBF) released its comments on the Financial Stability Board's "Consultative Document: Effective Resolution of Systemically Important Financial Institutions." In its feedback, the FBF agrees with the FSB that "resolution plans should be prepared by the resolution authorities" and in "extensive cooperation between the resolution authority and the institutions to ensure the resolution plans are appropriate." It also concurs that recovery plans must however "be implemented under the full responsibility of the institution's management."⁵⁸³ Furthermore, the FBF stresses the sensitive nature of recovery and resolution plans and states that "neither shareholders, investors, nor any stakeholders should be entitled to request their disclosure."⁵⁸⁴ The FBF also expresses its support of the Financial Stability Board's definition of bail in, "which may be implemented to resolve a financial institution which is no longer viable but before bankruptcy, ie only applicable to the senior debts during the resolution phase."⁵⁸⁵

On 6 January 2011, the European Commission published a consultation paper to work on the technical details of the aforementioned supervisory framework for resolution regimes.⁵⁸⁶ The Commission proposed that supervisory authorities, such as the European Banking Authority (EBA), be given 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.⁵⁸⁷ Such resolution tools include: sale of business tool, bridge bank tool, assert 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).⁵⁸⁸ Furthermore, the Commission proposed to establish resolution colleges of supervisors to supervise cross-border SIFIs and to require its member states to set up a bank resolution fund to cover the costs of resolution tools.⁵⁸⁹ The Commission plans to

⁵⁸³ Consultation by the Financial Stability Board "Effective Resolution of Systemically Important Financial Institutions", French Banking Federation (Basel) 2 September 2011. Date of Access: 11 October 2011. http://www.financialstabilityboard.org/press/c_110909aa.pdf.

⁵⁸⁴ Consultation by the Financial Stability Board "Effective Resolution of Systemically Important Financial Institutions", French Banking Federation (Basel) 2 September 2011. Date of Access: 11 October 2011. http://www.financialstabilityboard.org/press/c_110909aa.pdf.

⁵⁸⁵ Consultation by the Financial Stability Board "Effective Resolution of Systemically Important Financial Institutions", French Banking Federation (Basel) 2 September 2011. Date of Access: 11 October 2011. http://www.financialstabilityboard.org/press/c_110909aa.pdf.

⁵⁸⁶ Commission seeks views on possible EU framework to deal with future bank failures, European Commission (Brussels) 6 January 2011. Date of Access 7 April 2011 <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/10&format=HTML&aged=0&language=EN&guiLanguage=en>

⁵⁸⁷ 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>

⁵⁸⁸ 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>

⁵⁸⁹ 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>

adopt a legislation that incorporates these proposals in June 2011.⁵⁹⁰ Since French Commissioners were involved in the decision process for these measures, the EC action can be counted as French action in the realm of resolution regimes.

On 15 July 2011, the APC together with the European Banking Authorities announced that they had successfully conducted a stress test exercise, designed to evaluate the resilience of French financial institutions.⁵⁹¹ Four French financial groups partook in the stress test: BN Paribas, Société Générale, Groupe Crédit Agricole, and Groupe BPCE. Christian Noyer, Governor of the Banque de France and chairman of the APC, commented: “These good performances result from sound risk management as well as the French universal banking model, whose resilience was demonstrated during the crisis. [...] Ultimately, their level of capital is appropriate since it should enable them to finance the economy even under the most adverse scenario.”

On 20 October 2010, the European Commission published a communiqué on an EU framework for crisis management in the financial sector.⁵⁹² The communiqué describes a legal framework that the Commission intends to propose in the spring of 2011, which involves equipping authorities with tools and powers to tackle banking crises at the earliest possible moment and minimize costs for taxpayers.⁵⁹³

On 21 January 2010, the French government announced the creation of the French Prudential Supervisory Authority (ACP) under the auspices of the Banque de France. ACP was formed from the merger of four licensing and supervisory authorities in order to establish a unified entity that could directly address the issue of financial stability.⁵⁹⁴ The purpose of ACP is to strengthen the stability of the financial system, improve consumer protection, and enhance international supervisory cooperation.⁵⁹⁵ As part of their action plan, ACP is urging France’s major banks to expose their contingency funding plans, de-risking plans, and resolvability capacity developments.⁵⁹⁶

According to the conclusions of the OTC Derivatives section of the present report, France has taken steps towards strengthening the regulation and supervision on OTC Derivatives, thus taking

⁵⁹⁰ 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>

⁵⁹¹ The French banks successfully pass the European stress tests, Banque de France (Paris) 15 July 2011. Date of Access: 9 October 2011. <http://www.banque-france.fr/acp/stress-tests/20110715-stress-Tests-Press-release.pdf>.

⁵⁹² Technical details of a possible EU framework for bank recovery and resolution, Norton Rose Group (London) 11 January 2011. Date of Access: 10 April 2011. <http://www.nortonrose.com/knowledge/publications/2011/pub33460.aspx?lang=en-gb&page=all>

⁵⁹³ An EU framework for Crisis Management in the Financial Sector – Frequently Asked Questions, Europe Communiqués de Presse RAPID (Brussels) 20 October 2010. Date of Access: 10 April 2011. <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/10/506&format=HTML&aged=0&language=FR&guiLanguage=fr>.

⁵⁹⁴ On the Reform of Supervision of the Financial Institutions, Prudential Supervisory Authority (Paris) 21 January 2011. Date of Access: 12 April 2011. <http://www.iopsweb.org/dataoecd/32/24/45563488.pdf>.

⁵⁹⁵ The ACP: an Overview, Banque de France (Paris) December 2010. Date of Access: 12 April 2011. <http://www.banque-france.fr/acp/presentation-de-l-acp/201012-ACP-Overview.pdf>.

⁵⁹⁶ Financial Stability Board Report on Progress since the Washington Summit France, Financial Stability Board (Basel) 12 November 2010. Date of Access: 12 April 2011. http://www.financialstabilityboard.org/publications/r_110401f.pdf.

action in compliance with the implementation of stronger robustness standards for core financial infrastructure.

France has made progress toward complying with its commitment to reduce the systemic risks presented by SIFIs. Thus it has been awarded a score of 0.

Analyst: Vera Gavrilova

Germany: +1

Germany has fully complied with its commitment to reduce the moral hazard posed by systemically important financial institutions by taking concrete actions with all three FSB recommendations areas: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

Germany has taken unilateral and multilateral (EU-led) actions to reduce moral hazard posed by SIFIs and address the too-big-to-fail problem.

On 21 February 2008, the Bundesbank and Federal Financial Supervisory Authority (BaFin) published guidelines on carrying out and ensuring the quality of the ongoing monitoring of credit and financial services institutions.⁵⁹⁷ According to the ongoing monitoring guideline, supervision of banking institutions will be more rigorous, with emphasis on detailed analyses of risks and repercussions on the institution's risk-bearing capacity.⁵⁹⁸

On 27 July 2010, the German Federal Government enforced the Act to Prevent Abusive Securities and Derivatives Transactions.⁵⁹⁹ The act stipulates a number of regulatory restrictions on certain securities and derivatives transactions that the German legislature believes may have contributed to the global financial crisis. The act includes restrictions contained in the general decrees issued by the BaFin on 18 May 2010, which prohibits: (1) short sales of certain companies' shares, (2) naked short sales of debt securities by EU member states within the eurozone, (3) some naked credit fault swaps. In addition, the act provides for further restraints on other kinds of securities and derivatives transactions and increases disclosure requirements.⁶⁰⁰

⁵⁹⁷ Guideline for carrying and ensuring the quality of the ongoing monitoring of credit and finances institutions by the Deutsche Bundesbank of 21 February 2008, BaFin (Bonn) 21 February 2008. Date of Access: 10 April 2011.

⁵⁹⁸ 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

⁵⁹⁹ General Decree of the Federal Financial Supervisory Authority (BaFin) on the prohibition of naked short-selling transactions in debt securities of Member States of the EU whose legal currency is the euro of 18 May 2010 (revoked with effect from 27 July 2010), BaFin(Basel) 18 May 2010. Date of Access: 10 April 2011. http://www.bafin.de/nr_722758/SharedDocs/Aufsichtsrecht/EN/Verfuegungen/vf_100518_leerverkauf_schuldtitle_en.css=big.html

⁶⁰⁰ General Decree of the Federal Financial Supervisory Authority (BaFin) on the prohibition of naked short-selling transactions in debt securities of Member States of the EU whose legal currency is the euro of 18 May 2010 (revoked with effect from 27 July 2010), BaFin(Basel) 18 May 2010. Date of Access: 10 April 2011. http://www.bafin.de/nr_722758/SharedDocs/Aufsichtsrecht/EN/Verfuegungen/vf_100518_leerverkauf_schuldtitle_en.css=big.html

On 20 October 2010, the European Commission published a communiqué on a EU framework for crisis management in the financial sector.⁶⁰¹ The communiqué describes a legal framework that the Commission intends to propose in spring 2011, which involves equipping authorities with tools and powers to tackle banking crises at the earliest possible moment and minimize costs for taxpayers.⁶⁰²

On 25 August 2010, the German government adopted the Draft Restructuring Act (Restrukturierungsgesetz) aimed to establish a framework for resolving banks in distress.⁶⁰³ The draft bill encompasses: (1) rules and mechanisms for the reorganization of banks, (2) 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) establishment of a restructuring fund for credit institutions, and (4) extension of the limitation periods for management and supervisory board members’ liability towards stock corporations and banks.⁶⁰⁴ The finalized German Restructuring act came into force on 1 January 2011.⁶⁰⁵

On 2 September 2011, the Association of German Banks (Bundesverband deutscher Banken) submitted its response to the Financial Stability Board’s consultative document on “effective resolution of SIFIs.” In the response, it expressed its firm support of the recommendations made by the FSB and recognized the need for a resolution framework that apply to *all systemically important financial institutions* (SIFIs).⁶⁰⁶ At the same time, it also raised several concerns towards the FSB’s proposals, such as “the idea of branches of foreign financial institutions being handled by the resolution authority of the host country,” “the call for recovery plans,” and “the penalization of a firm’s resolvability assessment due to the authorities’ failure to make the necessary changes to their legal powers and capacity to use them.”⁶⁰⁷

On 4 October 2011, Germany played an important role in reaching an agreement among EU member states to tighten regulation of over-the-counter (OTC) derivatives contracts.⁶⁰⁸ The

⁶⁰¹ Technical details of a possible EU framework for bank recovery and resolution, Norton Rose Group (London) 11 January 2011. Date of Access: 10 April 2011.

⁶⁰² An EU framework for Crisis Management in the Financial Sector – Frequently Asked Questions, Europa Communiqués de Presse RAPID (Brussels) 20 October 2010. Date of Access: 10 April 2011. <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/10/506&format=HTML&aged=0&language=FR&guiLanguage=fr>

⁶⁰³ 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

⁶⁰⁴ 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

⁶⁰⁵ 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

⁶⁰⁶ Comments on the Financial Stability Board Consultative Document on Effective Resolution of SIFIs, Financial Stability Board (Basel) 2 September 2011. Date of Access: 9 October 2011. http://www.financialstabilityboard.org/press/c_110909f.pdf

⁶⁰⁷ Comments on the Financial Stability Board Consultative Document on Effective Resolution of SIFIs, Financial Stability Board (Basel) 2 September 2011. Date of Access: 9 October 2011. http://www.financialstabilityboard.org/press/c_110909f.pdf

⁶⁰⁸ EU countries reach agreement on derivatives, RTE News (Dublin), 4 October 2011. Date of Access: 9 October 2011. <http://www.rte.ie/news/2011/1004/derivatives-business.html>

agreement called for the reporting of all derivative contracts to trade repositories, the clearing of the derivatives through central counterparties (CCPs), and the standardization of all derivatives not trade on a regular exchange.⁶⁰⁹ The agreement is expected to be approved by the European Parliament by the end of 2012. Furthermore, according to the conclusions of the OTC Derivatives section of the present report, Germany has taken steps towards strengthening the regulation and supervision on OTC Derivatives, thus taking action in compliance with the implementation of stronger robustness standards for core financial infrastructure.

Germany has fully complied with its commitment to reduce the systemic risks presented by SIFIs with respect to: (1) resolution (2) increased supervisory oversight for financial institutions that might pose systemic risk, and (3) strong robustness standards for core financial infrastructure. Thus it has been awarded a score of +1.

Analysts: David Byun and Hermonie Xie

India: +1

India has fully complied with its commitment to reduce the moral hazard posed by systemically important financial institutions by taking concrete actions with all three FSB recommendations areas: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

The Reserve Bank of India's 2011 Annual Report, published on 25 August 2011, reports that the regulatory and supervisory structure of the Reserve Bank was buttressed during the year 2011. This year's important policy decisions included the reinforcement of countercyclical provisioning norms, the implementation of measures to avoid excessive leverage in housing loan segment, and the introduction of credit support to Micro Finance Institutions (MFIs).⁶¹⁰

The 2011 Annual Report of the Reserve Bank of India further contends that the Indian banking system is largely sound and resilient to systemic shocks as made evident by the series of stress tests conducted on Indian banks in respect to credit, liquidity and interest rate risks.⁶¹¹

The 2011 Annual Report also highlights that a framework to monitor the activities of the Financial Conglomerates (FCs) is already in place in India. It states that "though none of the Indian institutions are likely to qualify as a global SIFI, nonetheless, the progress made in SIFI identification and resolution mechanism will have to be incorporated into the domestic regulatory regime."⁶¹²

The 2011 Annual Report finally emphasizes that macro-prudential policy tools including (1) specifying/revising exposure norms; (2) provisioning for standard assets; (3) differentiated risk weights for sensitive sectors; (4) specification of loan to value ratio have been employed in India for some time already to address issues of systemic concerns.⁶¹³ The Indian Reserve Bank also

⁶⁰⁹ EU member states reach deal on OTC derivative rules, Wall Street Journal (New York), 4 October 2011. Date of Access: 9 October 2011. <http://online.wsj.com/article/BT-CO-20111004-711372.html>

⁶¹⁰ Annual Report 2011, Reserve Bank of India (New Delhi) 25 August 2011. Date of Access: 21 September 2011. <http://www.rbi.org.in/scripts/AnnualReportPublications.aspx?Id=1003#B2>

⁶¹¹ Annual Report 2011, Reserve Bank of India (New Delhi) 25 August 2011. Date of Access: 21 September 2011. <http://www.rbi.org.in/scripts/AnnualReportPublications.aspx?Id=1003#B2>

⁶¹² Annual Report 2011, Reserve Bank of India (New Delhi) 25 August 2011. Date of Access: 21 September 2011. <http://www.rbi.org.in/scripts/AnnualReportPublications.aspx?Id=1003#B2>

⁶¹³ Annual Report 2011, Reserve Bank of India (New Delhi) 25 August 2011. Date of Access: 21 September 2011. <http://www.rbi.org.in/scripts/AnnualReportPublications.aspx?Id=1003#B2>

aims to develop a wide range of qualitative and quantitative indicators and enhance the integrity of the data in order to sustain the efficacy of its macro-prudential instruments.⁶¹⁴

Following the announcement in the Union Budget of 2010-11, the Indian Financial Stability and Development Council (FSDC) was instituted in December 2010 with the aim of institutionalizing and strengthening the mechanism to ensure financial stability.⁶¹⁵ The FSDC tackles all issues related to “financial stability, financial sector development, interregulatory coordination and macro-prudential supervision of the economy including the functioning of large financial conglomerates.”⁶¹⁶

The FSDC is assisted by its Sub-Committee, which meets at quarterly intervals to assess the health of the financial sector. The Sub-Committee is chaired by the Governor of the Reserve Bank and comprised of the heads of the financial sector regulators and representatives from the Ministry of Finance.⁶¹⁷ Since its inception, the Sub-Committee has met thrice to review the major financial sector developments, and it has focused on issues related to systemic risk. It is currently developing an institutional mechanism for inter-regulatory coordination for the supervision of financial conglomerates and putting in place a robust reporting platform for over-the-counter (OTC) derivatives market.⁶¹⁸

Furthermore, the Financial Sector Legislative Reforms Commission (FSLRC) was set up in March 2011 with the mandate of streamlining “the financial sector laws, rules and regulations to bring them in harmony with the requirements of India’s fast growing financial sector.”⁶¹⁹

On 6 March 2011, a senior Indian regulatory official stated that the issue of “additional regulatory and capital adequacy requirements for ‘too big to fail’ banking and other financial sector conglomerates in India” was currently being discussed by the top two Indian financial sector regulators, the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI), in consultation with the Union Finance Ministry of India.⁶²⁰ The official claimed that Indian regulators were very confident about the robustness of Indian financial institutions, but preferred to undertake the assessment “to avoid any sense of complacency.”⁶²¹ The senior

⁶¹⁴ Annual Report 2011, Reserve Bank of India (New Delhi) 25 August 2011. Date of Access: 21 September 2011. <http://www.rbi.org.in/scripts/AnnualReportPublications.aspx?Id=1003#B2>

⁶¹⁵ Annual Report 2011, Reserve Bank of India (New Delhi) 25 August 2011. Date of Access: 21 September 2011. <http://www.rbi.org.in/scripts/AnnualReportPublications.aspx?Id=1003#B2>

⁶¹⁶ Annual Report 2011, Reserve Bank of India (New Delhi) 25 August 2011. Date of Access: 21 September 2011. <http://www.rbi.org.in/scripts/AnnualReportPublications.aspx?Id=1003#B2>

⁶¹⁷ Annual Report 2011, Reserve Bank of India (New Delhi) 25 August 2011. Date of Access: 21 September 2011. <http://www.rbi.org.in/scripts/AnnualReportPublications.aspx?Id=1003#B2>

⁶¹⁸ Annual Report 2011, Reserve Bank of India (New Delhi) 25 August 2011. Date of Access: 21 September 2011. <http://www.rbi.org.in/scripts/AnnualReportPublications.aspx?Id=1003#B2>

⁶¹⁹ Annual Report 2011, Reserve Bank of India (New Delhi) 25 August 2011. Date of Access: 21 September 2011. <http://www.rbi.org.in/scripts/AnnualReportPublications.aspx?Id=1003#B2>

⁶²⁰ ‘Too big to fail’ financial entities may face more scrutiny, Business Line (New Delhi) 6 March 2011. Date of Access: 9 April 2011. <http://www.thehindubusinessline.com/industry-and-economy/banking/article1514604.ece>

⁶²¹ ‘Too big to fail’ financial entities may face more scrutiny, Business Line (New Delhi) 6 March 2011. Date of Access: 9 April 2011. <http://www.thehindubusinessline.com/industry-and-economy/banking/article1514604.ece>

regulatory official also stated that India would wait for firm guidance from the international community before taking any action.⁶²²

According to the conclusions of the OTC Derivatives section of the present report, India has taken steps towards strengthening the regulation and supervision on OTC Derivatives, thus taking action in compliance with the implementation of stronger robustness standards for core financial infrastructure.

India has fully complied with its commitment to reduce the systemic risks presented by SIFIs with respect to: (1) resolution (2) increased supervisory oversight for financial institutions that might pose systemic risk, and (3) strong robustness standards for core financial infrastructure. Thus it has been awarded a score of +1.

Analyst: Krystel Montpettit

Indonesia: +1

Indonesia has fully complied with its commitment to reduce the moral hazard posed by systemically important financial institutions by taking concrete actions with all three FSB recommendations areas: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

In its response to the FSB survey on progress toward G20 financial reforms, Indonesia noted that it is not a major financial centre. However, Bank Indonesia (BI), Indonesia's largest bank, has acknowledged that "risk factors stemming from uncertainty surrounding the pace and strength of the global economic recovery process" have implications for Indonesia. BI is accordingly starting to step forward into Basel II/III regimes in 2011."⁶²³

BI also seeks to "strength[en] risk management and good governance in the financial sector."⁶²⁴ To this end, BI "encourages [banks] to enhance the quality of their risk management and governance ... to meet Bank Indonesia's regulations."⁶²⁵

The Indonesian Bank Restructuring Agency (IBRA), a branch of the Department of Finance, in collaboration with BI is tasked with "restructuring and supervising banks" to ensure that resolution regimes are put in place.⁶²⁶

⁶²² 'Too big to fail' financial entities may face more scrutiny, Business Line (New Delhi) 6 March 2011. Date of Access: 9 April 2011. <http://www.thehindubusinessline.com/industry-and-economy/banking/article1514604.ece>

⁶²³ FSB Report on Progress Since the Washington Summit; Indonesia, Financial Stability Board. 12 November 2010. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_101111b.html

⁶²⁴ Bank Indonesia Financial Stability Review, Bank Indonesia (Jakarta) September 2010. Date of Access: 10 April 2011. <http://www.bi.go.id/NR/rdonlyres/2E21321D-2974-442D-A4AB-33826E1EDCF2/21990/FSRNo15Sep2010.pdf>

⁶²⁵ Bank Indonesia Financial Stability Review, Bank Indonesia (Jakarta) September 2010. Date of Access: 10 April 2011. <http://www.bi.go.id/NR/rdonlyres/2E21321D-2974-442D-A4AB-33826E1EDCF2/21990/FSRNo15Sep2010.pdf>

⁶²⁶ Bank Indonesia Financial Stability Review, Bank Indonesia (Jakarta) September 2010. Date of Access: 10 April 2011. <http://www.bi.go.id/NR/rdonlyres/2E21321D-2974-442D-A4AB-33826E1EDCF2/21990/FSRNo15Sep2010.pdf>

Indonesia has submitted a self-assessment to the FSB, in accordance with the commitment to facilitate greater supervisory insight for financial institutions that may pose systemic risk. The FSB report labels the process of instituting Basel III regulations as ongoing.⁶²⁷ BI has reiterated its commitment to more intensive supervision and to review the crisis management protocols. However, supervisory bodies have existed in Indonesia since 1998.

Indonesia has been participating in cross-border supervisory meetings and has made progress towards establishing formal cross-border cooperation and information sharing. Indonesia does not have an over-the-counter derivative market.⁶²⁸

On 24 March 2011, the credit agency, Fitch, increased Indonesia's credit rating to AA+ because it "believes the state is likely to support the [central] bank if needed. [...] The capacity of the sovereign to support BNI, level of government ownership, and the bank's ability to maintain its sizeable franchise are important considerations for future sovereign-driven rating changes."⁶²⁹

On 21 September 2011, Indonesia indicated its willingness to work towards reducing risk posed by global SIFIs by issuing a joint letter with five other G20 countries to French President and 2011 G20 Summit Chair Nicolas Sarkozy, "calling for strong action on debt reduction and renewed efforts to boost world trade."⁶³⁰ The letter specifically asks the G20 to deal with "high public debt, financial market stability and an economic slowdown."⁶³¹

Indonesia has fully complied with its commitment to reduce the systemic risks presented by SIFIs with respect to: (1) resolution (2) increased supervisory oversight for financial institutions that might pose systemic risk, and (3) strong robustness standards for core financial infrastructure. Thus it has been awarded a score of +1.

Analysts: Jasmine Hamade and Kate Partridge

Italy: 0

Italy has partially complied with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

Italy has reaffirmed the importance of the structural stability of international firms and during the Seoul Summit, the Bank of Italy committed to accelerate the pace of implementation of financial

⁶²⁷ FSB Report on Progress Since the Washington Summit; Indonesia, Financial Stability Board (Basel) 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_101111b.html

⁶²⁸ FSB Report on Progress Since the Washington Summit; Indonesia, Financial Stability Board (Basel) 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_101111b.html

⁶²⁹ FITCH upgrades Indonesia's BNI to AA+(idn): outlook stable, Reuters (Jakarta) 14 March 2011. Date of Access: 8 October 2011. <http://www.reuters.com/article/2011/03/15/markets-ratings-bni-idUSWNA357620110315>

⁶³⁰ Crisis ties U.K. to Canada, National Post (Ottawa) 23 September 2011. Date of Access: 1 October 2011.

<http://www.nationalpost.com/opinion/columnists/Crisis+ties+Canada/5445662/story.html>

⁶³¹ Lee stresses G20 role in crisis, Korea Times (Seoul) 3 October 2011. Date of Access: 8 October 2011.

http://www.koreatimes.co.kr/www/news/nation/2011/10/120_95990.html

reforms to avoid the emergence of new threats to financial stability.^{632,633} However, future prospects of the Italian economy and the Eurozone crisis are likely to act as constraints on their ability to meet the effective resolution of Systematically Important Financial Institutions' requirements.⁶³⁴

On 15 April 2011, under the auspices of the G20 Finance Ministers and Bank Governors, Italy supported the work being done on identifying SIFIs and confirmed that the FSB will make recommendations on a framework for supervisory oversight, resolution capacities and higher loss absorbency capacity later during the year. The G20 also requested a macroeconomic impact study to be done by the FSB to be reviewed during the next ministerial meeting.⁶³⁵

Italian financial institutions did well during the 2008 economic recession due to their reliance on a more traditional business model with a high reliance on lending, small trading activities and minimal exposure to toxic assets.⁶³⁶

The Bank of Italy already takes the systemic importance of an institution into account; however in October 2010 they reviewed the development of a framework for the recovery and resolution plans for SIFIs.⁶³⁷ Furthermore, on 11 November 2010 the Bank of Italy announced the development of an institutional apparatus to liquidate a systemically important firm while minimizing risk to the financial system.⁶³⁸

The Bank of Italy in conjunction with the Italian Supervisory Authority for Private Insurance Companies (ISVAP) is in the process of overhauling supervisory oversight. Currently the Bank of Italy and ISVAP are home supervisors for numerous large Italian cross-border banking groups, the largest being Unicredit and Intesa Sanpaolo, established in 2006 and 2007 respectively.⁶³⁹ In 2006, supervisors became legally protected and were given an increase in supervisory resources including the ability to call meetings with executives. Furthermore they were given the ability to remove directors and senior officers that were considered to have become unfit for their positions.⁶⁴⁰

⁶³² Draghi: nuovo patto di stabilita, Il Sole 24 Ore (Italy) 4 May 2010. Date of Access: 11 April 2011. http://www.ilsole24ore.com/art/SoleOnLine4/Editrice/IlSole24Ore/2010/05/04/Economia%20e%20Lavoro/3_C.shtml?uuid=ca3a126c-573f-11df-b335-c4e158cb6808&DocRulesView=Liberio

⁶³³ Draghi: subito le riforme finanziarie, Il Sole 24 Ore (Italy) 11 November 2010. Date of Access: 11 April 2011. <http://www.ilsole24ore.com/art/notizie/2010-11-11/draghi-subito-riforme-finanziarie-063702.shtml?uuid=AYFAljiC&fromSearch>

⁶³⁴ Peer Review of Italy, Financial Stability Board (Basel) 27 January 2011. Date of Access: 7 October 2011. http://www.financialstabilityboard.org/publications/r_110207b.pdf

⁶³⁵ Meeting of Finance Ministers and Central bank Governors, G20 (Washington DC) 14-15 April 2011. Date of Access: 7 October 2011. <http://www.g20.org/Documents2011/04/G20%20Washington%2014-15%20April%202011%20-%20final%20communiqué.pdf>

⁶³⁶ Peer Review of Italy, Financial Stability Board (Switzerland) 27 January 2011. Date of Access: 9 April 2011. http://www.financialstabilityboard.org/publications/r_110207b.pdf

⁶³⁷ Monitoring Progress—Italy September 2010, Financial Stability Board (Switzerland) 12 November 2010. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_110401k.pdf

⁶³⁸ Draghi: subito le riforme finanziarie, Il Sole 24 Ore (Italy) 11 November 2010. Date of Access: 11 April 2011. <http://www.ilsole24ore.com/art/notizie/2010-11-11/draghi-subito-riforme-finanziarie-063702.shtml?uuid=AYFAljiC&fromSearch>

⁶³⁹ Monitoring Progress—Italy September 2010, Financial Stability Board (Switzerland) 12 November 2010. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_110401k.pdf

⁶⁴⁰ Monitoring Progress—Italy September 2010, Financial Stability Board (Switzerland) 12 November 2010. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_110401k.pdf

The ISVAP has also applied to become an International Association of Insurance Supervisors (IAIS) signatory of the Memorandum of Understanding (MOU). The completion of this process will further enhance cross-border supervisory cooperation.⁶⁴¹

During the Seoul Summit the Bank of Italy also announced they would add more stringent capital regulations for SIFIs. All large and cross-border firms would be required to maintain a minimum amount of capital in order to maintain basic functions during periods of high economic stress.⁶⁴²

During autumn 2009 the Bank of Italy took part in the development of an action plan on the standardization of CDS markets and oversight for OTC derivatives.⁶⁴³ Furthermore, on 15 September 2010 a proposal for the Regulation of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories was published by the European Commission. The Bank of Italy directly participated and contributed to the proposal.⁶⁴⁴ Furthermore, according to the conclusions of the OTC Derivatives section of the present report, Italy has taken steps towards strengthening the regulation and supervision on OTC Derivatives, thus taking action in compliance with the implementation of stronger robustness standards for core financial infrastructure.

Italy has made progress toward complying with its commitment to reduce the systemic risks presented by SIFIs. Thus it has been awarded a score of 0.

Analyst: Enko Koceku

Japan: +1

Japan has fully complied with its commitment to reduce the moral hazard posed by systemically important financial institutions by taking concrete actions with all three FSB recommendations areas: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

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.⁶⁴⁵ 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).⁶⁴⁶

⁶⁴¹ Peer Review of Italy, Financial Stability Board (Switzerland) 27 January 2011. Date of Access: 9 April 2011. http://www.financialstabilityboard.org/publications/r_110207b.pdf

⁶⁴² Draghi: subito le riforme finanziarie, Il Sole 24 Ore (Italy) 11 November 2010. Date of Access: 11 April 2011. <http://www.ilsole24ore.com/art/notizie/2010-11-11/draghi-subito-riforme-finanziarie-063702.shtml?uuid=AYFAljiC&fromSearch>

⁶⁴³ Monitoring Progress—Italy September 2010, Financial Stability Board (Switzerland) 12 November 2010. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_110401k.pdf

⁶⁴⁴ Monitoring Progress—Italy September 2010, Financial Stability Board (Switzerland) 12 November 2010. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_110401k.pdf

⁶⁴⁵ 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>

⁶⁴⁶ 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>

Japanese regulators have asked their large banks to draft recovery plans detailing how they might survive a crisis, but have not yet started on the resolution piece which envisions what would happen in insolvency.⁶⁴⁷

In its Financial System Report published in September 2010, the Bank of Japan (BOJ), while expressing its support of regulatory reforms on SIFIs by international regulatory authorities to ensure the stability of the financial system, makes a point of stressing that the framework of crisis management differs significantly by country and region.⁶⁴⁸ It also emphasizes that appropriate policy options as measures to cope with SIFIs largely depend on SIFIs' business models.⁶⁴⁹

On 27 October 2010, during his 27 October 2010 address at the Annual Conference of the International Association of Deposit Insurers (IADI), Kiyohiko G. Nishimura, Deputy Governor of the Bank of Japan first commanded the ongoing discussions to address the moral hazard problem caused by systemically important financial institutions.⁶⁵⁰ However, Nishimura claimed that each individual country – as opposed to the global Financial Stability Board – should respectively decide of the measures it deems most appropriate to deal with its national SIFIs.⁶⁵¹ Contending that the environment surrounding a financial system is country-specific, he stated that each state should be entitled to choose the best practice or combination of practices – capital surcharges, liquidity surcharges, strengthened supervision or improvements in resolvability – that best tackle the risks of SIFIs while respecting national specifics.⁶⁵²

On 9 July 2011, the Financial Stability Board made public the criteria it will use and their relative weights in order to determine which bank qualifies as a globally systemic bank. Based on the criteria released and in-depth calculation, JP Morgan expects that the Japanese banks Mitsubishi UFG and Mizuho Financial Group will qualify as G-sifis and thus receive a surcharge of respectively 1.5 and 1 per cent when the surcharges are calculated in 2014.⁶⁵³ Japanese banks

⁶⁴⁷ “Living wills” force banks to think unthinkable, Financial Times (London) 4 October 2011. Date of Access: 8 October 2011. <http://www.ft.com/intl/cms/s/0/232db554-e2cc-11e0-93d9-00144feabdc0.html#axzz1bAUxQ11>

⁶⁴⁸ Financial System Report, Bank of Japan (Tokyo) September 2010. Date of Access: April 7 2011. <http://www.boj.or.jp/en/research/brp/fsr/data/fsr10b.pdf>

⁶⁴⁹ Financial System Report, Bank of Japan (Tokyo) September 2010. Date of Access: April 7 2011. <http://www.boj.or.jp/en/research/brp/fsr/data/fsr10b.pdf>

⁶⁵⁰ The Importance of Developing Financial Safety Nets and the Role of Central Banks, Address at the Annual Conference of the International Association of Deposit Insurers (IADI), Bank of Japan (Tokyo) October 27 2010. Date of Access: 7 April 2011. http://www.boj.or.jp/en/announcements/press/koen_2010/data/ko1010f.pdf

⁶⁵¹ The Importance of Developing Financial Safety Nets and the Role of Central Banks, Address at the Annual Conference of the International Association of Deposit Insurers (IADI), Bank of Japan (Tokyo) October 27 2010. Date of Access: 7 April 2011. http://www.boj.or.jp/en/announcements/press/koen_2010/data/ko1010f.pdf

⁶⁵² The Importance of Developing Financial Safety Nets and the Role of Central Banks, Address at the Annual Conference of the International Association of Deposit Insurers (IADI), Bank of Japan (Tokyo) October 27 2010. Date of Access: 7 April 2011. http://www.boj.or.jp/en/announcements/press/koen_2010/data/ko1010f.pdf

⁶⁵³ Global banks scored on capital requirements, Financial Times. (London) 21 July 2011. Date of Access: 12 September 2011. <http://www.ft.com/intl/cms/s/0/3b803f72-b37f-11e0-b56c-00144feabdc0.html#axzz1aHhKDPB0>

Sumitomo Mitsui Financial Group and Nomura are however expected to escape surcharges entirely.⁶⁵⁴ Nomura confirmed that it does not believe it is a G-SIFI.⁶⁵⁵

On 2 September 2011, the Japanese Bankers Association submitted its comments on the Consultative Document Effective Resolution of Systemically Important Financial Institutions published by the Financial Stability Board (FSB) on July 19 2011.⁶⁵⁶ In its submission, the Japanese Bankers Association (JPA) expresses its support of the Crisis Management Group (CMG) framework chaired by home authorities put forth in the 19 July Consultative document.⁶⁵⁷

The JPA however contends that “insufficient consideration is due to the different commercial practices and systems in individual countries” and that “because financial system is an important part of the social infrastructures in each jurisdiction, we believe that the discretion of the home authorities should be respected fully in regard to all items related to the Recovery and Resolution Plans.”⁶⁵⁸ The JPA also stresses that the deadline to prepare the first draft of the RRP, and in particular Recovery Plans (RCP), which is slated at the end of December 2011, is too tight.⁶⁵⁹

On 18 October 2011, in its communiqué “The Bank of Japan’s Initiatives on the Macroprudential Front,” the Bank of Japan announced that it will aim “to better analyze and assess risks in domestic and overseas financial systems, including the examination of risks observed in financial markets.”⁶⁶⁰ The enhanced examination conducted by the Bank of Japan will comprise the following elements: (1) Better assessment of the robustness using macro stress testing; (2) Assessment of a dynamic feedback loop between the real economy and the financial system; (3) Cross-sectional analysis of risks borne by the financial sector, which entails “an enhancement of the bank’s analysis of risks borne by the non-banking financial sector including insurance companies, securities companies, credit card companies, and consumer finance companies.” This cross-sectional analysis is will be conducted in view of the interconnectedness between the

⁶⁵⁴ Global banks scored on capital requirements, Financial Times. (London) 21 July 2011. Date of Access: 12 September 2011. <http://www.ft.com/intl/cms/s/0/3b803f72-b37f-11e0-b56c-00144feabdc0.html#axzz1aHhKDpB0>

⁶⁵⁵ Global banks scored on capital requirements, Financial Times. (London) 21 July 2011. Date of Access: 12 September 2011. <http://www.ft.com/intl/cms/s/0/3b803f72-b37f-11e0-b56c-00144feabdc0.html#axzz1aHhKDpB0>

⁶⁵⁶ Comments on the Financial Stability Board’s Consultative Document Effective Resolution of Systemically Important Financial Institutions - Japanese Bankers Association, Financial Stability Board (Basel) 2 September 2011. Date of Access: 2 October 2011. http://www.financialstabilityboard.org/press/c_110909pp.pdf

⁶⁵⁷ Comments on the Financial Stability Board’s Consultative Document Effective Resolution of Systemically Important Financial Institutions - Japanese Bankers Association, Financial Stability Board (Basel) 2 September 2011. Date of Access: 2 October 2011. http://www.financialstabilityboard.org/press/c_110909pp.pdf

⁶⁵⁸ Comments on the Financial Stability Board’s Consultative Document Effective Resolution of Systemically Important Financial Institutions - Japanese Bankers Association, Financial Stability Board (Basel) 2 September 2011. Date of Access: 2 October 2011. http://www.financialstabilityboard.org/press/c_110909pp.pdf

⁶⁵⁹ Comments on the Financial Stability Board’s Consultative Document Effective Resolution of Systemically Important Financial Institutions - Japanese Bankers Association, Financial Stability Board (Basel) 2 September 2011. Date of Access: 2 October 2011. http://www.financialstabilityboard.org/press/c_110909pp.pdf

⁶⁶⁰ Macro-Prudential Policy Framework from an Asian Perspective, Speech at ADBI-FSA Conference in Tokyo by Kiyohiko G. Nishimura, Deputy Governor of the Bank of Japan, Bank of Japan (Tokyo) 18 October 2011. Date of Access: 18 October 2011. http://www.boj.or.jp/en/finsys/fs_policy/fin111018a.pdf

nonbank financial sector and the banking sector as well as the risk effect it would have on the entire financial system; (4) Assessment of financial imbalances using macro indicators

Japan has taken concrete steps toward “consolidated supervision and regulation with high standards.” First, on 21 January 2010, the Japanese Financial Services Agency (FSA) published the “Development of Institutional Frameworks Pertaining to Financial and Capital Markets,” which introduced regulation and supervision on a consolidated basis for securities companies as well as prudential standards on a consolidated basis for insurance companies.⁶⁶¹

The relevant draft bill was then submitted to the National Diet of Japan – Japan’s bicameral legislature – on 9 March 2010.⁶⁶² The bill was enacted on 12 May 2010 and issued on 19 May 2010.⁶⁶³ Also, the Japanese Financial Services Agency is currently assessing a method of calculating the consolidated solvency margin ratio and aims to make this rule effective by March 2012.⁶⁶⁴

According to the conclusions of the OTC Derivatives section of the present report, Japan has taken steps towards strengthening the regulation and supervision on OTC Derivatives, thus taking action in compliance with the implementation of stronger robustness standards for core financial infrastructure.

Japan has fully complied with its commitment to reduce the systemic risks presented by SIFIs with respect to: (1) resolution; (2) increased supervisory oversight for financial institutions that might pose systemic risk; and (3) strong robustness standards for core financial infrastructure. Thus it has been awarded a score of +1.

Analyst: Krystel Montpetit

Korea: +1

Korea has fully complied with its commitment to reduce the moral hazard posed by systemically important financial institutions by taking concrete actions with all three FSB recommendations areas: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

Korea has sought to improve its financial regulatory and supervisory system by: “implementing the ‘Guideline for the Compensation Principles,’” “adopting the international financial reporting standards by 1 January 2011,” “establishing Central Counterparties by 2012,” “aligning capital

⁶⁶¹ Report on Progress Since the Washington Summit – Japan, Financial Stability Board (Basel) 12 November 2010. Date of Access: April 7 2011.

http://www.financialstabilityboard.org/publications/r_1104011.pdf

⁶⁶² Report on Progress Since the Washington Summit – Japan, Financial Stability Board (Basel) 12 November 2010. Date of Access: April 7 2011.

http://www.financialstabilityboard.org/publications/r_1104011.pdf

⁶⁶³ Report on Progress Since the Washington Summit – Japan, Financial Stability Board (Basel) 12 November 2010. Date of Access: April 7 2011.

http://www.financialstabilityboard.org/publications/r_1104011.pdf

⁶⁶⁴ Report on Progress Since the Washington Summit – Japan, Financial Stability Board (Basel) 12 November 2010. Date of Access: April 7 2011.

http://www.financialstabilityboard.org/publications/r_1104011.pdf

regulation measures with the BCBS decisions,” and “preparing for SIFI regulation in line with international standards.”⁶⁶⁵

On 10 March 2011, the Financial Services Commission (FSC) of Korea has set up a Task Force for the purpose of “laying the ground” for implementation of the follow-up measures agreed at the G20 Seoul Summit in November 2010.⁶⁶⁶ Composed of members from the Bank of Korea (BOK), Financial Supervisory Service (FSS), Korean Deposit Insurance Corporation (KDIC) and academic experts, the Task Force mainly aims to introduce policies on regulating systemically important financial institutions, and to build an infrastructure for OTC derivatives market.⁶⁶⁷

Following up on the agreement reached at the Seoul Summit to introduce a regulatory regime to deal with SIFIs more effectively, the Task Force plans to finalize legislations by the end of the year 2011 to strengthen the supervision of the soundness of the SIFIs.⁶⁶⁸ The Task Force also plans to push ahead with reforming the Financial Investment Service and Capital Markets Act in order to build infrastructure for central counterparties (CCP), and for the clearing of OTC derivatives.⁶⁶⁹

On 29 September 2011, Korea organized an annual conference of the International Association of Insurance Supervisors (IAIS), one of the world’s three major financial supervisory meetings.⁶⁷⁰ In his keynote speech, Kim Seok-Dong, the chairman of the Financial Services Commission (FSC) of Korea, underscored the need to develop methodologies for identifying “systemically important financial institutions” and to discuss possible regulatory framework for SIFIs from both banking and insurance points of view.⁶⁷¹

According to the conclusions of the OTC Derivatives section of the present report, Korea has taken steps towards strengthening the regulation and supervision on OTC Derivatives, thus taking action in compliance with the implementation of stronger robustness standards for core financial infrastructure.

Korea has fully complied with its commitment to reduce the systemic risks presented by SIFIs with respect to: (1) resolution (2) increased supervisory oversight for financial institutions that

⁶⁶⁵ Seoul Summit Supporting Document, Canada international, 2010. Date of access 9 October 2011.

http://www.canadainternational.gc.ca/g20/assets/pdfs/2010%20-%20Seoul%20Summit%20Supporting_Document.pdf

⁶⁶⁶ South Korean authorities launch task force to follow up G20 requirements, Complinet, 14 March 2011.

Date of access 6 April 2011. <http://www.complinet.com/global/news/news/article.html?ref=141979>

⁶⁶⁷ Financial Services Commission has launched a Task force to follow up with G20 agreement, Korea Financial Services Commission (Seoul), 10 March 2011. Date of Access 6 April 2011.

<http://fस्कorea.wordpress.com/tag/systemically-important-financial-institution/>

⁶⁶⁸ South Korean authorities launch task force to follow up G20 requirements, Complinet, 14 March 2011.

Date of access 6 April 2011. <http://www.complinet.com/global/news/news/article.html?ref=141979>

⁶⁶⁹ Financial Services Commission has launched a Task force to follow up with G20 agreement, Korea Financial Services Commission (Seoul), 10 March 2011. Date of Access 6 April 2011.

<http://fस्कorea.wordpress.com/tag/systemically-important-financial-institution/>

⁶⁷⁰ Address by FSC Chairman Kim Seok-Dong at the 18th Annual IAIS Conference, Financial Services Commission (Seoul) 29 September 2011. Date of Access: 9 October 2011.

http://www.fsc.go.kr/eng/wn/list_sp.jsp?menu=05&bbsid=BBS0053

⁶⁷¹ Address by FSC Chairman Kim Seok-Dong at the 18th Annual IAIS Conference, Financial Services Commission (Seoul) 29 September 2011. Date of Access: 9 October 2011.

http://www.fsc.go.kr/eng/wn/list_sp.jsp?menu=05&bbsid=BBS0053

might pose systemic risk, and (3) strong robustness standards for core financial infrastructure. Thus it has been awarded a score of +1.

Analyst: David Byun

Mexico: 0

Mexico has partially complied with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

On 30 July 2010, Mexico created the Financial System Stability Board (FSSB), which, as a coordination mechanism, would oversee the stability of its financial system.⁶⁷² It also plans to promote financial deepening through regulator changes and measures to increase access to banking services.⁶⁷³ Furthermore, the FSSB plans to expand regulatory perimeter to cover systemic non-bank entities, and to strengthen framework for bank bankruptcies.⁶⁷⁴

On 23 September 2010, Mexico completed an FSB peer review of its financial system and regulatory proposals. The peer review noted Mexico's "impressive progress" in "upgrading its financial supervisory and regulatory framework to align it with international standards" and "strengthening its ability to monitor and respond to the build-up of risks."⁶⁷⁵ However, it also made several recommendations, including: developing a clear mandate and better macro-prudential tools for the Financial System Stability Board, and building stronger coordination between the central bank and the prudential regulator.⁶⁷⁶

In May 2011, financial authorities introduced a plan to incorporate Basel III regulation in the country. In September, the Ministry of Finance further called for the early adoption of this framework in the General Economic Policy Criteria for 2012 as a key macro-prudential element to preserve financial system's stability.⁶⁷⁷

According to the conclusions of the OTC Derivatives section of the present report, Mexico has taken steps towards strengthening the regulation and supervision on OTC Derivatives, thus taking action in compliance with the implementation of stronger robustness standards for core financial infrastructure.

⁶⁷² Seoul Summit Supporting Document, Canadainternational, 2010. Date of access 6 April 2011. http://www.canadainternational.gc.ca/g20/assets/pdfs/2010%20-%20Seoul%20Summit%20Supporting_Document.pdf

⁶⁷³ Seoul Summit Supporting Document, Canadainternational, 2010. Date of access 6 April 2011. http://www.canadainternational.gc.ca/g20/assets/pdfs/2010%20-%20Seoul%20Summit%20Supporting_Document.pdf

⁶⁷⁴ Seoul Summit Supporting Document, Canadainternational, 2010. Date of access 6 April 2011. http://www.canadainternational.gc.ca/g20/assets/pdfs/2010%20-%20Seoul%20Summit%20Supporting_Document.pdf

⁶⁷⁵ Mexico Peer Review Report, Financial Stability Board (Basel) 23 September 2011. Date of Access: 9 October 2011. http://www.financialstabilityboard.org/publications/r_100927.pdf

⁶⁷⁶ Mexico Peer Review Report, Financial Stability Board (Basel) 23 September 2011. Date of Access: 9 October 2011. http://www.financialstabilityboard.org/publications/r_100927.pdf

⁶⁷⁷ Implementing Basel III in emerging economies: A process not free of pain, FX Street, 6 October 2011. Date of Access: 9 October 2011. <http://www.fxstreet.com/fundamental/market-view/emerging-marketsbbva/2011/10/06/>

Mexico has partially complied with its commitment to reduce the systemic risks presented by SIFIs. Thus it has been awarded a score of 0.

Analyst: David Byun

Russia: +1

Russia has complied with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

Russian authorities have strengthened supervisory oversight for financial institutions, which may pose systemic risk. On 22 March 2011, the financial stability department was established as a structural body of the Russian central bank.⁶⁷⁸ The department will be responsible for, inter alia, oversight of financial institutions in the banking sector.⁶⁷⁹

Russia has taken measures to implement FSB stronger robustness standards for core financial infrastructure. On 7 February 2011, Russian President Dmitri Medvedev signed a law, defining the procedure of clearing through central counterparties, which is also applied to OTC derivatives.⁶⁸⁰

On 5 April 2011, the Russian government and the Russian central bank adopted the Strategy of Russian Banking Sector Development for the period up to 2015, which provides for the opportunity to appoint employees of the central bank to SIFIs to control their activities starting in 2011.⁶⁸¹

Russia has taken actions in compliance with the FSB recommendation on effective resolution regimes. On 3 October 2011, the Russian central bank published the Draft Guidelines for the Single State Monetary Policy in 2012 and for 2013 and 2014. According to this document, the Bank of Russia will propose measures on resolving systemically important banks in the second quarter of 2012.⁶⁸² Russian financial authorities defined it as their priority short-term task in the report to the FSB.⁶⁸³

⁶⁷⁸ Rozhkov A., Central Bank is Going to Deal with Financial Stability, Vedomosti 22 March 2011. Date of Access: 4 April 2011.

http://www.vedomosti.ru/finance/news/1236253/centrobank_zajmetsya_finansovoj_stabilnostyu.

⁶⁷⁹ Rozhkov A., Central Bank is Going to Deal with Financial Stability, Vedomosti 22 March 2011. Date of Access: 4 April 2011.

http://www.vedomosti.ru/finance/news/1236253/centrobank_zajmetsya_finansovoj_stabilnostyu.

⁶⁸⁰ Federal Law of 7 February 2011 No. 7-FZ on Clearing and Clearing Activities, Office of the President (Moscow) 9 February 2011. Date of Access: 4 April 2011.

<http://text.document.kremlin.ru/SESSION/PILOT/loadfavorite.html?page=1&pid=12182694>.

⁶⁸¹ Strategy of Russian Banking Sector Development for the Period up to 2015, Ministry of Finance of the Russian Federation (Moscow) 13 April 2011. Date of Access: 26 May 2011.

<http://www1.minfin.ru/ru/official/index.php?id4=12478>.

⁶⁸² Draft Guidelines for the Single State Monetary Policy in 2012 and for 2013 and 2014, Bank of Russia (Moscow) 3 October 2011. Date of Access: 3 October 2011.

[http://cbr.ru/today/publications_reports/on_2012\(2013-2014\).pdf](http://cbr.ru/today/publications_reports/on_2012(2013-2014).pdf)

⁶⁸³ FSB- G20 - monitoring progress – Russia September 2010 [For Publication in March 2011], 1 April 2011. Date of Access: 3 October 2011. http://www.financialstabilityboard.org/publications/r_110401p.pdf

Russia has complied with its commitment to reduce the systemic risks presented by SIFIs. Thus it has been awarded a score of +1.

Analyst: Andrey Shelepov

Saudi Arabia: 0

Saudi Arabia has partially complied with its commitment to reduce the moral hazard risks posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

During his speech at the Euromoney Saudi Arabia Conference on Diversifying Sources of Finance, which took place on 17 May 2011, the Saudi Arabian Monetary Agency Governor Dr. Muhammad Al-Jasser reiterated his commitment to the implementation of additional rules for SIFIs and his conviction that banks will benefit from said rules in the long-term. He states that “the FSB will report to the G20 Summit in November 2011 on which banks and insurance companies qualify, and what additional capital requirements they need to have. In my view, international banks need to accept tighter regulation, which will mean lower returns on capital in good years due to lower leverage. In return, this approach should help them avoid the frequent crises and losses of bank capital which have been seen in the last two decades or so. Hence, in the long-term, bank shareholders should be no worse off as a result.”⁶⁸⁴

In its 46th Annual Report on The Latest Economic Developments 1431H (2010G), the Saudi Arabian Monetary Agency (SAMA) supported the Basel Committee’s review of the need for additional capital, liquidity or other supervisory measures to reduce the threat posed by systemically important institutions.⁶⁸⁵ The SAMA also expressed its confidence that the Basel Committee would be mindful of avoiding negative effects on bank lending activity that could impair the economic recovery while introducing new standards on SIFIs to reduce externalities.⁶⁸⁶ It also noted that the Basel Committee ought to put in place adequate phase-in measures for a sufficiently long period to ensure a smooth transition to the additional requirements on SIFIs.⁶⁸⁷

In an opening speech to the “Special Data Dissemination Standard and Monetary Statistics Workshop,” Dr. Muhammad Bin Sulaiman Al-jasser, Vice Governor of the Saudi Arabian Monetary Agency (SAMA) reaffirmed SAMA’s commitment to monitoring systemic risk originating from SIFIs.⁶⁸⁸ He stressed the need to fill existing data gaps in key statistical areas that can help the authorities to better measure the risks to the global financial system.⁶⁸⁹ He also

⁶⁸⁴ Remarks by Dr. Muhammad Al-Jasser at the Euromoney Saudi Arabia Conference on Diversifying Sources of Finance, Saudi Arabian Monetary Agency. (Riyadh) 17 May 2011. Date of Access: 4 September 2011. <http://www.sama.gov.sa/sites/samaen/News/Pages/DiversifyingSourcesofFinance.aspx>

⁶⁸⁵ 46th Annual Report on The Latest Economic Developments 1431H (2010G), Saudi Arabian Monetary Agency (Riyadh) July 2010. Date of Access: 8 April 2011.

⁶⁸⁶ 46th Annual Report on The Latest Economic Developments 1431H (2010G), Saudi Arabian Monetary Agency (Riyadh) July 2010. Date of Access: 8 April 2011.

⁶⁸⁷ 46th Annual Report on The Latest Economic Developments 1431H (2010G), Saudi Arabian Monetary Agency (Riyadh) July 2010. Date of Access: 8 April 2011.

⁶⁸⁸ Opening Speech of Dr. Muhammad Bin Sulaiman Al-jasser to the “Special Data Dissemination Standard and Monetary Statistics Workshop,” (Riyadh) 11 December 2010. Date of Access: 8 April 2011. <http://www.sama.gov.sa/sites/samaen/News/Pages/SpecialDataDisseminationSpeech.aspx>

⁶⁸⁹ Opening Speech of Dr. Muhammad Bin Sulaiman Al-jasser to the “Special Data Dissemination Standard and Monetary Statistics Workshop,” (Riyadh) 11 December 2010. Date of Access: 8 April 2011. <http://www.sama.gov.sa/sites/samaen/News/Pages/SpecialDataDisseminationSpeech.aspx>

identified the monitoring of SIFIs as a critical issue of and insisted on better compilation and dissemination of statistical data as a main area of improvement in supervising SIFIs.⁶⁹⁰

The Saudi Arabian Monetary Agency (SAMA) already takes into account the supervisory issues related to “size of financial institutions and moral hazard in balancing between market discipline and market failure. SAMA's risk based supervision approach fully takes into account the risks arising from size of a financial institution in determining the scope and carrying out its on-site and off-site work.”⁶⁹¹

According to the conclusions of the OTC Derivatives section of the present report, Saudi Arabia has failed to take steps towards the compliance with its commitment to strengthen regulation and supervision on OTC Derivatives.

Saudi Arabia has made progress toward complying with its commitment to reduce the systemic risks presented by SIFIs. Thus it has been awarded a score of 0.

Analyst: Krystal Montpetit

South Africa: +1

South Africa has fully complied with its commitment to reduce the moral hazard posed by systemically important financial institutions by taking concrete actions in all three FSB recommendations areas: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

South Africa was able to handle the 2007/08 financial crisis better than most countries,⁶⁹² due to its limited exposure to toxic assets⁶⁹³, its sound institutional regulations,⁶⁹⁴ and its “stable and well capitalized financial sector.”⁶⁹⁵ It is still committed to taking action to comply with FSB recommendations to reduce the moral hazard of systemically important institutions and mitigate their future risks to the financial sector.⁶⁹⁶

On 23 February 2011, the South African National Treasury released a policy document entitled “A Safer Financial Sector to Serve South Africa Better.” The report outlines proposed policy changes focused on strengthening its “financial crisis resolution framework” by increasing

⁶⁹⁰ Opening Speech of Dr. Muhammad Bin Sulaiman Al-jasser to the “Special Data Dissemination Standard and Monetary Statistics Workshop,” (Riyadh) 11 December 2010. Date of Access: 8 April 2011.

<http://www.sama.gov.sa/sites/samaen/News/Pages/SpecialDataDisseminationSpeech.aspx>

⁶⁹¹ FSB-G20 – Monitoring Progress– Saudi Arabia September 2010 [For Publication in March 2011],

Financial Stability Board (Basel) March 2011. Date of Access: 7 September 2011.

http://www.financialstabilityboard.org/publications/r_110401q.pdf

⁶⁹² South Africa: Report on the Observance of Standards and Codes on Banking Supervision, Insurance Supervision and Securities' Regulation, International Monetary Fund (Washington) 8 December 2010. Date of Access: 7 April 2011. <http://www.imf.org/external/pubs/ft/scr/2010/cr10352.pdf>

⁶⁹³ Africa draws big powers, Times Live (Johannesburg) 9 November 2009. Date of Access: 8 April 2011.

<http://www.timeslive.co.za/business/article183897.ece>

⁶⁹⁴ A Safer Financial Sector to Serve South Africa Better, National Treasury (Pretoria) 23 February 2011.

Date of Access: 8 April 2011. <http://www.treasury.gov.za/documents/national%20budget/2011/A%20safer%20financial%20sector%20to%20serve%20South%20Africa%20better.pdf>

⁶⁹⁵ South Africa: Report on the Observance of Standards and Codes on Banking Supervision, Insurance Supervision and Securities' Regulation, International Monetary Fund (Washington) 8 December 2010. Date of Access: 7 April 2011. <http://www.imf.org/external/pubs/ft/scr/2010/cr10352.pdf>

⁶⁹⁶ S.Africa's cbank: financial system remains resilient, Reuters (Pretoria) 28 April 2010. Date of Access: 7

April 2011. <http://af.reuters.com/article/idAFJON00001620100428>

interagency coordination.⁶⁹⁷ The country plans to further strengthen its resolution framework, by implementing a joint review on crisis contingency frameworks followed by legal changes to ensure “authorities have all the appropriate tools available in the unlikely event of a crisis.”⁶⁹⁸

From 15-31 March 2010, IMF and World Bank representatives, at the request of the South African government, conducted standard assessments on South Africa’s financial sector, and used Basel Core Principles to assess areas relevant to this commitment, including supervisory independence, supervisory power and consolidated supervision.⁶⁹⁹

On 8 December 2010, the results of the assessment were published along with a list of recommended actions, which have been acknowledged by the South African government. In their 23 February 2011 policy proposal, the South African authorities created provisions which address the recommendations made in the area of supervision. Said provisions include proposals to create a new Council of Financial Regulators to increase supervisory consolidation between the FSB and the Supervisory division of the Reserve Bank and to introduce new legislation to increase supervisory independence and expand supervisory powers.⁷⁰⁰

On 19 July 2011, the Financial Stability Board published its consultative document outlining guidelines for the effective resolution of systemically important financial institutions.⁷⁰¹ The South African Reserve Bank submitted a response to the document, stating that it is “in the process of strengthening” its resolution framework. The document provides “valuable guidelines,” but there are certain measures they disagree with.⁷⁰² Specifically, the Reserve Bank cites criticism against Annexure 1, which recommends privately-funded deposit insurance sources for crisis resolution and recovery, as it states these could place excessive costs and strains on its banking sector.⁷⁰³ The Reserve Bank also disagrees with proposals in Annexure 2 regarding bail-in powers, stating the risks of those powers could create “negative effects for financial stability and the economy.”⁷⁰⁴

According to the conclusions of the OTC Derivatives section of the present report, South Africa has taken steps towards strengthening the regulation and supervision on OTC Derivatives, thus

⁶⁹⁷ A Safer Financial Sector to Serve South Africa Better, National Treasury (Pretoria) 23 February 2011. Date of Access: 8 April 2011. <http://www.treasury.gov.za/documents/national%20budget/2011/A%20safer%20financial%20sector%20to%20serve%20South%20Africa%20better.pdf>

⁶⁹⁸ A Safer Financial Sector to Serve South Africa Better, National Treasury (Pretoria) 23 February 2011. Date of Access: 8 April 2011. <http://www.treasury.gov.za/documents/national%20budget/2011/A%20safer%20financial%20sector%20to%20serve%20South%20Africa%20better.pdf>

⁶⁹⁹ South Africa: Report on the Observance of Standards and Codes on Banking Supervision, Insurance Supervision and Securities' Regulation, International Monetary Fund (Washington) 8 December 2010. Date of Access: 7 April 2011. <http://www.imf.org/external/pubs/ft/scr/2010/cr10352.pdf>

⁷⁰⁰ A Safer Financial Sector to Serve South Africa Better, National Treasury (Pretoria) 23 February 2011. Date of Access: 8 April 2011. <http://www.treasury.gov.za/documents/national%20budget/2011/A%20safer%20financial%20sector%20to%20serve%20South%20Africa%20better.pdf>

⁷⁰¹ FSB releases consultation document on measures to address systemically important financial institutions, Financial Stability Board (Basel) 19 July 2011. Date of Access: 11 October 2011 http://www.financialstabilityboard.org/press/pr_110719.pdf

⁷⁰² Comments on the FSB Consultative Paper, Financial Stability Board (Pretoria) Date of Access: 11 October 2011 http://www.financialstabilityboard.org/press/c_110909aaa.pdf

⁷⁰³ Comments on the FSB Consultative Paper, Financial Stability Board (Pretoria) Date of Access: 11 October 2011 http://www.financialstabilityboard.org/press/c_110909aaa.pdf

⁷⁰⁴ Comments on the FSB Consultative Paper, Financial Stability Board (Pretoria) Date of Access: 11 October 2011 http://www.financialstabilityboard.org/press/c_110909aaa.pdf

taking action in compliance with the implementation of stronger robustness standards for core financial infrastructure. The country has also taken steps to increase regulation of the credit derivatives market by forming a task team composed of National Treasury representatives, FSB members and Johannesburg Stock Exchange representatives; it promises to introduce new legislation on credit derivative standardization following an upcoming review by this team.⁷⁰⁵

South Africa has fully complied with its commitment to reduce the systemic risks presented by SIFIs with respect to: (1) resolution (2) increased supervisory oversight for financial institutions that might pose systemic risk, and (3) strong robustness standards for core financial infrastructure. Thus it has been awarded a score of +1.

Analyst: Huda Abdi

Turkey: 0

Turkey has partially complied with its commitment to reduce the moral hazard risks posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

The government of Turkey has recognized the importance of addressing the issue of financial stability, noting in a Strategy and Action Plan that “it is a priority matter that the existing structure in Turkey must be reinforced to ensure effective and sustained cooperation and coordination between regulatory and supervisory authorities and manage systemic risk.”⁷⁰⁶

In order to enhance prudential supervision, the government of Turkey established the Systemic Risk Coordination Committee that is mandated to monitor the country’s financial system.⁷⁰⁷ It has been identified that “the duties and functions of the current Systemic Risk Committee shall be reinforced in order to identify and prevent systemic risk and enhance horizontal coordination between regulatory and supervisory authorities in the financial sector.”⁷⁰⁸ The Committee is responsible for reporting negative developments in the financial system to the Council of Ministers.⁷⁰⁹

According to the conclusions of the OTC Derivatives section of the present report, Turkey has taken steps towards strengthening the regulation and supervision on OTC Derivatives, thus taking action in compliance with the implementation of stronger robustness standards for core financial infrastructure.

⁷⁰⁵ FSB- G20 - Monitoring Progress – South Africa, Financial Stability Board (Basel), March 2011. Date of Access: 9 April 2011 http://www.financialstabilityboard.org/publications/r_110401s.pdf

⁷⁰⁶ Strategy and Action Plan for Istanbul International Financial Center, State Planning Organization (Ankara) October 2009. Date of Access: 12 April 2011.

http://www.dpt.gov.tr/DocObjects/View/5066/Strategy_and_Action_Plan_for_Istanbul_International.pdf.

⁷⁰⁷ Overview of Progress in the Implementation of G20 Recommendations for Strengthening Financial Stability: Report of the Financial Stability Board to G20 Leaders, Financial Stability Board (Basel) 18 June 2010. Date of Access: 12 April 2011. http://www.financialstabilityboard.org/publications/r_100627c.pdf.

⁷⁰⁸ Strategy and Action Plan for Istanbul International Financial Center, State Planning Organization (Ankara) October 2009. Date of Access: 12 April 2011.

http://www.dpt.gov.tr/DocObjects/View/5066/Strategy_and_Action_Plan_for_Istanbul_International.pdf.

⁷⁰⁹ Financial Stability Board Report on Progress since the Washington Summit Turkey, Financial Stability Board (Basel) 12 November 2010. Date of Access: 12 April 2011.

http://www.financialstabilityboard.org/publications/r_110401v.pdf.

Turkey has made progress toward complying with its commitment to reduce the systemic risks presented by SIFIs. Thus it has been awarded a score of 0.

Analyst: Vera Gavrilova

United Kingdom: +1

The United Kingdom has fully complied with its commitment to reduce the moral hazard posed by systemically important financial institutions by taking concrete actions in all three FSB recommendations areas: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

On 21 February 2009, the 2009 Banking Act came into force in the United Kingdom. The Banking Act provides a permanent regime to allow the Financial Services Authority (FSA), the UK Treasury and the Bank of England to resolve failing banks in the UK.⁷¹⁰ Under the Banking Act, these authorities are given powers such as: (1) the power to issue share transfer orders to transfer all or some of the securities issued by a bank to a commercial purchaser or Bank of England entity and (2) the power to transfer all or some of the property, rights and liabilities of the UK bank to a purchaser or Bank of England entity.⁷¹¹

On 18 March 2009, the FSA published the Turner Review and the associated Discussion Paper that included a comprehensive set of proposals aimed at addressing the risks posed by systemically important financial institutions.⁷¹² On 30 September 2009, the FSA published the Feedback Statement to The Turner Review that outlines the ongoing debate and consideration of Recovery and Resolution Plans (RRPs) or living wills.⁷¹³ The FSA also proposed in the statement that all SIFIs be required to develop and submit RRPs to the FSA for approval.⁷¹⁴

On 22 October 2009, the FSA published The Turner Review Conference Discussion Paper, which focused on two issues: (1) problems created by systemically important banks and relevant policy options including higher capital levels and RRPs, and (2) assessing the cumulative impact of capital and liquidity reforms.⁷¹⁵

On 27 November 2009, the British House of Commons Treasury Committee published a report on the banking crisis and regulation and supervision.⁷¹⁶ In the report, the government voiced its

⁷¹⁰ Risk management supervision and regulation, Barclays (London) 2008. Date of Access: 12 April 2011. <http://www.barclaysannualreports.com/ar2008/index.asp?pageid=143>

⁷¹¹ Risk management supervision and regulation, Barclays (London) 2008. Date of Access: 12 April 2011. <http://www.barclaysannualreports.com/ar2008/index.asp?pageid=143>

⁷¹² The Will to Live: Recovery and Resolution Plans for UK Banks, Morrison and Foerster (London) 29 December 2009. Date of Access: 12 April 2011. <http://www.mofo.com/files/uploads/Images/091229TheWilltoLiveRecoveryandResolutionPlansforUKBanks.pdf>

⁷¹³ The Will to Live: Recovery and Resolution Plans for UK Banks, Morrison and Foerster (London) 29 December 2009. Date of Access: 12 April 2011. <http://www.mofo.com/files/uploads/Images/091229TheWilltoLiveRecoveryandResolutionPlansforUKBanks.pdf>

⁷¹⁴ FSA publishes Turner Review Conference Discussion Paper, Lexology (London) 29 October 2009. Date of Access: 12 April 2011. <http://www.lexology.com/library/detail.aspx?g=a1b55ade-0266-47ee-8eda-156214d770ab>

⁷¹⁵ FSA publishes Turner Review Conference Discussion Paper, Lexology (London) 29 October 2009. Date of Access: 12 April 2011. <http://www.lexology.com/library/detail.aspx?g=a1b55ade-0266-47ee-8eda-156214d770ab>

⁷¹⁶ The Will to Live: Recovery and Resolution Plans for UK Banks, Morrison and Foerster (London) 29 December 2009. Date of Access: 12 April 2011. <http://www.mofo.com/files/uploads/Images/091229TheWilltoLiveRecoveryandResolutionPlansforUKBanks.pdf>

support for the FSB to develop possible measures to address the ‘too big to fail’ problems associated with SIFIs by the end of October 2010, including the related work by the Basel Committee to assess merits of a capital surcharge to mitigate the risk of systemic banks.⁷¹⁷

On 8 April 2010, the Financial Services Act received Royal assent.⁷¹⁸ The Act allows for: (1) new powers for the FSA to enforce Remuneration Code of Practice and nullify firm’s remuneration agreements, (2) compulsory RRP for UK banks and building societies, (3) extensive information gathering powers from managers and owners of hedge funds and investment funds, (4) enhancement of FSA’s rulemaking and disciplinary powers, and (5) establishment of Council for Financial Stability.⁷¹⁹

On 22 June 2010, the UK Government announced the introduction of a bank levy to be charged on the worldwide-consolidated balance sheets of UK banks and building society groups, as well as UK subsidiaries of a foreign bank.⁷²⁰ The levy is based on the chargeable equity and liabilities of the group or entity to the extent that these exceed GBP 20 billion.⁷²¹ On 9 December 2010, the government published revised draft legislation on the bank levy to be included in the Finance Bill 2011.⁷²²

On 20 October 2010, the European Commission published a communiqué on a EU framework for crisis management in the financial sector.⁷²³ The communiqué describes a legal framework that the Commission intends to propose in spring 2011, which involves equipping authorities with tools and powers to tackle banking crises at the earliest possible moment and minimize costs for taxpayers.⁷²⁴

On 14 February 2011, Her Majesty’s Treasury (HM Treasury) published its second consultation document on regulatory reform.⁷²⁵ Under the reform, the FSA will cease to exist in its current

⁷¹⁷ The Will to Live: Recovery and Resolution Plans for UK Banks, Morrison and Foerster (London) 29 December 2009. Date of Access: 12 April 2011. <http://www.mofo.com/files/uploads/Images/091229TheWilltoLiveRecoveryandResolutionPlansforUKBanks.pdf>

⁷¹⁸ International Reform of Financial Regulation Overview and Implementation Timetable, Linklaters (London) 1 January 2011. Date of Access: 10 April 2011. www.linklaters.com/pdfs/.../FR_Timetable_Download_version_FINAL.pdf

⁷¹⁹ Financial Services Bill, Linklaters (London) 13 April 2010. Date of Access: 11 April 2011. www.linklaters.com/.../FinancialServicesBill_Newsletter_091124.pdf

⁷²⁰ Budget: Bank levy to raise £8.3bn in four years, BBC News (London) 22 June 2010. Date of Access: 11 April 2011. <http://www.bbc.co.uk/news/10377429>

⁷²¹ International Reform of Financial Regulation Overview and Implementation Timetable, Linklaters (London) 1 January 2011. Date of Access: 10 April 2011. www.linklaters.com/pdfs/.../FR_Timetable_Download_version_FINAL.pdf

⁷²² Budget: Bank levy to raise £8.3bn in four years, BBC News (London) 22 June 2010. Date of Access: 11 April 2011. <http://www.bbc.co.uk/news/10377429>

⁷²³ Technical details of a possible EU framework for bank recovery and resolution, Norton Rose Group (London) 11 January 2011. Date of Access: 10 April 2011. <http://www.nortonrose.com/knowledge/publications/2011/pub33460.aspx?lang=en-gb&page=all>

⁷²⁴ An EU framework for Crisis Management in the Financial Sector – Frequently Asked Questions, Europa Communiqués de Presse RAPID (Brussels) 20 October 2010. Date of Access: 10 April 2011. <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/10/506&format=HTML&aged=0&language=FR&guiLanguage=fr>

⁷²⁵ The structure of UK financial regulation, HM Treasury (London) 17 February 2011. Date of Access: 11 April 2011. http://www.hm-treasury.gov.uk/fin_stability_regreform_structure.htm

form, and the Government will create two new focused financial regulators.⁷²⁶ A new Prudential Regulation Authority (PRA) will be responsible for day-to-day supervision of financial institutions that are subject to significant prudential regulation.⁷²⁷

On 11 April 2011, the UK Independent Commission on Banking (ICB) released its first interim report.⁷²⁸ The UK government created the ICB to consider whether a structural reform of banks would make them more resilient and competitive, and to compile a final report with recommendations to the Government by September 2011.⁷²⁹ The interim report sets out the Commission's current and provisional views on the need for reform and on possible reform options.⁷³⁰

On 15 June 2011, Chancellor of the Exchequer George Osborne announced his support for the ICB's interim proposals, emphasizing that reforms taken forward will ensure that banks be allowed to fail safely without imposing costs on the taxpayer and affecting vital banking services and that subsequent proposals be consistent with EU law and the international standards.⁷³¹

On 16 June 2011, the UK Government published a consultation document and white paper, both of which addressed the details of the Government's proposal and introduced draft legislation, which was to be subject to pre-legislative scrutiny. The proposal called for a number of reforms to the financial regulatory system, including: "establishing a macro-prudential regulator, the Financial Policy Committee (FPC) to monitor and respond to systemic risks," and "transferring responsibility for prudential regulation to a focused new regulator, the Prudential Regulation Authority (PRA)."⁷³²

On 24 June 2011, the Bank of England released its semi-annual financial stability report, in which the Financial Policy Committee (FPC) made several policy recommendations toward reducing risks to the financial sector. In particular, the report advised the Financial Services Authority (FSA) to "monitor closely the risks associated with opaque funding structures," and "to ensure that improved disclosure of sovereign and banking sector exposures by major UK banks become a permanent part of their reporting framework, and to work with the FPC to consider further extensions of disclosure in the future."⁷³³

⁷²⁶ The structure of UK financial regulation, HM Treasury (London) 17 February 2011. Date of Access: 11 April 2011. http://www.hm-treasury.gov.uk/fin_stability_regreform_structure.htm

⁷²⁷ The structure of UK financial regulation, HM Treasury (London) 17 February 2011. Date of Access: 11 April 2011. http://www.hm-treasury.gov.uk/fin_stability_regreform_structure.htm

⁷²⁸ Independent Commission on Banking: publishing of Interim Report, The COI (London) 11 April 2011. Date of Access: 12 April 2011.

<http://nds.coi.gov.uk/Content/detail.aspx?NewsAreaId=2&ReleaseID=419100&SubjectId=2>

⁷²⁹ International Reform of Financial Regulation Overview and Implementation Timetable, Linklaters (London) 1 January 2011. Date of Access: 10 April 2011.

www.linklaters.com/pdfs/.../FR_Timetable_Download_version_FINAL.pdf

⁷³⁰ Independent Commission on Banking: publishing of Interim Report, The COI (London) 11 April 2011. Date of Access: 12 April 2011.

<http://nds.coi.gov.uk/Content/detail.aspx?NewsAreaId=2&ReleaseID=419100&SubjectId=2>

⁷³¹ The Independent Commission on Banking, HM Treasury (London) 15 June 2011. Date of Access: 9 October 2011. http://www.hm-treasury.gov.uk/fin_stability_regreform_icb.htm

⁷³² The structure of UK financial regulation, HM Treasury (London) 16 June 2011. Date of Access: 9 October 2011. http://www.hm-treasury.gov.uk/fin_stability_regreform_structure.htm

⁷³³ Financial Stability Report, Bank of England (London) 24 June 2011. Date of Access: 9 October 2011. <http://www.bankofengland.co.uk/publications/fsr/2011/index.htm>

On 2 September 2011, the British Bankers' Association (BBA) submitted its response to the consultation documents released by the Financial Stability Board (FSB) on 19 July 2011. In its response, the BBA expressed its firm support for the development of national resolution regimes, which it saw as “fundamentally important” to “minimize the systemic risk and fiscal consequence of a bank failure and to eliminate moral hazard and permit market discipline to operate.”⁷³⁴

On 12 September 2011, the Independent Commission on Banking (ICB) published its final report, outlining its recommendations on reforms to improve the stability of the UK financial sector and to better manage the financial risks.⁷³⁵ The UK government intends to provide its response to the ICB's proposals made in its final report by the end of 2011, and to implement all necessary measures by 2019.⁷³⁶

On 4 October 2011, the UK government agreed on a deal reached among the EU member states to tighten regulation of over-the-counter (OTC) derivatives contracts.⁷³⁷ The agreement called for the reporting of all derivative contracts to trade repositories, the clearing of the derivatives through central counterparties (CCPs), and the standardization of all derivatives not trade on a regular exchange.⁷³⁸ The agreement is expected to be approved by the European Parliament by the end of 2012.

The United Kingdom has fully complied with its commitment to reduce the systemic risks presented by SIFIs with respect to: (1) resolution (2) increased supervisory oversight for financial institutions that might pose systemic risk, and (3) strong robustness standards for core financial infrastructure. Thus it has been awarded a score of +1.

Analysts: David Byun and Hermonie Xie

United States: +1

The United States has fully complied with its commitment to reduce the moral hazard posed by systemically important financial institutions by taking concrete actions in all three FSB recommendations areas: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

On 21 July 2010, U.S. President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA) into law.⁷³⁹ The act was described by United States President Barack Obama as “the most sweeping overhaul of financial regulation since the 1930s.”⁷⁴⁰ The

⁷³⁴ British Bankers' Association's response, Financial Stability Board (Basel) 2 September 2011. Date of Access: 9 October 2011. http://www.financialstabilityboard.org/press/c_110909k.pdf

⁷³⁵ The Independent Commission on Banking, HM Treasury (London) 12 September 2011. Date of Access: 9 October 2011. http://www.hm-treasury.gov.uk/fin_stability_regreform_icb.htm

⁷³⁶ The Independent Commission on Banking, HM Treasury (London) 15 June 2011. Date of Access: 9 October 2011. http://www.hm-treasury.gov.uk/fin_stability_regreform_icb.htm

⁷³⁷ EU makes derivative deal that Osborne says benefit UK, Bloomberg (New York) 4 October 2011. Date of Access: 9 October 2011. <http://www.bloomberg.com/news/2011-10-04/eu-makes-deal-on-derivatives-proposal-to-bridge-gap-with-u-k.html>

⁷³⁸ EU member states reach deal on OTC derivative rules, Wall Street Journal (New York) 4 October 2011. Date of Access: 9 October 2011. <http://online.wsj.com/article/BT-CO-20111004-711372.html>

⁷³⁹ Bill Summary & Status H.R. 4173, The Library of Congress (Washington) 29 June 2010. Date of Access: 7 April 2011.

<http://thomas.loc.gov/cgi-bin/bdquery/z?d111:HR04173:@@L&summ2=m&#major%20actions>

⁷⁴⁰ Is Obama's Financial-Reform Plan Bold Enough?, Time Magazine (New York) 18 June 2009. Date of Access: 7 April 2011. <http://www.time.com/time/business/article/0,8599,1905314,00.html>

Volcker Rule, added in January 2010, is aligned with the 2010 Seoul Summit commitment to reform SIFIs.⁷⁴¹

Increased supervisory oversight is in the process of being implemented in the United States. New regulatory reforms have called for higher capitalization of major banks, following the implementation of the Supervisory Capital Assessment Program. This program includes the implementation of stress testing by 17 January 2012.⁷⁴²

On 3 October 2011, the FSB released their approved package of measures to address SIFIs. This included: key attributes of effective resolution regimes for financial institutions; additional loss absorbency requirements for banks determined to be G-SIFIs; measures to enhance supervision, the enhancement of international standards for the robustness of core financial market infrastructures; and the requirement that all G-SIFIs have recovery resolution plans (living wills).⁷⁴³ The United States has already incorporated this process into the DFA under the “165(d) Rule,” unanimously approved on 13 September 2011 by the FDIC, and said process requires resolution plans from 124 institutions.⁷⁴⁴ These plans must be submitted to the FDIC by 1 July 2012 and must include a list of potential buyers for assets they might have to sell, which is not imposed by the FSB. Furthermore, the United States also has an “IDI Rule,” which is an interim final rule that involves banks and other insured depository institutions with \$50 billion or more in assets, of which 37 are identified.⁷⁴⁵

The United States is also in the process of making policy changes to accommodate the SIFIs requirements. The Federal Reserve however stated that the laws must go through a legally-required adoption and implementation process that international institutions do not take into account when assigning deadlines.⁷⁴⁶

According to the conclusions of the OTC Derivatives section of the present report, the United States has taken steps towards strengthening the regulation and supervision on OTC Derivatives, thus taking action in compliance with the implementation of stronger robustness standards for core financial infrastructure.

The United States has fully complied with its commitment to reduce the systemic risks presented by SIFIs with respect to: (1) resolution (2) increased supervisory oversight for financial

⁷⁴¹ President Obama Calls for New Restrictions on Size and Scope of Financial Institutions to Rein in Excesses and Protect Taxpayers, Office of the Press Secretary (Washington) 21 January 2010. Date of Access: 7 April 2011. <http://www.whitehouse.gov/the-press-office/president-obama-calls-new-restrictionsize-and-scope-financial-institutions-rein-e>

⁷⁴² The Supervisory Capital Assessment Program: Design and Implementation, Board of Governors of the Federal Reserve System (Washington) 24 April 2009. Date of Access: 7 April 2011. <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20090424a1.pdf>

⁷⁴³ Key Financial Regulatory Reforms, FSB (Basel) 3 October 2011. Date of Access: 10 October 2011. http://www.financialstabilityboard.org/press/pr_111003.pdf

⁷⁴⁴ ‘Living wills’ force banks to think unthinkable, The Globe and Mail (New York) 4 October 2011. Date of Access: 10 October 2011. <http://m.theglobeandmail.com/report-on-business/international-news/global-exchange/financial-times/living-wills-force-banks-to-think-unthinkable/article2190245/?service=mobile>

⁷⁴⁵ Living wills: FDIC approves final rules, Association of Corporate Counsel (Washington) 16 September 2011. Date of Access: 10 October 2011. <http://www.lexology.com/library/detail.aspx?g=5d7422b7-b404-4a9e-a70e-c0db47c7348e>

⁷⁴⁶ Are G20 Commitments and the Dodd-Frank Act in Sync?, International Finance Discussion Papers Number 1024, Board of Governors of the Federal Reserve System (Washington) July 2011. Date of Access: 30 Sept. 2011. <http://www.federalreserve.gov/pubs/ifdp/2011/1024/ifdp1024.pdf>

institutions that might pose systemic risk, and (3) strong robustness standards for core financial infrastructure. Thus it has been awarded a score of +1.

Analyst: Lauren Millar

European Union: +1

The European Union has fully complied with its commitment to reduce the moral hazard posed by systemically important financial institutions by taking concrete actions in all three FSB recommendations areas: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

On 20 October 2010, the European Commission stated its plans to build a new supervisory framework for a more effective crisis management in the financial sector.⁷⁴⁷ Recognizing that no financial institution should be considered as “too big to fail,” the communication called for national resolution regimes with well-defined powers and processes, in order to ensure that financial authorities throughout Europe can resolve bank failures without having to use taxpayer money.⁷⁴⁸ Such powers would include: preventative measures (such as a requirement for banks to prepare for recovery), early intervention powers (such as powers to demand the replacement of bank management), and resolution tools (such as powers to effect takeover of a failing financial institution by another); together, these tools would allow authorities to “ensure the continuity of essential services” and to “manage the failure in an orderly way.”⁷⁴⁹

On 6 January 2011, the European Commission published a consultation paper to work on the technical details of the aforementioned supervisory framework for resolution regimes.⁷⁵⁰ The Commission proposed that supervisory authorities, such as the European Banking Authority (EBA), be given 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.⁷⁵¹ 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).⁷⁵² Furthermore, the Commission proposed to establish resolution colleges of supervisors to supervise cross-border SIFIs and to require its member states

⁷⁴⁷ Commission sets out its plans for a new EU framework for crisis management in the financial sector, European Commission (Brussels) 20 October 2010. Date of Access 7 April 2011. <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1353&format=HTML&aged=0&language=EN&guiLanguage=en>

⁷⁴⁸ Bank Resolution Regimes, European Parliament (Brussels) March 2011. Date of Access: 7 April 2011 <http://www.europarl.europa.eu/document/activities/cont/201103/20110316ATT15696/20110316ATT15696EN.pdf>

⁷⁴⁹ Commission sets out its plans for a new EU framework for crisis management in the financial sector, European Commission (Brussels) 20 October 2010. Date of Access: 7 April 2011. <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1353&format=HTML&aged=0&language=EN&guiLanguage=en>

⁷⁵⁰ Commission seeks views on possible EU framework to deal with future bank failures, European Commission (Brussels) 6 January 2011. Date of Access 7 April 2011 <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/10&format=HTML&aged=0&language=EN&guiLanguage=en>

⁷⁵¹ 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>

⁷⁵² 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>

to set up a bank resolution fund to cover the costs of resolution tools.⁷⁵³ The Commission plans to adopt a legislation that incorporates these proposals in June 2011.⁷⁵⁴

As of April 2011, the European Union has taken initiatives to establish a European systemic regulator and three European supervisory authorities as a part of its proposed supervisory package—together, these regulatory authorities are to monitor financial markets, safeguard financial stability, and improve supervision of cross border entities.⁷⁵⁵ It has also undertaken a comprehensive regulatory reform program in order to improve efficiency of financial markets and safeguard stability.⁷⁵⁶

On 20 July 2011, the European Commission adopted a legislative package to strengthen the regulation of the financial sector. In the package, the Commission called for the establishment of a new governance framework, which would give supervisors new powers to “monitor banks more closely” and to “take action through possible sanctions when they spot risks.”⁷⁵⁷ For example, the framework would ensure that all supervisors can apply sanctions to any institution that breaches EU requirements, such as charging administrative fines and placing temporary bans on members of the institution’s management body.⁷⁵⁸ It also stated its plans to introduce new rules to increase the effectiveness of risk oversight by supervisory boards, to improve the status of the risk management function, and to ensure effective monitoring by risk governance officials.⁷⁵⁹ Furthermore, the Commission proposed to reinforce the supervisory regime to require the annual preparation of a supervisory programme for each supervised institution on the basis of: “a risk assessment,” “greater and more systemic use of on-site supervisory examinations,” “more robust standards,” and “more intrusive and forward-looking supervisory assessments.”⁷⁶⁰

⁷⁵³ 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>

⁷⁵⁴ 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>

⁷⁵⁵ Seoul Summit Supporting Document, Canada international, 2010. Date of access 6 April 2011. http://www.canadainternational.gc.ca/g20/assets/pdfs/2010%20-%20Seoul%20Summit%20Supporting_Document.pdf

⁷⁵⁶ Seoul Summit Supporting Document, Canada international, 2010. Date of access 6 April 2011. http://www.canadainternational.gc.ca/g20/assets/pdfs/2010%20-%20Seoul%20Summit%20Supporting_Document.pdf

⁷⁵⁷ Commission wants stronger and more responsible banks in Europe, European Commission (Brussels) 20 July 2011. Date of Access: 9 October 2011. <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1353&format=HTML&aged=0&language=EN&guiLanguage=en>

⁷⁵⁸ Commission wants stronger and more responsible banks in Europe, European Commission (Brussels) 20 July 2011. Date of Access: 9 October 2011. <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1353&format=HTML&aged=0&language=EN&guiLanguage=en>

⁷⁵⁹ Commission wants stronger and more responsible banks in Europe, European Commission (Brussels) 20 July 2011. Date of Access: 9 October 2011. <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1353&format=HTML&aged=0&language=EN&guiLanguage=en>

⁷⁶⁰ Commission wants stronger and more responsible banks in Europe, European Commission (Brussels) 20 July 2011. Date of Access: 9 October 2011. <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1353&format=HTML&aged=0&language=EN&guiLanguage=en>

On 4 October 2011, the European Union member states reached an agreement to tighten regulation of over-the-counter (OTC) derivatives contracts. The agreement called for the reporting of all derivative contracts to trade repositories, the clearing of the derivatives through central counterparties (CCPs), and the standardization of all derivatives not trade on a regular exchange.⁷⁶¹ The agreement is expected to be approved by the European Parliament by the end of 2012. Furthermore, according to the conclusions of the OTC Derivatives section of the present report, the European Union has taken steps towards strengthening the regulation and supervision on OTC Derivatives, thus taking action in compliance with the implementation of stronger robustness standards for core financial infrastructure.

The European Union has fully complied with its commitment to reduce the systemic risks presented by SIFIs with respect to: (1) resolution (2) increased supervisory oversight for financial institutions that might pose systemic risk, and (3) strong robustness standards for core financial infrastructure. Thus it has been awarded a score of +1.

Analyst: David Byun

⁷⁶¹ EU member states reach deal on OTC derivative rules, Wall Street Journal (New York) 4 October 2011. Date of Access: 9 October 2011. <http://online.wsj.com/article/BT-CO-20111004-711372.html>